

2018

ANNUAL
REPORT

Mobile Royale

PILVIA

온라인 영웅전쟁RPG

王国纪元

MOBILE
ROYALE



IGGG

I GOT GAMES



CASTLE CRASH

ロードモバイル

Lords Mobile

Incorporated in the Cayman Islands with limited liability

IGG INC Stock Code: 799

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zongjian Cai (*Chairman and Chief Executive Officer*)

Mr. Yuan Xu

Mr. Hong Zhang

Ms. Jessie Shen

Mr. Feng Chen

Non-executive Director

Mr. Yuan Chi

Independent Non-executive Directors

Dr. Horn Kee Leong

Mr. Dajian Yu

Ms. Zhao Lu

BOARD COMMITTEES

Audit Committee

Dr. Horn Kee Leong (*Chairman*)

Mr. Dajian Yu

Ms. Zhao Lu

Nomination Committee

Dr. Horn Kee Leong (*Chairman*)

Mr. Zongjian Cai

Mr. Dajian Yu

Ms. Zhao Lu

Remuneration Committee

Ms. Zhao Lu (*Chairman*)

Mr. Zongjian Cai

Mr. Dajian Yu

JOINT COMPANY SECRETARIES

Ms. Jessie Shen

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

AUTHORISED REPRESENTATIVES

Mr. Zongjian Cai

Ms. Jessie Shen

Ms. Yin Ping Yvonne Kwong

REGISTERED OFFICE

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KY1-1205 Cayman Islands

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#18-84 Mapletree Business City
Singapore 117372

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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No. 248 Queen's Road East
Wanchai
Hong Kong

AUDITOR

KPMG

LEGAL ADVISER AS TO HONG KONG LAWS

L&C Legal LLP
(in Association with Jingtian & Gongcheng)

CORPORATE INFORMATION

LEGAL ADVISER AS TO PRC LAWS

Jingtian & Gongcheng

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

COMPANY WEBSITE

www.igg.com

PRINCIPAL BANKS

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

INVESTOR RELATIONS CONSULTANTS

Wonderful Sky Financial Group Limited

CHAIRMAN'S STATEMENT

For IGG, 2018 was a year of opportunities and challenges. Amid the brief regulatory hiatus in China, IGG successfully delivered outstanding performance by leveraging its competitive advantage gained over the past decade in the global market. After twelve years of dedicated effort, the Group has grown into one of the top 20 mobile game developers worldwide¹. Driven by the steady performance of “Lords Mobile” and “Castle Clash”, its annual results reached new heights. The Group’s revenue increased 23% year-on-year to US\$749 million, and net profit increased 22% year-on-year to US\$189 million in 2018.

Launched three years ago, “Lords Mobile”, the Group’s marquee game, is immensely popular among gamers and has amassed 180 million registered users and 13 million MAU worldwide. According to third-party analytic firm App Annie, as of February 2019, “Lords Mobile” has maintained its position as the top-grossing war strategy game worldwide for 19 consecutive months, and was frequently among the world’s top 10 grossing mobile games on iOS and Google Play¹. It has been featured globally by Apple and Google on their App Store and Play Store, respectively. “Lords Mobile” has garnered numerous honors, including “Most Popular Game 2018” from Toutiao, and GMGC’s “Tianfu Award–Best Mobile Game”. After winning the remarkable “Android Excellence Game of 2017” awarded by Google Play, “Lords Mobile” was nominated for the “User’s Choice Game of 2018”. The Group’s other hit game “Castle Clash” continued to maintain its popularity with a large and robust user base, and delivered steady revenue almost six years after it was first released. “Lords Mobile” and “Castle Clash” have brought a fresh impetus to the strategy game genre. Moving forward, we will continue to optimize game play experience and strive to offer the best game content to our players.

In early 2019, we released a new strategy game, “Mobile Royale”, after two years of development and enhancements. The game has attracted over 4 million registered users within two months of its launch. Besides strategy games, which we are particularly adept at, the Group has been actively diversifying our games portfolio and developing games in different genres, such as sandbox and casual games, over the past two years. We expect to release some of these new games in 2019. Our sandbox game will incorporate social networking and community features, on top of basic features such as combat, resource gathering, and construction. We are also optimistic about the casual games genre which appeals to a huge audience, and are working on some exciting new games to meet the demand.

Throughout the years, we have endeavored to recruit international talents and instill our employees with a global worldview. Following the launch of the “G-Star Incubation Program” in China during the summer of 2018, IGG unveiled the “Inter-G Talent Program” for global participants earlier this year with the dual aims of adding fresh and vibrant perspectives to our thinking, and cultivating new talents for the future. Furthermore, to enhance our competitiveness and promote an entrepreneurial spirit among employees, we implemented a series of new policies, including a Project Leader system and incentive schemes to encourage conscientious effort and the pursuit of excellence in all aspects of our work.

We cherish our hard-earned achievements. The Group faces different challenges and opportunities at each stage of its growth. For the past twelve years, we have kept up with the latest market trends and seized the right opportunities for transformation. We continue to embrace the corporate spirit of “Innovators at Work, Gamers at Heart”, and will relentlessly pursue our strategy of quality, innovation and excellence to create innovative yet classic games in a complex business environment.

Zongjian Cai
Chairman and Executive Director

6 March 2019

¹ Data from App Annie.

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL PRESENCE

Established in 2006, IGG is a renowned developer and publisher of mobile games with a strong global presence and international customer base of 620 million registered users. Leveraging its success in client-based and browser online games, the Group changed its strategy to target the mobile games market in 2013. Over the past six years, the Group has developed a wide range of popular mobile games available in 21 languages which have garnered critical acclaim and won prestigious awards. Embracing our corporate spirit of “Innovators at Work, Gamers at Heart”, the Group is dedicated to creating high-quality and enjoyable games that will stand the test of time.

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

The Group has been listed by App Annie as one of the “Top 52 Publishers” for four consecutive years. In 2018, IGG was ranked at number 22 in the world.

In 2018, 46%, 27% and 23% of the Group’s total revenue was generated from players in Asia, North America, and Europe respectively, in line with global mobile games market distribution.

BUSINESS REVIEW

For the Year, driven by the outstanding achievement of “Lords Mobile” and the solid performance of other games, the Group’s revenue hit a record high of US\$749 million, up 23% compared to last year. Net profit rose by 22% to US\$189 million.

During 2018, IGG launched a number of localised marketing initiatives to power-up its game operations, including teaming up with Walmart to promote our game in over a hundred of its stores in Brazil, cooperating with the well-known food enterprise Bimbo in Spain, organizing the “Lordsgiving Show” and “Lucky Lord” events. To further extend its global reach, following the establishment of a local team in Indonesia in the first half of 2018, the Group is continuing to establish local operation teams in Brazil, Turkey and Western Europe, to harness the potential of these markets, and achieved significant breakthroughs in many countries, including Brazil, India, Spain and Italy.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the Group continued to receive recognition and win awards from both the games industry and the capital market, including the “2018 GMGC Tianfu Award-Best Mobile Game Company”, the “2018 Golden Gyro Award-Best Overseas Mobile Game Publisher”, and the “2018 You Ding Award-Best Overseas Mobile Game Publisher”. Furthermore, IGG was selected as one of the “Best Under A Billion” companies by Forbes Asia, and won the “2018 Golden Wing Award-Most Valuable Listed Company” under Hong Kong Stock Connect Scheme by the Securities Times.

Lords Mobile

Lords Mobile is a real-time war strategy game released in March 2016, with compelling features that attracted millions of players. In 2018, the game introduced more exciting new features, such as “War for the Chalice”, “Guild Fest-Master Gauntlet”, and “Mythic” equipment upgrades. As the Group’s first cross-platform, multi-language, global mega-server game, Lords Mobile has received many prestigious industry accolades over the past three years for its exciting and immersive game play. After being selected as “Android Excellence Game of 2017” by Google Play, Lords Mobile was nominated for the “User’s Choice Game of 2018”. Lords Mobile was also selected as the “Most Popular Game 2018” by Toutiao, and was listed as one of the “Top 10 Most Popular Games Overseas” and “Top 10 Most Popular E-sports Games” at the 2018 China Game Industry Annual Conference.

According to App Annie, Lords Mobile retained its lead as the top-grossing mobile war strategy game since August 2017, and was constantly ranked amongst the top 10 on iOS and Google Play combined monthly revenue charts. As at 31 December 2018, according to App Annie’s daily grossing ranking, Lords Mobile ranked top five in 49 and top 10 in 81 countries and regions on Google Play, and top five in 18 and top 10 in 45 countries and regions on iOS platform. The game has over 180 million registered users and 13 million MAU as of the end of the Year.

Castle Clash

Castle Clash is a fast-paced tower defense game launched in 2013. Most commendably, after nearly six years, the game continues to maintain its popularity. Castle Clash steadily contributed US\$10 million in average monthly gross billing for the year ended 31 December 2018. Frequent content updates and regular addition of new features successfully sustained the game’s appeal and extended its lifespan. According to App Annie, Castle Clash ranked among the top 20 grossing games in 30 countries and regions on Google Play and in 7 countries and regions on iOS platform as at 31 December 2018.

Mobile Royale

Mobile Royale is a global mega-server, real-time massively multi-player online strategy game launched in January 2019. It offers players a refreshing game experience through an innovative combination of the role-playing and strategy genres, incorporating a rich story, unique guild airships, and top-notch 3D graphics. It has been featured globally on Apple’s App Store and Google’s Play Store and has attracted over 4 million registered users within two months of its launch.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

To extend its leadership position, IGG has always focused on quality, innovation and excellence. The Group is committed to constantly optimizing and improving its games to achieve top-notch quality and longevity. Apart from the real-time strategy games under development, a new sandbox game has entered testing phase, and several other games in a variety of genres and themes, including casual games, are also in the pipeline. Furthermore, the Group continues to recruit talents globally. Following the successful “G-Star Incubation Program”, the Group unveiled the “Inter-G Talent Program” to discover and cultivate young people from all over the world with the passion and talent for the gaming industry.

In view of the increasingly competitive market environment, the Group is dedicated to further strengthen its international presence and continues to establish local operations and customer service teams to be closer to our customers and to better serve them.

The Group will continue to seek potential merger and acquisition opportunities that could create synergies, accelerate growth and provide breakthroughs in its business.

KEY FINANCIAL INFORMATION

	Year ended 31 December	
	2018	2017
	US\$ 000	US\$ 000
Revenue	748,785	607,253
Profit for the year	189,311	155,132
Profit for the year attributable to equity shareholders of the Company	189,177	156,026
Adjusted net income*	194,083	160,113

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2018 was US\$748.8 million, representing an increase of 23% over US\$607.3 million for the year ended 31 December 2017. This was primarily due to the increase in revenue from "Lords Mobile".

Revenue by geographical regions

The following table sets out the breakdown of the Group's revenue by geographical regions of players for the years ended 31 December 2018 and 2017, respectively:

	Year ended 31 December			
	2018		2017	
	US\$' 000	%	US\$' 000	%
Asia	346,090	46.2	296,049	48.8
North America	198,761	26.6	159,352	26.2
Europe	170,167	22.7	128,874	21.2
Others	33,767	4.5	22,978	3.8
Total	748,785	100.0	607,253	100.0

Revenue by games

The following table sets forth a breakdown of the Group's revenue by games for the years ended 31 December 2018 and 2017, respectively:

	Year ended 31 December			
	2018		2017	
	US\$' 000	%	US\$' 000	%
Lords Mobile	599,910	80.1	437,784	72.1
Castle Clash	110,186	14.7	124,239	20.5
Others	38,689	5.2	45,230	7.4
Total	748,785	100.0	607,253	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of revenue

The Group's cost of revenue for the year ended 31 December 2018 was US\$225.2 million, representing an increase of 17% compared to US\$192.7 million for the year ended 31 December 2017, primarily due to the increase in channel costs as a result of the expansion of mobile game business.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2018 was US\$523.5 million, representing an increase of 26% compared to US\$414.6 million for the year ended 31 December 2017, primarily due to the increase in revenue from mobile games.

The Group's gross profit margin for the year ended 31 December 2018 was 70%, representing an increase of 2% compared to 68% for the year ended 31 December 2017, primarily due to the addition of several new channels with lower channel costs.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 December 2018 was US\$186.6 million, representing an increase of 17% compared to US\$159.0 million for the year ended 31 December 2017, primarily due to additional advertising and promotional activities for "Lords Mobile". Selling and distribution expenses-to-revenue ratio for the year ended 31 December 2018 was 25%, slightly decreased from 26% for the year ended 31 December 2017.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2018 was US\$44.7 million, representing an increase of 34% compared to US\$33.4 million for the year ended 31 December 2017, primarily due to the increases in salaries, performance-based bonuses and comprehensive welfare as a result of global expansion. Administrative expenses-to-revenue ratio for the year ended 31 December 2018 was kept to 6%, same as previous year.

Research and development expenses

The Group's research and development expenses for the year ended 31 December 2018 was US\$63.6 million, representing an increase of 36% compared to US\$46.7 million for the year ended 31 December 2017, primarily due to increases in salaries, performance-based bonuses and comprehensive welfare for the games development teams. Research and development expenses-to-revenue ratio for the year ended 31 December 2018 was kept to 8%, same as previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

The Group's income tax expenses for the year ended 31 December 2018 was US\$47.1 million, representing an increase of 97% compared to US\$23.9 million for the year ended 31 December 2017, primarily due to (i) the increase in profit before tax; (ii) the increase in provision for tax position in different tax jurisdictions.

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

Capital 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 years ended 31 December 2018 and 2017 are set forth as below:

	Year ended 31 December	
	2018 US\$' 000	2017 US\$' 000
Purchase of property, plant and equipment	4,780	2,029
Purchase of intangible assets	307	341

Capital commitment

As at 31 December 2018, the Group had a capital commitment of approximately US\$0.9 million (31 December 2017: US\$0.1 million).

Liquidity and capital resources and gearing ratios

As at 31 December 2018, the Group had net current assets of US\$220.2 million (31 December 2017: US\$205.4 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 29.6% (31 December 2017: 28.5%).

As at 31 December 2018, the Group had cash and cash equivalents of US\$287.5 million (31 December 2017: US\$221.9 million).

The Group did not have any bank borrowings or other financing facilities as at 31 December 2018 (31 December 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Year ended 31 December	
	2018 US\$' 000	2017 US\$' 000
Net cash flows from operating activities	239,224	172,236
Net cash flows used in investing activities	(41,023)	(6,166)
Net cash flows used in financing activities	(131,567)	(128,623)
Net change in cash and cash equivalents	66,634	37,447
Cash and cash equivalents at 1 January	221,892	184,061
Effect of foreign exchange rate changes	(979)	384
Cash and cash equivalents at 31 December	287,547	221,892

Operating activities

Net cash flows from operating activities was US\$239.2 million for the year ended 31 December 2018, compared to US\$172.2 million for the year ended 31 December 2017. This was primarily due to the outstanding performance of “Lords Mobile”.

Investing activities

Net cash flows used in investing activities was US\$41.0 million for the year ended 31 December 2018, primarily attributable to the equity investments in several internet companies and purchase of fixed assets in the year 2018. Net cash flows used in investing activities for the year ended 31 December 2017 was US\$6.2 million.

Financing activities

Net cash flows used in financing activities was US\$131.6 million for the year ended 31 December 2018, primarily attributable to the payment of the second interim dividend for the year ended 31 December 2017 and the first interim dividend for the year ended 31 December 2018, as well as the share buy-backs made by the Company during the year ended 31 December 2018. Net cash flows used in financing activities for the year ended 31 December 2017 was US\$128.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign currency risk

The Group's sales and purchases for the year ended 31 December 2018 were mostly denominated in USD and SGD. The management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. Historically, the Group has not incurred any significant foreign currency exchange loss in its operation.

Legal compliance

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

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

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

Dividend

The Board resolved to declare a second interim dividend of HK16.7 cents per ordinary Share (equivalent to US2.1 cents per ordinary Share). Together with the first interim dividend of HK17.7 cents per ordinary Share (equivalent to US2.3 cents per ordinary Share) paid in September 2018, the total dividends per ordinary Share for the year ended 31 December 2018 would be HK34.4 cents per ordinary Share (equivalent to US4.4 cents per ordinary Share) (31 December 2017: the total dividends of HK49.0 cents per ordinary Share, equivalent to US6.3 cents per ordinary Share).

MANAGEMENT DISCUSSION AND ANALYSIS

Share repurchase

The Group had repurchased 57,512,000 shares during the year 2018, amounting to US\$75.7 million. Taken into account the declared dividends of US\$56.8 million for the year 2018, total payment of share repurchase and declared dividends would be approximately US\$132.5 million, which was 70% of the net profit for the Year. (For the year ended 31 December 2017, the total amount paid on share repurchase and declared dividends was US\$122.2 million, representing 79% of net profit of the year 2017.)

Human resources

As at 31 December 2018, the Group had 1,421 employees (31 December 2017: 1,056).

The Group's total staff-related costs amounted to US\$65.3 million for the year ended 31 December 2018 (the year ended 31 December 2017: US\$50.6 million).

Significant investment

During the year ended 31 December 2018, the Group did not hold any significant investment in equity interest in any other company (the year ended 31 December 2017: nil).

Material acquisition and disposal of subsidiaries and associates and joint ventures

During the year ended 31 December 2018, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures (the year ended 31 December 2017: nil).

Charges on assets

As at 31 December 2018, no asset of the Group was pledged as a security for bank borrowing or any other financing activities (31 December 2017: nil).

Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2018 (31 December 2017: nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zongjian Cai (蔡宗建), aged 41, was appointed as an executive Director of the Company on 31 October 2007 and is the Chairman and chief executive officer of the Group. Mr. Cai is one of the founders of the Group and is primarily responsible for the corporate strategic planning and overall business development of the Group. Mr. Cai also acts as a director of the Company's subsidiary, Skyunion Hong Kong Holdings Limited (天盟香港控股有限公司). Mr. Cai has approximately 19 years of experience in online game industry. He worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.* (福建網龍計算機信息網絡技術有限公司) as a vice president from May 2000 to November 2003 and piloted the development of 17173.com. Mr. Cai also worked as the chief executive officer of 17173.com, which was acquired by Sohu.com Inc., a company listed on NASDAQ (Stock Code: SOHU), from November 2003 to January 2005 and a consultant for both Beijing Sohu New Era Information Technology Co., Ltd.* (北京搜狐新時代信息技術有限公司) and 17173.com from January 2005 to June 2005. Mr. Cai graduated from Fuzhou University (福州大學) with a college diploma in computer and accounting in June 1998.

Mr. Yuan Xu (許元), aged 44, was appointed as an executive Director of the Company on 21 August 2015 and is the Group's chief operating officer. Mr. Xu has approximately 19 years of experience in project and corporate management. He joined the Group in September 2007 and is primarily responsible for global operation strategies of the Group. Prior to joining the Group, Mr. Xu worked as a graduate researcher at University of California, Santa Cruz, from September 1999 to July 2004. He also worked at Nanoconduction Inc as a project leader from September 2004 to June 2007. Mr. Xu graduated from Beijing University of Technology* (北京工業大學) with a bachelor's degree in applied physics in July 1998. He also graduated from University of California, Santa Cruz, with a degree of doctor of philosophy in electrical engineering in June 2004.

Mr. Hong Zhang (張竑), aged 47, was appointed as an executive Director on 21 August 2015 and is the Group's chief technology officer and senior vice president of global operations. Mr. Zhang has approximately 22 years of experience in information technology industry. He joined the Group in December 2008 and is primarily responsible for the overall technology operation of the Group. Prior to joining the Group, Mr. Zhang worked at Charles Schwab as a senior staff technology from August 2000 to November 2005. He was also employed by Corporate Computer Services Inc. from November 2005 to November 2008 as a software engineer, assigned to Barclays Global Investors as an information technology consultant. Mr. Zhang graduated from Zhejiang University* (浙江大學) with a bachelor's degree in engineering in June 1994, a master's degree in engineering in June 1997. He also graduated from University of California, San Francisco, with a master's degree in science in September 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Jessie Shen (沈潔蕾), aged 48, was elected as an executive Director on 3 June 2016 and is the Group's chief financial officer and one of the joint company secretaries. Ms. Shen has approximately 22 years of experience in accounting and corporate management. She was appointed as the chief financial officer of the Group on 10 November 2014. She joined the Group in March 2009 as the senior vice president of finance and has been primarily responsible for corporate finance, accounting, legal and listing compliance matters on the Stock Exchange. Prior to joining the Group, she worked as an auditor at Diwan, Ernst & Young from July 1992 to August 1994, and a finance associate manager of Aurora Corporation, a company listed on the Taiwan Stock Exchange (Stock Code: 2373), from March 1995 to March 1998 and from August 2001 to January 2002. Ms. Shen also held finance and company secretary positions at Rock Mobile Group from January 2003 to March 2007. She worked at Neo Solar Power Corp., a company listed on Taiwan Stock Exchange (Stock Code: 3576), as a finance manager from December 2007 to March 2009. Ms. Shen graduated from Tunghai University with a bachelor's degree in accounting in June 1992. She also graduated from Rutgers, The State University of New Jersey with a master's degree in business administration in October 1999. Ms. Shen passed the examination of American Institute of Certified Public Accountants (AICPA), Certified Public Accountant examination in Taiwan, Certified Internal Auditor examination by the Institute of Internal Auditors, and the certification examination by Taiwan Institute of Internal Auditors* (中華民國內部稽核協會).

Mr. Feng Chen (陳豐), aged 46, was elected as an executive Director on 3 June 2016 and was one of the individual investors investing in the Company prior to the listing of the Company on the Stock Exchange in 2013. In April 2014, Mr. Chen joined the Company as the senior vice president of corporate strategy and has been responsible for leading several strategic investments made by the Company in external startups and internal incubated projects. Mr. Chen also acts as a director of the Company's joint ventures, Tap Media Technology Inc. and Chinese ABC Ltd.. Prior to joining the Company, from July 1996 to August 2001, Mr. Chen served as a senior design engineer at Broadcom Corporation (currently known as Broadcom Ltd.), an American fabless semiconductor company, and was responsible for the development of one of the world's first DOCSIS standard compliant cable modem chipset. From May 2002 to June 2007, Mr. Chen served various positions at NetDragon Websoft Inc., an online game developer and operator in the PRC listed on the Stock Exchange, including the senior vice president of overseas business development. In August 2007, Mr. Chen founded Ingle Games Ltd., a publisher that aimed at publishing MMORPG games developed by Chinese game developers in the western market, and served as the chief executive officer of Ingle Games Ltd. from August 2007 to December 2010. From March 2011 to March 2014, Mr. Chen served as the senior vice president of overseas development at 91.com, a mobile internet distribution platform in the PRC. Mr. Chen graduated from University of California, Los Angeles with a Master of Science Degree in electrical engineering in 1995.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Yuan Chi (池元), aged 62, was redesignated as a non-executive Director on 21 August 2015. Mr. Chi is one of the founders of the Group and also acts as a director of the Company's subsidiary, Skyunion Hong Kong Holdings Limited (天盟香港控股有限公司). Mr. Chi has approximately 21 years of experience in the information technology industry. Prior to joining the Group, Mr. Chi worked as the general manager of Fujian Window Network Information Co., Ltd.* (福建之窗網絡信息有限公司) (www.66163.com) from April 1998 to June 2007. He was the vice president of Fujian Rongji Software Co., Ltd.* (福建榕基軟件股份有限公司), a company listed on Shenzhen Stock Exchange (Stock Code: 002474), from November 2000 to September 2003. Mr. Chi also worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.* (福建網龍計算機信息網絡技術有限公司) from October 2003 to November 2007. Mr. Chi graduated from Fuzhou University with a bachelor's degree in water resources and hydropower engineering in July 1982 and a master's degree in hydraulic structure in March 1990.

Independent Non-executive Directors

Dr. Horn Kee Leong (梁漢基), aged 67, was appointed as an independent non-executive Director on 16 September 2013. Dr. Leong is currently the chairman of CapitalCorp Partners Private Limited. He has been Singapore's Non-resident High Commissioner to Cyprus since July 2014. Since 1983, until prior to joining CapitalCorp Partners Private Limited, Dr. Leong held various management positions including as an executive director and consultant of Far East Organization Centre Pte. Ltd., the chief executive officer of Yeo Hiap Seng Ltd, the managing director of Orchard Parade Holdings Limited, a corporate finance director of Rothschild (Singapore) Limited. From 1977 to 1983, Dr. Leong held various positions at the Ministry of Finance and at the Ministry of Trade & Industry of Singapore. He was a member of Parliament of Singapore from 1984 to 2006. He was Singapore's non-resident ambassador to Mexico from September 2006 to February 2013. In addition to the above, Dr. Leong currently holds or held directorships in the following listed companies in the past three years preceding the date of this annual report:

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Leong graduated from Loughborough University with a bachelor's degree of technology in production engineering and management in July 1975. He completed distance learning and obtained a bachelor's degree of science in economics from University of London in August 1979 and he also finished part time study and obtained a bachelor's degree of arts in Chinese Language and Literature from Beijing Normal University* (北京師範大學) in March 2009. Dr. Leong graduated from the European Institute of Business Administration (INSEAD) with a master's degree of business administration in 1980 and he also finished part time study and obtained a master's degree of business research from the University of Western Australia in September 2009. He also graduated from the University of Western Australia with the degree of doctor of business administration in September 2013.

Mr. Dajian Yu (余大堅), aged 70, was appointed as an independent non-executive Director on 16 September 2013. Mr. Yu has over 18 years of experience in venture capital investment and in senior management in semiconductor, electronic, IT and pharmaceutical industries. Since 2010, he has been the vice president of Silicon Valley China Venture Management LLC and the director of several portfolio companies, Kinetic Technologies, Consensic International Inc., and Tricopian, LLC. He has also been the partner of BayHill Partners since 1999. Mr. Yu held senior management positions at several companies, including director of operations at General Parametrics Corporation from 1985 to 1996, vice president at Topology Corporation from 1996 to 1999, and vice president of Fuzhou Tianmeng from 2009 to 2010. Mr. Yu graduated from South China University of Technology (華南理工大學) (formerly known as South China Technology College* (華南工學院)) with a bachelor's degree in electrical engineering in July 1982.

Ms. Zhao Lu (陸釗), aged 51, was appointed as an independent non-executive Director on 16 September 2013. Ms. Lu is currently the president of Fujian New Media Animation Game Associate* (福建省動漫遊戲協會新媒體產業聯盟) and also serves as a senior adviser to Amphenol AssembleTech (Ningde) Co., Ltd* (安費諾(寧德)電子有限公司). Ms. Lu was the vice president of Amphenol AssembleTech (Ningde) Co., Ltd from September 2016 to October 2018. She was the general manager of Fuzhou Lingdong Network Science and Technology Co., Ltd.* (福州靈動網絡科技有限公司) from February 2009 to December 2012 and the general manager of Tian Liang Customer Service* (天亮客服) of Fujian NetDragon Computer Information Network Technology Co., Ltd.* (福建網龍計算機網絡信息技術有限公司) from December 2003 to February 2009. Ms. Lu graduated from Beijing University of Posts and Telecommunications* (北京郵電大學) (formerly known as Beijing Institute of Posts and Telecommunications* (北京郵電學院)) with a bachelor's degree in communication in July 1989.

SENIOR MANAGEMENT

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

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

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

The Company is committed to maintaining high standards of corporate governance in the best interests of Shareholders. During the year ended 31 December 2018, 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 business development of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. In addition, the balance of power and authorities is ensured by the operation of the Board, which comprises experienced and high caliber individuals. The Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

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

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

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

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

During the year ended 31 December 2018, the Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors representing one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

Board Diversity Policy

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

CORPORATE GOVERNANCE REPORT

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

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

Model Code

During the year ended 31 December 2018, the Company has also adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code regarding directors' securities transactions during the year ended 31 December 2018.

Independent Non-Executive Directors

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

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

The Company has received annual confirmations of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development for the year ended 31 December 2018:

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

Directors' and Officers' Insurance

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

CORPORATE GOVERNANCE REPORT

Dividend Policy

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

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. During the year ended 31 December 2018, thirteen meetings of the Board and one general meeting were held.

The individual attendance record of each Director at the meetings of the Board and the general meeting of the Company during the year ended 31 December 2018 is set out below:

Name of Director	Attendance/ Number of Board Meeting(s) eligible to attend	Attendance/ Number of General Meeting eligible to attend
<i>Executive Directors</i>		
Mr. Zongjian Cai (Chairman and chief executive officer)	13/13	1/1
Mr. Yuan Xu	13/13	1/1
Mr. Hong Zhang	13/13	1/1
Ms. Jessie Shen	13/13	1/1
Mr. Feng Chen	13/13	1/1
<i>Non-executive Director</i>		
Mr. Yuan Chi	13/13	1/1
<i>Independent non-executive Directors</i>		
Dr. Horn Kee Leong	13/13	1/1
Mr. Dajian Yu	13/13	1/1
Ms. Zhao Lu	13/13	1/1

CORPORATE GOVERNANCE REPORT

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

Appointments, Re-election and Removal of Directors

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

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

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

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

Board Committees

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

CORPORATE GOVERNANCE REPORT

Audit Committee

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

The audit committee had reviewed the Group's audited annual results for the year ended 31 December 2017 and the Group's unaudited interim results for the six months ended 30 June 2018, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the internal control systems of the Group during the year ended 31 December 2018. During the year, the audit committee held two meetings with the external auditors without the presence of any members of management of the Company.

During the year ended 31 December 2018, three meetings were held by the audit committee. The individual attendance record of each member of the audit committee at the meetings of the audit committee is set out below:

Name of Director	Attendance/ Number of Committee Meeting(s) eligible to attend
Dr. Horn Kee Leong	3/3
Mr. Dajian Yu	3/3
Ms. Zhao Lu	3/3

CORPORATE GOVERNANCE REPORT

Remuneration Committee

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

For the year ended 31 December 2018, the remuneration committee surveyed peer companies' remuneration packages and reviewed the remuneration packages of the executive Directors and the senior management. The remuneration committee also reviewed granting of share options under the Share Option Scheme and granting of awarded shares under the Share Award Scheme and benefit plans to key employees.

For the year ended 31 December 2018, four meetings were held by the remuneration committee. The individual attendance record of each member of the remuneration committee at the meetings of the remuneration committee is set out below:

Name of Director	Attendance/ Number of Committee Meeting(s) eligible to attend
Ms. Zhao Lu	4/4
Mr. Zongjian Cai	4/4
Mr. Dajian Yu	4/4

CORPORATE GOVERNANCE REPORT

Nomination Committee

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

During the year of 2018, the nomination committee reviewed the structure, size and composition of the Board, and the nomination of candidates for directorship and made recommendations to the Board on terms of such appointment.

During the year ended 31 December 2018, two meetings were held by the nomination committee. The individual attendance record of each member of the nomination committee at the meetings of the nomination committee is set out below:

Name of Director	Attendance/ Number of Committee Meeting(s) eligible to attend
Dr. Horn Kee Leong	2/2
Mr. Dajian Yu	2/2
Ms. Zhao Lu	2/2
Mr. Zongjian Cai	2/2

CORPORATE GOVERNANCE REPORT

Nomination Policy

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

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with the Listing Rules, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report. During the year ended 31 December 2018, the Board reviewed and determined the policy for the corporate governance of the Company.

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Jessie Shen and Ms. Yin Ping Yvonne Kwong. Ms. Yin Ping Yvonne Kwong, vice president of SWCS Corporate Services Group (Hong Kong) Limited, an external service provider, has been engaged by the Company as its company secretary to act jointly with Ms. Jessie Shen. The primary contact person at the Company is Ms. Jessie Shen. Both Ms. Jessie Shen and Ms. Yin Ping Yvonne Kwong have informed the Company that they have taken no less than 15 hours of relevant professional training during the year ended 31 December 2018. Their trainings satisfied the requirements under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

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

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

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

Auditor's Remuneration

The audit committee of the Company is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors of the Company and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages KPMG as its external auditor. Details of the fees paid/payable to KPMG during the year ended 31 December 2018 are as follows.

	USD' 000
Audit services	320
Non-audit services	35
Total	355

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

CORPORATE GOVERNANCE REPORT

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

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

The Board is responsible for overseeing the management in the design, implementation and monitoring of such systems, and reviewing and maintaining appropriate and effective risk management and internal control systems. During the year ended 31 December 2018, the Board has conducted quarterly reviews of the risk management and internal control systems of the Group and considered the risk management and internal control systems of the Group have been implemented effectively and are adequate. Such reviews covered financial, compliance and operational controls. The Board has also discussed the business risk, financial risk, compliance risk, operational risk and other risks.

In addition, the Board has reviewed and considered that the resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit, legal and financial reporting functions are adequate and effective and have complied with the provisions of the Corporate Governance Code during the year ended 31 December 2018.

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

Communications with Shareholders

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

CORPORATE GOVERNANCE REPORT

Procedures by which enquiries may be put to the Board

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

Attention: Ms. Jessie Shen

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

Telephone No.: (852) 3469 5333

Fax No.: (852) 3469 5000

Email: cosec@igg.com

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

Constitutional Documents

There has been no change in the Company's constitutional documents for the year ended 31 December 2018.

CORPORATE SOCIAL RESPONSIBILITY REPORT

1 ABOUT THIS REPORT

Overview

This report is prepared based on the principle of objectivity and transparency, and focuses on the disclosure of information on the economic, social and environmental performance of the Group for the period from 1 January 2018 to 31 December 2018.

Basis of Preparation

This report mainly makes reference to the revised Environmental, Social and Governance (“ESG”) Reporting Guide issued by the Stock Exchange in December 2015. The contents of this report are determined based on a set of systematic procedures, such as identifying and prioritising key stakeholders, identifying and prioritising key ESG issues, determining the scope of corporate social responsibility report, collecting relevant materials and data, compiling the report based on relevant information, and reviewing information in the report.

Scope of the Report

The disclosure scope of this report is consistent with the 2018 annual report of the Company.

Explanation for Abbreviations

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

Data Source and Reliability Assurance

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

Confirmation and Approval

The report was approved by the Board on 6 March 2019 upon confirmation by the management.

CORPORATE SOCIAL RESPONSIBILITY REPORT

2 ENVIRONMENTAL SOCIAL AND GOVERNANCE STRUCTURE

2.1 Environmental, Social and Governance Mechanism

IGG ESG Management Structure and Responsibilities

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

2.2 Stakeholder Engagement

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

Category of and Engagement with Stakeholders

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

2.3 Identification of Material Issues

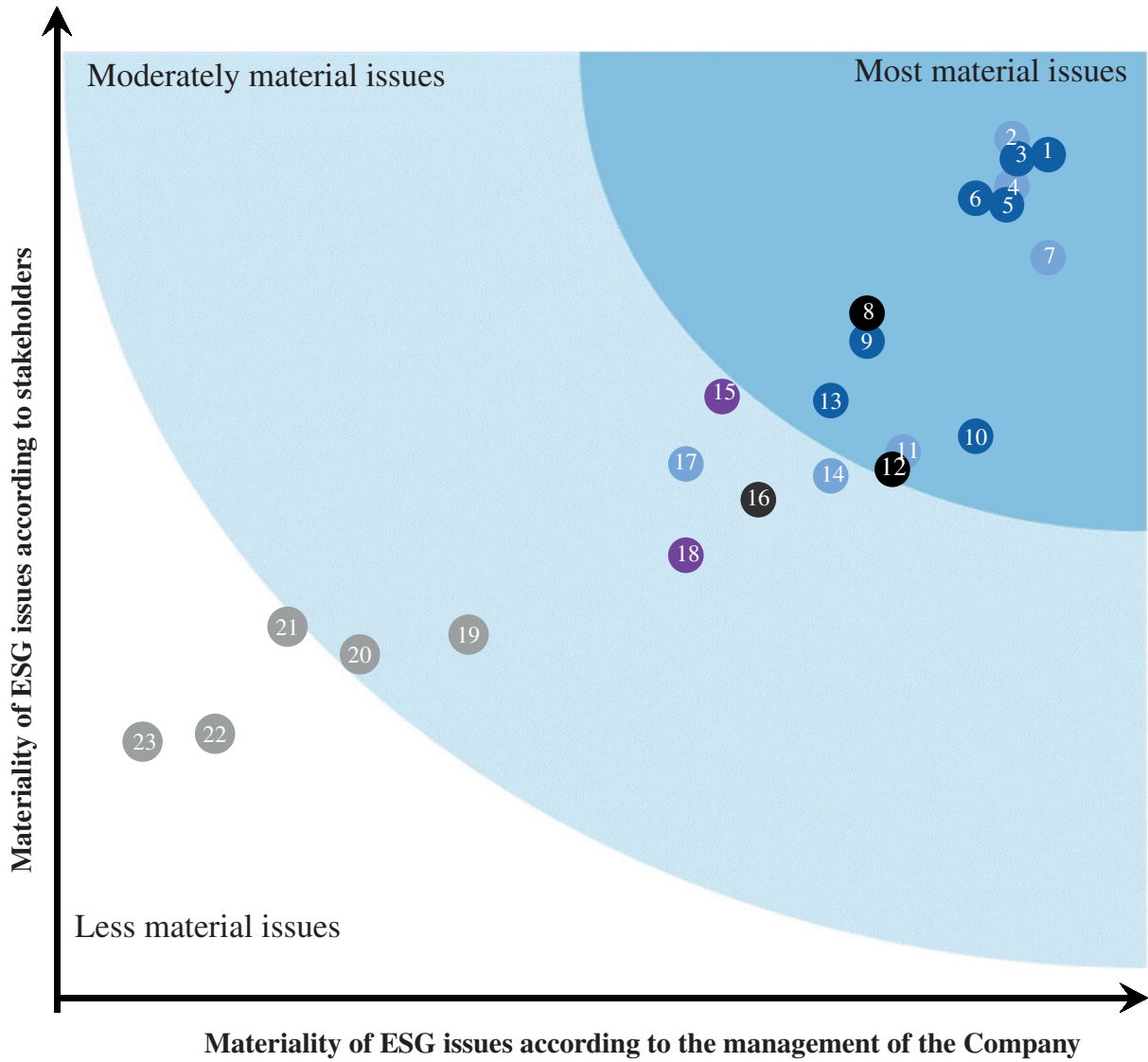
During the preparation of this report, the Group has conducted assessments on its related ESG issues to have better understanding of the expectation by stakeholders, so as to formulate the framework on disclosure and contents of disclosure in this report, in response to the requests of the stakeholders.

Our assessment on major issues comprised the following procedures:

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

Materiality Analysis Matrix of ESG Issues



CORPORATE SOCIAL RESPONSIBILITY REPORT

List of ESG Issues

- Product Responsibility
- Employment Practices
- Community Investment
- Management Mechanism
- Supplier Management
- Environmental Protection

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

2.4 Sustainable Development Principles

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

2.5 Supplier Management

The Group has established long-term relationships with Apple, Google, Amazon, Microsoft and more than 100 platforms, advertisers and suppliers around the world. IGG has stated in its internal policy that all personnel acting on the Group's behalf must not receive rebates, gifts or favours of any kind which could influence a business decision. Such policy has been publicised to all employees regularly, and relevant clauses are also included in the Group's contracts with all business partners. When asking for quotation from suppliers, procurement staff must send the seller or service provider a copy of Letter to Suppliers/ Partners, which states the Group's anti-corruption expectations. The procurement staff is also required to obtain confirmation from the suppliers on their acknowledgement of IGG's anti-corruption policy.

2.6 Anti-corruption

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

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

In 2018, IGG did not find any acts of corruption or fraud.

CORPORATE SOCIAL RESPONSIBILITY REPORT

3 PRODUCTS AND SERVICES

3.1 Enhance Player Experience

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

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

While internationalising its products, the Group strives for the localisation of its operations to know our customers' cultural background and gaming preferences, serve them better, and adopt more effective marketing approaches. Local operation teams around the world work closely to roll out a full range of marketing initiatives, such as producing cinematic-quality video advertisements featuring popular artists and athletes, cooperating with popular Internet influencers in live broadcasts, launching campaigns on TV commercials, print media and outdoor advertising display. Our diverse promotional strategies also include organising international game tournaments and having co-marketing campaigns with globally renowned smartphone manufacturers, telecom giants, supermarket chains, and food and beverage companies, etc. Besides, IGG's online shop of game merchandise offers a series of exquisite products inspired by IGG's classic game IP, with the goal of extending the digital gaming experiences into the real world.

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

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

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

3.2 Product Health and Safety

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

3.3 Player Services and Communication

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

Customer Services

The Group is a global mobile game developer and operator with players from more than 200 countries around the world, providing mobile games in 21 languages. Our customer service center provides industry-leading support for players 24 hours a day, 365 days a year. We have formulated the Group's Customer Service Requirements to set out detailed standard practices to ensure comprehensive, accurate and timely customer services. In 2018, as the number of players has rapidly increased, our customer service addressed more customer inquiries via various channels, including over 990,000 questions via in-game ticket submission, over 520,000 questions raised through live chat, over 440,000 emails and more than 600 telephone calls. Players' queries were related to, among other things, purchases, game features and system bugs which have been followed up and addressed according to the Group's Customer Service Requirements. (Year 2017: over 550,000 questions via in-game ticket submission, over 560,000 questions raised through live chat, over 580,000 emails and more than 400 telephone calls)

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

The evaluation and inspection on customer service quality has been carried out by a combination of internal spot check and external customer scoring. The internal quality inspection review conducts a comprehensive quality assessment on response speed, service attitude, wordings, and correctness of answers and solutions. In 2018, the pass rate of customer service quality inspection by internal spot check was 99%, and several major games' live chat scoring system showed that 91% of players were satisfied with the service. (Year 2017: Pass rate of customer service quality inspection was 98%, and 89% of players were satisfied with service received.)

Players Activities

In 2018, IGG conducted offline activities for players in a variety of ways, including international game tournaments, player meetings at major game shows, interactive talk shows and player gatherings, etc. While expanding the influence of games, the events promoted close connection between players and IGG and established exchange communities outside the cyberspace.

CORPORATE SOCIAL RESPONSIBILITY REPORT



Lords Mobile - Lords Tournament: ASIA



China Digital Entertainment Expo & Conference (ChinaJoy)

CORPORATE SOCIAL RESPONSIBILITY REPORT

3.4 Privacy Protection

Because of its international presence and business scope, the Group ensures compliance with privacy policies and local laws and regulations in all countries around the world in which it operates. For example, when the European General Data Protection Regulation (“GDPR”) became effective on 25 May 2018, the Group has appointed a group data protection officer and a European Union representative in accordance with regulations, and is assisted by external professionals to carry out necessary internal control measures in order to ensure compliance with GDPR.

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

3.5 Operational Compliance

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

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

3.6 Recognition and Awards

In 2018, IGG and its games successively won recognition from the industry and received numerous awards.

IGG has been listed by App Annie as one of the “Top 52 Publishers” for four consecutive years. In 2018, the ranking placed IGG at number 22 in the world. A spot on the top 52 list is a special honour, reserved for top-earning publishers in terms of annual revenue on iOS and Google Play stores.

CORPORATE SOCIAL RESPONSIBILITY REPORT

List of Awards won by IGG in 2018

Awards	Awarding Institutions
22nd Place of Top 52 Publishers of 2018	App Annie, a mobile analytic platform
16th Place of BrandZ™ Top 50 Chinese Global Brand Builders 2018, The Fastest Growing Mobile Game Brand	Jointly released by Google Inc. and BrandZ, a brand consulting company under the world's largest advertising communication group, WPP
Best Mobile Game Company 2018	GMGC Tian Fu Award, a prestigious prize in the Chinese game sector
Best Overseas Mobile Game Publisher 2018, Best Overseas Product Operating Enterprise 2017	You Ding Award, a prestigious prize in the Chinese game sector
Leading Overseas Game Developer	17173.com, a well-known gaming media
Best Overseas Mobile Game Publisher 2018	Golden Tea Award by Youxichaguan.com, a well-known gaming media
Best Overseas Mobile Game Publisher 2018	Golden Gyro Award by Youxituoluo.com, a well-known gaming media
Outstanding Overseas Enterprise 2018	Golden Grape Award by Youxiputao.com, a well-known gaming media
19th Place of Top 50 Mobile Game Developers of 2017	PocketGamer.biz, a well-known mobile game website
Best Overseas Game Publisher 2017	Golden Wave Awards by Sina Games, a well-known gaming media
Best Under A Billion 2018	Forbes Asia
2018 Most Valuable Listed Company under Hong Kong Stock Connect Scheme	Golden Wing Award by China Securities Times

CORPORATE SOCIAL RESPONSIBILITY REPORT

List of awards won by Lords Mobile in 2018

Awards	Awarding Institutions
Android Excellence Game of 2017, Nomination for User's Choice Game of 2018	Google Play
Top 10 Most Popular E-sports Games 2018, Top10 Most Popular Games Overseas 2018	2018 China Game Industry Annual Conference, a prestigious digital entertainment summit in China
Best Mobile Game 2018	GMGC Tian Fu Award, a prestigious prize in the Chinese game sector
Most Popular Game 2018	Toutiao, a famous news platform in China
Most Popular Game 2018	Wind Direction Award by China Mobile Game Influence Summit, a prestigious prize in the Chinese game sector
Popularity and Profitability Award 2018, Best Overseas Game 2017	17173.com, a well-known gaming media
Best Mobile Game 2018	Golden Dog Award by Gamedog.cn, a well-known gaming media
Best International APP for 2017	Xiaomi MIUI Intelligent Ecological Conference

4 CARING FOR EMPLOYEES

4.1 Equal Employment

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

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

As at 31 December 2018, IGG had 1,421 employees in total, representing an increase of 35% over the previous year. IGG's employees continue to be young in average age with employees aged below 30 accounting for 42% of the total number of employees. Female employees account for 30% of the total number of employees. Both employee age and gender distribution reflect the characteristics of the game industry. (Year 2017: 1,056 employees, with 42% aged below 30 and 30% of females.)

4.2 Comprehensive Training and Career Development

We embrace the spirit of continuous innovation and strive for excellence. With love and passion for games, gifted game makers from all walks of life gather in IGG, incorporating the sense of mission and accomplishment into work and aiming to create long-lasting classics for gamers around the world. The Group attaches great importance to encouraging innovation, offers a creative and conducive work environment that promotes learning and growth, and strives to maximise employees' potential and help them achieve their goals.

IGG has established comprehensive training systems which offer full-range and diversified training courses. The Group customises training courses based on actual demand of diverse teams, covering technical skills, soft skills, leadership, foreign language courses, etc. In addition to classroom training, on-the-job coaching and experience sharing session, IGG has introduced an online learning system, which enables staff to learn during fragmented time. In order to meet various skill-developing needs of employees, we have prepared training budgets to support employees utilising resources from external training organisations. In 2018, IGG held about 50 internal sharing sessions globally, covering game design, production, art, programming, successful case studies and more. Approximately 1,200 employees from all over the world attended more than 60 training sessions, with a total duration of over 27,000 hours. (Year 2017: Approximately 800 employees attended total training duration of over 21,000 hours.)

CORPORATE SOCIAL RESPONSIBILITY REPORT

4.3 Cross-cultural Integration

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

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

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

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

CORPORATE SOCIAL RESPONSIBILITY REPORT



IGG Singapore Team



Annual Party

CORPORATE SOCIAL RESPONSIBILITY REPORT

4.4 Compensation and Benefits

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

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

Social Insurance and Medical Support

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

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

Employee Communication

The Group values opinions from employees at all levels, and collects feedback and suggestions via several internal communication channels including employee surveys on areas such as staff benefits and working environment, feedback sections of intranet discussion forums and employee welfare committees.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Care Undertakings for Working Parents

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

4.5 Occupational Health and Safety

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

We organise staff to receive physical examination regularly and hold on-site consultation session over the physical examination reports. In addition, we invite doctors to conduct health knowledge lectures on the frequent illness in the industry. In order to reduce health risks of staff caused by sedentary work, IGG has purchased ergonomic office chairs for all staff.

CORPORATE SOCIAL RESPONSIBILITY REPORT



China Office



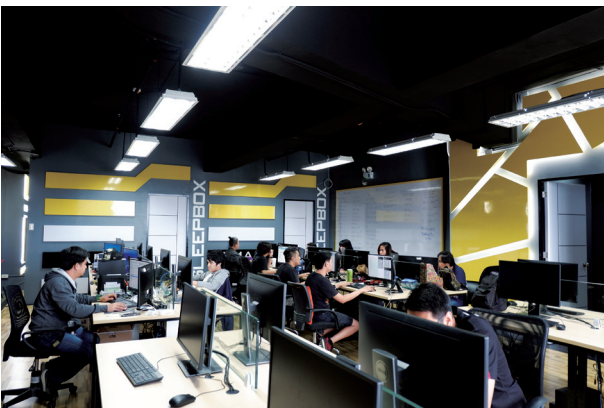
Swimming Pool



Singapore Office



Japan Office



The Philippines Office



Belarus Office

CORPORATE SOCIAL RESPONSIBILITY REPORT

4.6 Staff Activities

Arts and Sports Activity Clubs

IGG has set up 14 staff clubs, including sports, dance, electronic sports, volunteering, art and culture clubs, and provided funding for the activities. The clubs held more than 700 activities during 2018.

Holiday Activities and Travel

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



Staff Club Activity



Staff Retreat



Year-end Party



Holiday Event

CORPORATE SOCIAL RESPONSIBILITY REPORT

5 COMMUNITY CONTRIBUTION

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

5.1 Assisting in Future Development in the Gaming Industry

Cultivating talents with passion and expertise for the gaming industry and providing them with career opportunities are an investment for IGG's and the industry's future. Through a variety of projects around the world, IGG provides young people who are interested in games with opportunities to understand and enter the industry and broaden their career development prospects, and grows a talent pool for the Group. In 2018, more than 120 interns have completed their training programs with IGG.

IGG worked with universities in Mainland China, serving as the schools' technical training base and inviting its leading gaming industry professionals to share their career insights with college students. In 2018, IGG launched the "G-Star" incubation program in China. For a period of 45 days, interns participated in trainings and competitions to obtain hands-on experience on game production, showcase their works, and exchange ideas. Furthermore, IGG Singapore also offers internship program for aspiring game designers and game artists. Students can earn professional training credits to fulfil respective course requirements at tertiary institutions in Singapore by attending the internship programs at IGG. In January 2019, the Group unveiled the "Inter-G" talent program, inviting game enthusiasts all over the world to attend trainings and competitions on project management, marketing and operations, and human resource management, and learn from IGG's global operation expertise.

5.2 Charity Activities

In 2018, IGG conducted more than 20 charity donation activities to help different groups of people.

IGG co-operated with War Child, a renowned charity organisation in the UK, to raise awareness of helping children caught up in armed conflicts across the globe. Lords Mobile sent out in-game messages and offered a special game pack in correspondence to War Child's armistice campaign and donated the proceeds of the sales of this pack to War Child.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Partnering up with Fujian Anti-poverty Charity Association, IGG made donation to “Hospital Classroom” project to help children in need. The “Hospital Classroom” project strives to improve learning and living conditions of children with leukemia during their hospital stay, by providing sanitised learning areas and tutors for their school works. Volunteers from IGG China also participated in new year celebration and brought the children and their families with presents and living necessities.

During the year of 2018, IGG’s staff initiated a number of charity sales of second-hand items or local produces to raise funds for underprivileged students. Furthermore, IGG worked with charities such as the Thanksgiving Fujian Charity Association and made donations to help students with tuition fees.

Employee volunteers in IGG China run a long-term second-hand clothing donation project to collect and donate used clothing to charities. Employees from IGG Hong Kong also donated boxes of clothes to the Salvation Army in 2018.

In 2018, IGG Philippines donated to Gawad Kalinga, a charity organisation in the Philippines, to provide nutritious meals for school pupils.



New Year Celebration for “Hospital Classroom”

CORPORATE SOCIAL RESPONSIBILITY REPORT

6 GREEN OPERATION

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

Due to business expansion and higher number of employees, the total amount of energy and resource consumed by the Group in 2018 had increased in comparison with 2017, but the energy use intensity per capita remained relatively unchanged.

6.1 Energy Consumption and Greenhouse Gas Emissions

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

Energy Consumption			
Type of Energy¹	Unit	2018	2017
Energy consumption	MWh	2,289	2,104
Energy use intensity	MWh per capita	1.61	1.99
Gasoline ²	liter	5,810	9,000
Natural gas	tonne	0	0.49
Grid electricity consumed by office	kWh	2,236,759	2,016,883
GHG Emissions			
Type of GHG Emissions	Unit³	2018	2017
Scope I GHG emissions ⁴	tonne, CO ₂ equivalent	13	21
Scope II GHG emissions ⁵	tonne, CO ₂ equivalent	1,411	1,331
Total GHG emissions	tonne, CO ₂ equivalent	1,424	1,352
GHG emissions intensity	tonne, CO ₂ equivalent per capita	1.00	1.28

¹ The scope of statistics for the above energy items covers IGG and all entities controlled by it.

² The scope of statistics for gasoline consumption covers vehicles owned by IGG and all entities controlled by it. The decrease in gasoline consumption for 2018 was due to usage of more transportation service provided by third-party service providers.

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

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

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

6.2 Waste and Water Resource Management

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

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

Generation of Hazardous and Non-Hazardous Waste

Type of Waste Produced	Unit	2018	2017
Discarded modulator tube	piece	338	309
Discarded toner and ink cartridge	piece	277	153
Discarded battery	piece	663	490
Scrapped IT equipment – host and monitor	piece	203	254
Scrapped IT equipment – others	piece	182	116

Water Consumption

Type of Water Consumption	Unit	2018	2017
Office water consumption	tonne	11,531	11,133

CORPORATE SOCIAL RESPONSIBILITY REPORT

APPENDIX I LIST OF QUANTITATIVE DISCLOSURE DATA

ESG KPIs	Unit	2018	2017
A. Environmental			
A1. Emissions			
A1.2			
Greenhouse gas emissions			
Scope I GHG emissions ⁶	CO ₂ equivalent -tonne ⁷	13	21
Scope II GHG emissions ⁸	CO ₂ equivalent -tonne	1,411	1,331
Total GHG emissions	CO ₂ equivalent -tonne	1,424	1,352
GHG emissions intensity	CO ₂ equivalent -tonne per capita	1.00	1.28
A1.3 & A1.4			
Hazardous and non-hazardous waste produced			
Discarded modulator tube	piece	338	309
Discarded toner and ink cartridge	piece	277	153
Discarded battery	piece	663	490
Scrapped IT equipment – host and monitor	piece	203	254
Scrapped IT equipment – others	piece	182	116
A2. Use of Resources			
A2.1			
Energy consumption in total and intensity ⁹			
Energy consumption	MWh	2,289	2,104
Energy use intensity	MWh per capita	1.61	1.99
Gasoline ¹⁰	liter	5,810	9,000
Natural gas	tonne	0	0.49
Grid electricity consumed by office	kWh	2,236,759	2,016,883
A2.2			
Water consumption in total			
Office water consumption	tonne	11,531	11,133

⁶ According to the ISO 14064 GHG inventory standards, Scope I GHG emissions refers to direct greenhouse gas emissions, particularly direct emission sources owned and controlled by the organisation, such as emissions from its own vehicles.

⁷ Carbon dioxide equivalent is used as a measure of the comparison of greenhouse gas emissions. The calculations of carbon dioxide equivalent have included GHG emissions from sources, including carbon dioxide, methane and nitrous oxide etc.

⁸ According to the ISO 14064 GHG inventory standards, Scope II GHG emissions refers to indirect energy emission sources, such as indirect greenhouse gas emissions caused by purchased electricity.

⁹ The scope of statistics for the above energy items covers IGG and all entities controlled by it.

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

	ESG KPIs	Unit	2018	2017
B. Social				
B1. Employment				
B1.1	Total workforce by gender and age group			
	Total number	number of people	1,421	1,056
By gender	Male	number of people	995	743
	Female	number of people	426	313
By age	Below 30	number of people	603	447
	30-50	number of people	810	598
	Above 50	number of people	8	11
B3. Development and Training				
B3.1	Employee training			
	Total number of employees trained	number of people	Approximately 1,200	Approximately 800
B3.2	Training hours of employees			
	Total training hours	hour	Over 27,000	Over 21,000
B6. Product Responsibility				
B6.2	Number of products and service related complaints received			
	Address players' questions	incidence	Approximately 1,950,000	Approximately 1,690,000
B7. Anti-corruption				
B7.1	Number of legal cases regarding corrupt practices			
	Initiated or concluded legal cases regarding corrupt practices	incidence	0	0
B8. Community Investment				
B8.2	Resources contributed to the focus area			
	Monetary donation	US\$	More than 21,000	More than 150,000
	Charitable activities	incidence	21	13

CORPORATE SOCIAL RESPONSIBILITY REPORT

APPENDIX II KPI INDEX OF ESG GUIDE OF STOCK EXCHANGE

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

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is a renowned global mobile game developer and operator with headquarters in Singapore and regional offices in the United States, Hong Kong, Mainland China, Canada, Japan, South Korea, Thailand, Belarus, Indonesia, the Philippines and the United Arab Emirates. There has been no significant change in the Group's principal activities during the year of 2018.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 14 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2018 is set out on pages 182 and 183 of the annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the audited consolidated statement of comprehensive income in this annual report.

On 9 March 2018, the Board resolved to declare a second interim dividend of HK14.0 cents per ordinary Share (equivalent to US1.8 cents per ordinary Share), amounting to approximately US\$23.9 million. Such dividend has been paid on 19 April 2018.

On 8 August 2018, the Board resolved to declare a first interim dividend of HK17.7 cents per ordinary Share (equivalent to US2.3 cents per ordinary Share), amounting to approximately US\$29.5 million. Such dividend has been paid on 28 September 2018.

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

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to the 2018 second interim dividend

The register of members of the Company will be closed from Tuesday, 26 March 2019 to Thursday, 28 March 2019, both days inclusive, during which period no transfer of shares will be registered for the purpose of determining shareholders' entitlements to the second interim dividend. The record date for entitlement to the second interim dividend is on Thursday, 28 March 2019. In order to qualify for the second interim dividend, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 25 March 2019. The payment date of the second interim dividend is expected to be on Tuesday, 23 April 2019.

(b) Entitlement to attend and vote at the 2019 annual general meeting

The annual general meeting is scheduled on Monday, 6 May 2019. The register of members of the Company will be closed from Monday, 29 April 2019 to Monday, 6 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 April 2019.

RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2018 are set out in the consolidated statement of changes in equity and note 24 to the consolidated financial statement, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately US\$300.6 million. The amount of approximately US\$300.6 million represents the Company's share premium account of approximately US\$53.0 million and accumulated surplus of approximately US\$247.6 million in aggregate as at 31 December 2018, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE DONATIONS

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

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2018 are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in note 24 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Mr. Zongjian Cai (*Chairman and Chief Executive Officer*)

Mr. Yuan Xu

Mr. Hong Zhang

Ms. Jessie Shen

Mr. Feng Chen

Non-executive Director

Mr. Yuan Chi

Independent Non-executive Directors

Dr. Horn Kee Leong

Mr. Dajian Yu

Ms. Zhao Lu

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' REPORT

DISCLOSURE OF INTEREST AS PER REGISTERS KEPT PURSUANT TO THE SFO

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

Long positions in shares of the Company and the associated corporation

Interests in	Name	Capacity/Nature of interest	Number of shares/ underlying shares held	Approximate percentage of shareholding
1. The Company	Mr. Zongjian Cai (Notes 1, 2)	Interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	20.79%
	Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interest held jointly with another person	266,501,891	20.79%
	Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interest held jointly with another person	266,501,891	20.79%
	Ms. Jessie Shen (Note 3)	Beneficial owner	3,978,000	0.31%
	Mr. Feng Chen (Note 4)	Beneficial owner	13,640,000	1.06%
	Mr. Yuan Chi (Note 5)	Interest in a controlled corporation	153,920,000	12.01%
	Dr. Horn Kee Leong (Note 6)	Beneficial owner	180,000	0.01%
	Ms. Zhao Lu (Note 7)	Beneficial owner	440,000	0.03%
	Mr. Dajian Yu (Note 8)	Beneficial owner	875,000	0.07%
2. Associated corporation: Chinese ABC Limited	Mr. Feng Chen (Note 9)	Beneficial owner	990	9.90%

DIRECTORS' REPORT

Notes:

(1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.

(2) Mr. Zongjian Cai was interested in all the issued Share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 182,268,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. 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 31,269,077 Shares and was 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 11,166,835 Shares and was deemed to be interested in the 6,400,000 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.

(3) 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.

(4) Mr. Feng Chen was the beneficial owner of 13,340,000 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.

(5) Mr. Yuan Chi is 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.

(6) Dr. Horn Kee Leong was deemed to be interested in 180,000 Shares which may be issued to him upon exercise of the share options granted to him on 4 May 2018 under the Share Option Scheme.

(7) Ms. Zhao Lu was the beneficial owner of 60,000 Shares and was also deemed to be interested in (i) the 200,000 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; and (ii) the 180,000 Shares which may be issued to her upon exercise of the share options granted to her on 4 May 2018 under the Share Option Scheme.

(8) Mr. Dajian Yu was the beneficial owner of 445,000 Shares and was also deemed to be interested in (i) the 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; and (ii) the 180,000 Shares which may be issued to him upon exercise of the share options granted to him on 4 May 2018 under the Share Option Scheme.

(9) Mr. Feng Chen was the beneficial owner of 990 shares of Chinese ABC Limited which is an associated corporation of the Company, incorporated under the Hong Kong Companies Ordinance with limited liability on 6 September 2017.

DIRECTORS' REPORT

Save as disclosed above, as of 31 December 2018, none of the Directors and chief executive of the Company was, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to Listing Rules.

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

So far as were known to the Directors or chief executive of the Company, as at 31 December 2018, the following persons had interests and/or short positions of 5% or more of the Shares and underlying Shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares/ underlying shares held	Approximate percentage of shareholding
Duke Online (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.79%
Mr. Zongjian Cai (Notes 1, 2)	Interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	20.79%
Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.79%
Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.79%
Ms. Kai Chen (Notes 1, 2)	Beneficial owner, spouse interest, interests held jointly with another person	266,501,891	20.79%
Mr. Zhixiang Chen (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.79%
Edmond Online (Note 3)	Beneficial owner	153,920,000	12.01%
Mr. Yuan Chi (Note 3)	Interest in a controlled corporation	153,920,000	12.01%

DIRECTORS' REPORT

Notes:

(1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.

(2) Mr. Zongjian Cai was interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 182,268,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. 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 31,269,077 Shares and was 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 11,166,835 Shares and was deemed to be interested in the 6,400,000 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.

(3) 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.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other persons, other than the Directors and chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

DIRECTORS' REPORT

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%

DIRECTORS' REPORT

Below table set 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 year ended 31 December 2018 by category of grantees were as follows:

Category of grantees	Number of Pre-IPO share options			
	Outstanding as at 31 December 2017	Exercised during the Year	Lapsed/ forfeited during the Year	Outstanding as at 31 December 2018
Senior management	11,700,000	5,300,000	—	6,400,000
Connected persons (other than members of the senior management)	1,043,000	413,000	—	630,000
Other grantees who have been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more	967,000	120,000	—	847,000
Other grantees	8,671,000	2,766,000	—	5,905,000
Total	22,381,000	8,599,000	—	13,782,000

Save as disclosed above, no share options under the Pre-IPO Share Option Scheme have been exercised, lapsed or cancelled during the year ended 31 December 2018.

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2018 by category of grantees were as follows:

Category of grantees	Date of grant	Exercise price per Share	Outstanding as at 31 December 2017	Number of share options			Outstanding as at 31 December 2018
				Granted during the Year	Exercised during the Year	Lapsed/ forfeited during the Year	
Other employees and eligible persons	11 August 2014	HK\$5.47	172,000	—	28,250	20,000	123,750
Directors							
Ms. Jessie Shen	21 November 2014	HK\$3.51	367,000	—	—	—	367,000
Other employees and eligible persons	21 November 2014	HK\$3.51	250,000	—	75,000	25,000	150,000
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	200,000	—	—	—	200,000
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	1,910,666	—	314,166	—	1,596,500
Other employees and eligible persons	10 September 2015	HK\$2.94	90,000	—	65,000	—	25,000
Directors' respective associate							
Mr. Neng Xu (brother of Mr. Yuan Xu)	20 April 2017	HK\$10.50	150,000	—	—	112,500	37,500
Other employees and eligible persons	20 April 2017	HK\$10.50	630,000	—	—	—	630,000
Other employees and eligible persons	17 November 2017	HK\$10.08	270,000	—	—	—	270,000

DIRECTORS' REPORT

Category of grantees	Date of grant	Exercise price per Share	Number of share options				
			Outstanding as at 31 December 2017	Granted during the Year	Exercised during the Year	Lapsed/ forfeited during the Year	Outstanding as at 31 December 2018
Directors							
Dr. Horn Kee Leong	4 May 2018	HK\$12.14	—	180,000	—	—	180,000
Ms. Zhao Lu	4 May 2018	HK\$12.14	—	180,000	—	—	180,000
Mr. Dajian Yu	4 May 2018	HK\$12.14	—	180,000	—	—	180,000
Other employees and eligible persons							
	23 August 2018	HK\$10.24	—	150,000	—	—	150,000
Total			<u>7,569,666</u>	<u>690,000</u>	<u>732,416</u>	<u>157,500</u>	<u>7,369,750</u>

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 options 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 options 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

DIRECTORS' REPORT

23 March 2015

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

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

Share options 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 options 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 options 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

DIRECTORS' REPORT

20 April 2017

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

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

Share options vesting date	Percentage of share 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

17 November 2017

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

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

4 May 2018

On 4 May 2018, the Company granted a total of 540,000 share options to Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu, all of whom are independent non-executive Directors, with each granted 180,000 share options. The closing price immediately before the date on which the options were granted on 4 May 2018 was HK\$12.26.

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

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

DIRECTORS' REPORT

23 August 2018

Share options granted on 23 August 2018 shall vest according to the following time schedule, each with an exercise period commencing from the relevant vesting date and ending 10 years after the date of grant. The closing price immediately before the date on which the options were granted on 23 August 2018 was HK\$9.82.

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

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

SHARE AWARD SCHEME

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

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

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

DIRECTORS' REPORT

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 announcements dated 24 December 2013.

During the year ended 31 December 2018, the Company granted the awarded shares as followings:

23 March 2018

On 23 March 2018, the Board granted a total of 909,798 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible persons pursuant to the Share Award Scheme at nil consideration. 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 23 March 2019	25% of the total number of awarded shares granted
On 23 March 2020	25% of the total number of awarded shares granted
On 23 March 2021	25% of the total number of awarded shares granted
On 23 March 2022	25% of the total number of awarded shares granted

DIRECTORS' REPORT

23 August 2018

On 23 August 2018, the Board granted a total of 1,406,618 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible persons pursuant to the Share Award Scheme at nil consideration. Among the total 1,406,618 awarded shares, 50,000 awarded shares were granted to Mr. Shuo Wang, a director of certain wholly-owned subsidiaries of the Company and therefore a connected person of the Company. 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 23 August 2019	25% of the total number of awarded shares granted
On 23 August 2020	25% of the total number of awarded shares granted
On 23 August 2021	25% of the total number of awarded shares granted
On 23 August 2022	25% of the total number of awarded shares granted

9 November 2018

On 9 November 2018, the Board granted a total of 415,000 awarded shares, which have been acquired by the Trustee from the open market by utilising the Company's internal resources provided to the Trustee, to certain eligible persons pursuant to the Share Award Scheme at nil consideration. 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 9 November 2019	25% of the total number of awarded shares granted
On 9 November 2020	25% of the total number of awarded shares granted
On 9 November 2021	25% of the total number of awarded shares granted
On 9 November 2022	25% of the total number of awarded shares granted

DIRECTORS' REPORT

Particulars of the movements of the awarded shares under the Share Award Scheme during the year ended 31 December 2018 are as followings:

Date of grant	Outstanding as at 31 December 2017	Grant during the Year	Vested during the Year	Lapsed/ forfeited during the Year	Balance as at 31 December 2018
25 March 2014	350,250	—	350,250	—	—
11 August 2014	194,109	—	179,232	14,877	—
21 November 2014	58,025	—	58,025	—	—
23 March 2015	1,224,296	—	599,642	7,919	616,735
10 September 2015	387,250	—	186,125	20,000	181,125
8 April 2016	387,687	—	110,794	65,504	211,389
3 June 2016	538,305	—	177,518	5,742	355,045
30 August 2016	2,171,107	—	699,319	113,125	1,358,663
18 November 2016	872,618	—	285,867	15,000	571,751
20 April 2017	2,140,172	—	535,037	24,601	1,580,534
27 June 2017	591,297	—	143,258	18,250	429,789
8 September 2017	815,000	—	188,750	69,750	556,500
17 November 2017	976,751	—	241,678	13,893	721,180
23 March 2018	—	909,798	—	—	909,798
23 August 2018	—	1,406,618	—	20,000	1,386,618
9 November 2018	—	415,000	—	60,000	355,000
Total	10,706,867	2,731,416	3,755,495	448,661	9,234,127

On 23 March 2015, 70,000 awarded shares were granted to Mr. Chengfeng Luo.

On 10 September 2015, 20,000 awarded shares and 10,000 awarded shares were granted to Mr. Deyang Zheng and Ms. Siying Hao (spouse of Mr. Chengfeng Luo), respectively.

On 20 April 2017, 20,000 awarded shares and 50,000 awarded shares were granted to Mr. Deyang Zheng and Mr. Chengfeng Luo, respectively.

On 23 August 2018, 35,000 awarded shares were granted to Mr. Chengfeng Luo.

Note: Pursuant to the equity transfer agreement dated on 28 December 2018 entered into between the Founders and the New Registered Holders, Mr. Deyang Zheng and Mr. Chengfeng Luo acquired 50% and 50% of the equity interest of Fuzhou Tianmeng, respectively. Mr. Deyang Zheng and Mr. Chengfeng Luo, being the substantial shareholders of Fuzhou Tianmeng, have since then become connected persons of the Company. Ms. Siying Hao is the spouse of Mr. Chengfeng Luo, and hence an associate of Mr. Chengfeng Luo.

Save as disclosed above, to the best knowledge of the Directors, all the other share award grantees are third parties independent of the Company and its connected persons.

Save as disclosed above, during the year ended 31 December 2018, no awarded shares were granted, vested, or lapsed under the Share Award Scheme.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the year ended 31 December 2018 and up until the date of this report, except that as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme", none of the Directors or chief executives of the Company was granted any share options under the Pre- IPO Share Option Scheme or the Share Option Scheme or any awarded shares under the Share Award Scheme.

Save as disclosed above and in the section headed "Disclosure of Interest as per registers kept pursuant to the SFO" in this report, at no time for the year ended 31 December 2018 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

To the best knowledge of the Company, none of the Directors or the substantial shareholders of the Company or their respective associates has any interest in any business which competed or may compete with the business of the Group during the year ended 31 December 2018.

DEED OF NON-COMPETITION

Each of the members of the New Concert Group has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the deed of non-competition. The independent non-executive Directors have reviewed the status of compliance and confirmed that the New Concert Group have complied with all the undertakings under the deed of non-competition for the year ended 31 December 2018.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts to which the Company or any of its subsidiaries was a party to and in which a Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest in, whether directly or indirectly, and subsisted as of 31 December 2018 or at any time during the year ended 31 December 2018.

CHANGES IN DIRECTORS' INFORMATION

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

1. On 28 December 2018, Mr. Zongjian Cai ceased to be a director of Fuzhou Tianmeng and Fuzhou Tianji, respectively.
2. On 28 December 2018, Mr. Yuan Chi ceased to be a director of Fuzhou Tianji.

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

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme", as at the end of and during the year ended 31 December 2018, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

PERMITTED INDEMNITY PROVISION

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

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

The Company had bought back the Shares on the Stock Exchange during the year ended 31 December 2018 with details as follows:

Month of Purchase	Number of Shares Purchased	Price per Share		Total Paid HK\$
		Highest Price Paid HK\$	Lowest Price Paid HK\$	
April 2018	2,957,000	11.50	11.27	33,804,680
May 2018	10,580,000	12.70	11.98	131,337,700
June 2018	11,617,000	11.34	9.50	125,460,630
July 2018	2,341,000	9.45	9.35	22,058,350
August 2018	14,125,000	10.32	9.08	135,203,820
September 2018	6,902,000	9.83	8.84	64,594,020
October 2018	5,553,000	9.37	7.74	47,414,010
November 2018	1,075,000	9.50	9.23	10,099,660
December 2018	2,362,000	10.42	9.46	24,140,120
Total	57,512,000			594,112,990

DIRECTORS' REPORT

All of the shares bought back were cancelled. Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 3,880,000 Shares. The Board believes that the Company's healthy financial position allows the Company to conduct the above buy-backs while maintaining sufficient financial resources for the continuous growth of the Group's operations. The Board also believes the share repurchase and subsequent cancellation of the repurchased shares can improve the return to shareholders.

AUDIT COMMITTEE

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

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure in accordance with the Listing Rules has been made in respect thereof.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note 27 to the consolidated financial statements.

Save as disclosed in "Connected Transactions" below, these related party transactions fall under the definition of connected transaction, but are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. Non-exempt Continuing Connected Transactions in relation to the Previous Structured Contracts and the 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 Previous Structured Contracts

In 2007, Fuzhou Tianji, the Founders and Fuzhou Tianmeng entered into the Previous Structured Contracts, as supplemented by the agreements in 2009 and 2013, pursuant to which the financial results of Fuzhou Tianmeng would be combined with the Company as if Fuzhou Tianmeng were a subsidiary of the Group.

The Previous 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.

DIRECTORS' REPORT

- (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**” and together with the Power of Attorney of Mr. Zongjian Cai, the “**Power of Attorney**”), 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 into 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.

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

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

- (i) the termination agreement, pursuant to which the Founders, Fuzhou Tianmeng and Fuzhou Tianji agreed that subject to the entering into of the Structured Contracts by Fuzhou Tianmeng, Fuzhou Tianji and the New Registered Holders, the Previous Structured Contracts would be terminated;
- (ii) the new loan agreement, pursuant to which, among others, Fuzhou Tianji agreed to offer each of Mr. Deyang Zheng and Mr. Chengfeng Luo an interest-free loan in the sum of RMB5.255 million for the purpose of providing to the New Registered Holders the consideration under the Equity Transfer Agreement; and

DIRECTORS' REPORT

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

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

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

DIRECTORS' REPORT

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

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

DIRECTORS' REPORT

Contribution of the Previous Structured Contracts and the Structured Contracts to the Group

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

The tables below compare the number of games operated, game revenue and assets attributable to Fuzhou Tianmeng during the year ended 31 December 2018:

Number of games operated:

	Developed in-house As at 31 December 2018	Licensed
Fuzhou Tianmeng	1	1

Game revenue*:

	Revenue attributable to the relevant entity For the year ended 31 December 2018 US\$' 000	Percentage of the total revenue of the Group %
Fuzhou Tianmeng	37,753	5.0

* Game revenue is from external customers.

Assets:

	Assets attributable to the relevant entity As at 31 December 2018 US\$' 000	Percentage of the total assets of the Group %
Fuzhou Tianmeng	42,955	10.8

On-going reporting and approvals

The Directors confirmed that, as at the date hereof, the Previous Structured Contracts and 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 Previous Structured Contracts and the Structured Contracts.

DIRECTORS' REPORT

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

- The Company confirms that in order to ensure the operation of the Previous Structured Contracts and the Structured Contracts, the Company has reviewed the overall performance and compliance with the Previous Structured Contracts and the Structured Contracts for the year ended 31 December 2018.
- The independent non-executive Directors will review the Previous Structured Contracts and the 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 Previous Structured Contracts and the Structured Contracts.
- The Company has engaged KPMG as its auditor to perform procedures annually on the transactions contemplated under the Previous Structured Contracts and the Structured Contracts and the auditor will carry out procedures annually to ensure that no dividend has been distributed by Fuzhou Tianmeng to its equity holders which was not subsequently assigned or transferred to our Group and relevant transactions have received approval of the Board and were entered into in accordance with the terms of the Previous Structured Contracts and 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 Previous Structured Contracts and 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 Previous Structured Contracts and the Structured Contracts.

DIRECTORS' REPORT

Regulatory Matters in Relation to the Structured Contracts

FITE Regulations

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “**FITE Regulations**”), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in basic telecommunications business and value-added telecommunications business. The foreign investor’s ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50% except in 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 (the “**Qualification Requirements**”). However, as advised by our PRC legal advisers, Jingtian & Gongcheng, as at the date of this report, there are no administrative or implementing rules in the PRC defining the term “a good track record and prior experience”. Our PRC legal advisers, Jingtian & Gongcheng, also advised the disclosures in the Prospectus with regard to the qualification requirements on the Group’s business stipulated under the provisions on FITE Regulations remain unchanged since the Listing Date and up to the date hereof.

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

Draft Foreign Investment Law

On January 19, 2015, the Ministry of Commerce of the PRC promulgated the draft Foreign Investment Law (外國投資法草案) to solicit public comment. On December 23, 2018, the seventh session of the Standing Committee of the 13th National People’s Congress (“**NPC**”) deliberated on the draft Foreign Investment Law (外商投資法草案), and on January 29, 2019, the second draft Foreign Investment Law was reviewed by the eighth session of the Standing Committee of the 13th NPC and the draft Foreign Investment Law will be put to the vote by the second session of the 13th NPC on March 15, 2019.

DIRECTORS' REPORT

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

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

Since the draft Foreign Investment Law does not clarify whether the Structured Contracts are a form of Foreign Investment, and the Foreign Investment Law has not yet been formally approved for entry into force on the date of this report, the Company believes that it may not be appropriate at this stage to formulate specific measures to avoid the Structured Contracts being recognized as a form of Foreign Investment under the draft Foreign Investment Law. If when the draft Foreign Investment Law is in force, the Structured Contracts is recognized as a form of Foreign Investment, and there is no special provision for the Structured Contracts that allows Fuzhou Tianmeng, provided that certain conditions are met, to continue to carry out relevant foreign investment restricted or prohibited businesses, the Company might be requested to dispose of its interests in Fuzhou Tianmeng. The appropriate risk factors had already been disclosed in the paragraph headed “Risks And Limitations Relating To The New VIE Structure – There is no assurance that the contractual arrangements between Fuzhou Tianji and Fuzhou Tianmeng will be deemed to be in compliance with existing or future PRC laws and regulations” in the announcement of the Company dated 28 December 2018.

DIRECTORS' REPORT

The Company confirms that if the Structured Contracts are required to be unwind or the Company is required to dispose the interests in Fuzhou Tianmeng in the future, it can engage other domestic publishers with the due qualifications and licenses to operate its online games in the PRC, which may adversely affect the Group's operational and financial performance because engaging other domestic publishers may impose more costs to the Group. However, the Company expects that such adverse impact on the Group's operational and financial performance will not be material considering that (1) the revenue and assets attributable to the Structured Contracts are 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 year ended 31 December 2018, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group's compliance with the Previous Structured Contracts and 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 Previous Structured Contracts and the Structured Contracts at least once a year;
- the Company will disclose the overall performance and compliance with the Previous Structured Contracts and 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 the 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 Previous Structured Contracts and the Structured Contracts, review the legal compliance of Fuzhou Tianji and Fuzhou Tianmeng to deal with specific issues or matters arising from the Previous Structured Contracts and the Structured Contracts.

DIRECTORS' REPORT

Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Previous Structured Contracts and the Structured Contracts (collectively referred to as the “**Continuing Connected Transactions**”) and confirmed that during the year ended 31 December 2018:

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

Confirmation of auditor of the Company

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

After performing the procedure related to continuing connected transactions, KPMG confirmed that:

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

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

DIRECTORS' REPORT

B. Connected Transaction in relation to the New Loan Agreement

On 28 December 2018, Fuzhou Tianji and the New Registered Holders entered into a loan agreement (the “**New Loan Agreement**”), pursuant to which Fuzhou Tianji agreed to offer each of Mr. Deyang Zheng and Mr. Chengfeng Luo an interest-free loan in the sum of RMB5.255 million (the “**Relevant Loans**”) for the purpose of providing to the New Registered Holders the consideration under the Equity Transfer Agreement.

The Relevant Loans are repayable upon termination of the Structured Contracts. Further, when the call option under the New Call Option Agreement is exercised, the Relevant Loans will be repaid by each of Mr. Deyang Zheng and Mr. Chengfeng Luo forthwith and will not be set-off by any other new loans from Fuzhou Tianji or any consideration to be paid by Fuzhou Tianji on exercising the call option under the New Call Option Agreement. The interest-free loan extended to the New Registered Holders will not form a part of, or any arrangement under, the Structured Contracts.

After the signing of the Structured Contracts, the financial results of Fuzhou Tianmeng will continue to be accounted for and consolidated in the accounts of the Group as if it is a wholly-owned subsidiary of the Company. Mr. Deyang Zheng and Mr. Chengfeng Luo, being the substantial shareholders of Fuzhou Tianmeng, will be connected persons of the Company. Accordingly, the transactions contemplated under the New Loan Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest of all of the applicable percentage ratios in respect of the New Loan Agreement is more than 0.1% but less than 5%, the New Loan Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the circular, independent financial advice and Shareholders' approval requirements under Rule 14A.76(2) (a) of the Listing Rules.

The Directors confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

EMPLOYEES

Emolument Policy

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

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

The Company has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme to motivate and reward Directors and eligible employees. Details of the schemes are set out in the paragraphs headed “Pre-IPO Share Option Scheme”, “Share Option Scheme” and “Share Award Scheme” in this report and note 21 to the consolidated financial statements. None of the directors waived any emoluments during the year ended 31 December 2018.

DIRECTORS' REPORT

Pension Scheme

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

Key Relationship

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group primarily consist of hundreds of millions of individual players and licensees of our games. The Group provides customer services for each of the games offered by the Group to cater to the needs of the players. The Group has also adopted various means to strengthen the communication between the players and the Group, including customer service support via live in-game chat, online support or email all year around. The five largest customers of the Group during the year ended 31 December 2018 only accounted for 0.38% of the Group's total revenue.

The Group's suppliers primarily include advertising service providers, payment service providers, licensors of games, and server, data center and bandwidth providers. The Group maintains sound relationships with these suppliers and receives professional and value-added services from them. Most of the key service providers have ongoing business relationship with the Group for years. The largest and five largest suppliers of the Group during the year ended 31 December 2018 accounted for 22.4% and 64.4% of the Group's total purchases respectively.

So far as is known to the Directors, at no time during the year ended 31 December 2018 did a director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital have an interest in any of the Group's five largest customers and suppliers.

BANK LOAN AND OTHER BORROWINGS

The Group did not record any bank loans or other borrowings as at 31 December 2018.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 as set out in the section headed "Management Discussion and Analysis – Business Review" in this annual report is expressly included in this report and forms part of this directors' report.

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year ended 31 December 2018 and up to the date of this report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

BUSINESS RISKS AND RISK MANAGEMENT

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

Business Risk

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

Financial Risk

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

Compliance Risk

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

DIRECTORS' REPORT

Operational Risk

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

ENVIRONMENTAL PROTECTION

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

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

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

IMPORTANT EVENTS SINCE THE YEAR END

No important events occurred for the Group since 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2018 and up to the date hereof.

AUDITOR

The financial statements of the Company for the year ended 31 December 2015 and 2016 were audited by Ernst & Young. KPMG was first appointed as auditor of the Company to fill the vacancy following the retirement of Ernst & Young at the conclusion of the annual general meeting on 27 June 2017.

The consolidated financial statements for the financial year ended 31 December 2018 have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zongjian Cai

Chairman

Hong Kong, 6 March 2019

INDEPENDENT AUDITOR'S REPORT



To the shareholders of IGG Inc

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of IGG Inc (“the Company”) and its subsidiaries (“the Group”) set out on pages 104 to 181, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Revenue recognition and computation of deferred revenue	
<i>Refer to notes 3(a), 4 and 23 to the consolidated financial statements and the accounting policies in note 2(q)(i).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Group generates revenue from its self-developed online games by operating the games under a free to play model while providing the players with the option to purchase Premium Gaming Resources for cash. Premium Gaming Resources are virtual items within the game that can be used to provide the players with additional abilities to enhance their game-playing experience. Players pay for Premium Gaming Resources using payment platforms such as Google Play, Apple App Store, Facebook Payments, major credit cards and PayPal. These third-party payment platforms are entitled to service fees which are withheld and deducted from the gross proceeds collected from the players, with the net amounts remitted to the Group.</p> <p>Revenues from the Premium Gaming Resource are recognised ratably over the period the paying players are expected to benefit from an enhanced in-game experience associated with each purchase. The Group estimates the length of this period on a game-by-game basis. Management has arrived at this judgement after taking into account game profile, paying player behavior patterns, and the rights of the players within the games to benefit from the Premium Gaming Resources.</p>	<p>Our audit procedures to assess the recognition of revenue and computation of deferred revenue included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of management's key internal controls over the completeness, existence, accuracy of revenue, with our internal information technology risk management specialists involved to assess the relevant general and automated information technology controls; • inspecting the purchase patterns of the Premium Gaming Resource of the games which individually generate material amounts of revenue to the Group, and the terms of service provided to players by the Group, to understand the terms of the sale on Premium Gaming Resources, including the obligations of the Group derived from the sales of Premium Gaming Resources, and to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards; • assessing the assumptions and judgements made by the management for the length of the period on selected types of games, on a sample basis, by performing a retrospective review of the historical accuracy of these estimates;

INDEPENDENT AUDITOR’S REPORT

Revenue recognition and computation of deferred revenue (continued)	
<i>Refer to notes 3(a), 4 and 23 to the consolidated financial statements and the accounting policies in note 2(q)(i).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>At each reporting date, the unamortised portion of income received in respect of Premium Gaming Resource is recognised as deferred revenue.</p> <p>We identified revenue recognition and the computation of deferred revenue as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</p>	<ul style="list-style-type: none"> obtaining monthly settlement statements sent by the payment platforms to the Group and the bank-in slips on a sample basis, comparing the settlement amounts on the statements to bank-in slips and reconciling the settlement amounts in the statements to the amounts recorded in the books and records of the Group, and assessing if the reconciling items have been accounted for in accordance with the requirements of the prevailing accounting standards; and recalculating the Group’s revenue and deferred revenue with reference to the major estimations and assumptions and comparing the results to the revenue and deferred revenue as at the end of the financial reporting period.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Kai Ming.

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

6 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

		2018	2017
	Note	US\$' 000	US\$' 000 (Note (i))
Revenue	4	748,785	607,253
Cost of revenue		<u>(225,237)</u>	<u>(192,661)</u>
Gross profit		523,548	414,592
Other net income	5	9,051	4,827
Selling and distribution expenses		(186,592)	(159,016)
Administrative expenses		(44,658)	(33,444)
Research and development expenses		(63,599)	(46,697)
Other operating expenses		(40)	(551)
Share of results of associates and joint ventures		<u>(1,329)</u>	<u>(663)</u>
Profit before taxation	6	236,381	179,048
Income tax expenses	7(a)	<u>(47,070)</u>	<u>(23,916)</u>
Profit for the year		<u>189,311</u>	<u>155,132</u>
Attributable to:			
Equity shareholders of the Company		189,177	156,026
Non-controlling interests		<u>134</u>	<u>(894)</u>
Profit for the year		<u>189,311</u>	<u>155,132</u>
Earnings per share			
(in US\$ per share)	10		
Basic		<u>0.1467</u>	<u>0.1172</u>
Diluted		<u>0.1436</u>	<u>0.1142</u>

Note:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 111 to 181 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018	2017
	US\$' 000	(Note (i)) US\$' 000
Profit for the year	<u>189,311</u>	<u>155,132</u>
Other comprehensive income for the year (after tax and reclassification adjustments):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas subsidiaries	(4,185)	1,159
Available-for-sale equity investments: net movement in the fair value reserve (recycling) (Note (ii))	<u>—</u>	<u>588</u>
Other comprehensive income for the year	<u>(4,185)</u>	<u>1,747</u>
Total comprehensive income for the year	<u><u>185,126</u></u>	<u><u>156,879</u></u>
Attributable to:		
Equity shareholders of the Company	184,992	157,773
Non-controlling interests	<u>134</u>	<u>(894)</u>
Total comprehensive income for the year	<u><u>185,126</u></u>	<u><u>156,879</u></u>

Notes:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).
- (ii) This amount arose under the accounting policies applicable prior to 1 January 2018.

The notes on pages 111 to 181 form parts of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

		2018	2017
	Note	US\$' 000	(Note (i)) US\$' 000
Non-current assets			
Property, plant and equipment	11	8,821	7,125
Intangible assets	12	461	1,418
Other non-current assets	13	2,182	2,086
Interests in associates and joint ventures	15	5,949	447
Available-for-sale investments	16	—	11,770
Other financial assets	16	44,075	—
		<u>61,488</u>	<u>22,846</u>
Current assets			
Inventories		280	126
Trade and other receivables	17	9,397	13,091
Funds receivable	18	40,701	60,512
Cash and cash equivalents	19	287,547	221,892
		<u>337,925</u>	<u>295,621</u>
Total current assets			
		<u>337,925</u>	<u>295,621</u>
Current liabilities			
Trade and other payables	20	41,409	35,626
Tax payable	22(a)	44,705	22,551
Deferred revenue	23	31,564	32,063
		<u>117,678</u>	<u>90,240</u>
Total current liabilities			
		<u>117,678</u>	<u>90,240</u>
Net current assets			
		<u>220,247</u>	<u>205,381</u>
Total assets less current liabilities			
		<u>281,735</u>	<u>228,227</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

	Note	2018 US\$' 000	2017 (Note (i)) US\$' 000
Non-current liabilities			
Deferred tax liabilities	22(b)	<u>353</u>	<u>409</u>
Total non-current liabilities		<u>353</u>	<u>409</u>
NET ASSETS		<u>281,382</u>	<u>227,818</u>
CAPITAL AND RESERVES			
Share capital	24(c)	<u>3</u>	<u>3</u>
Reserves		<u>282,600</u>	<u>229,170</u>
Total equity attributable to equity shareholders of the Company		<u>282,603</u>	<u>229,173</u>
Non-controlling interests		<u>(1,221)</u>	<u>(1,355)</u>
TOTAL EQUITY		<u>281,382</u>	<u>227,818</u>

Approved and authorised for issue by the board of directors on 6 March 2019.

Zongjian Cai
Director

Jessie Shen
Director

Note:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 111 to 181 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Attributable to equity shareholders of the Company												
Note	Share capital (note 24(c)) US\$' 000	Share premium (note 24 (d)(j)) US\$' 000	Share-based payment reserve (note 24 (d)(iii)) US\$' 000	Shares	Shares	Statutory reserve US\$' 000	Other reserve (note 24 (d)(v)) US\$' 000	Exchange reserve (note 24 (d)(iii)) US\$' 000	Retained earnings US\$' 000	Total US\$' 000	Non-controlling interests US\$' 000	Total equity US\$' 000
				held for share award scheme US\$' 000	repurchased for cancellation US\$' 000							
Balance at 31 December 2017 (Note (i))	3	125,435	7,981	(18,501)	(671)	88	1,577	(811)	114,072	229,173	(1,355)	227,818
Impact on initial application of IFRS 9	—	—	—	—	—	—	—	—	(4,901)	(4,901)	—	(4,901)
Adjusted balance at 1 January 2018	3	125,435	7,981	(18,501)	(671)	88	1,577	(811)	109,171	224,272	(1,355)	222,917
Changes in equity for the year ended 31 December 2018:												
Profit for the year	—	—	—	—	—	—	—	—	189,177	189,177	134	189,311
Other comprehensive income	—	—	—	—	—	—	—	(4,185)	—	(4,185)	—	(4,185)
Total comprehensive income	—	—	—	—	—	—	—	(4,185)	189,177	184,992	134	185,126
Equity-settled share-based payment	—	—	4,906	—	—	—	—	—	—	4,906	—	4,906
Shares purchased for												
the share award scheme	24(c)	—	—	(4,477)	—	—	—	—	—	(4,477)	—	(4,477)
Repurchase of ordinary shares	24(c)	—	—	—	(75,740)	—	—	—	—	(75,740)	—	(75,740)
Cancellation of ordinary shares	24(c)	—*	(73,729)	—	73,729	—	—	—	—	—	—	—
Exercise of share options	24(c)	—*	1,133	(363)	—	—	—	—	—	770	—	770
Vesting of awarded shares	24(c)	—	146	(3,176)	3,030	—	—	—	—	—	—	—
Dividends received for share award scheme	—	—	—	—	—	—	877	—	—	877	—	877
2017 second interim dividend paid	24(b)(ii)	—	—	—	—	—	—	—	(23,803)	(23,803)	—	(23,803)
2018 first interim dividend paid	24(b)(i)	—	—	—	—	—	—	—	(29,194)	(29,194)	—	(29,194)
Balance at 31 December 2018	3	52,985	9,348	(19,948)	(2,682)	88	2,454	(4,996)	245,351	282,603	(1,221)	281,382

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

Note:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 111 to 181 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Attributable to equity shareholders of the Company													
Note	Share capital	Share premium	Share-based payment reserve	Shares held for share award scheme	Shares repurchased for cancellation	Fair value reserve (recycling)	Statutory reserve	Other reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(note 24(c))	(d)(i)	(note 24 (d)(ii))			(note 24 (d)(iv))		(note 24 (d)(v))	(note 24 (d)(iii))				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	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 year ended 31 December 2017:													
Profit for the year	—	—	—	—	—	—	—	—	—	156,026	156,026	(894)	155,132
Other comprehensive income	—	—	—	—	—	588	—	—	1,159	—	1,747	—	1,747
Total comprehensive income	—	—	—	—	—	588	—	—	1,159	156,026	157,773	(894)	156,879
Losing control of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(180)	(180)
Equity-settled share-based payment	—	—	4,087	—	—	—	—	—	—	—	4,087	—	4,087
Shares purchased for the share award scheme	24(c)	—	—	(9,492)	—	—	—	—	—	—	(9,492)	—	(9,492)
Repurchase of ordinary shares	24(c)	—	—	—	(37,749)	—	—	—	—	—	(37,749)	—	(37,749)
Cancellation of ordinary shares	24(c)	—*	(37,078)	—	37,078	—	—	—	—	—	—	—	—
Exercise of share options	24(c)	—*	2,189	(786)	—	—	—	—	—	—	1,403	—	1,403
Vesting of awarded shares	24(c)	—	(230)	(1,702)	1,932	—	—	—	—	—	—	—	—
Dividends received for share award scheme	—	—	—	—	—	—	—	1,154	—	—	1,154	—	1,154
2016 second interim and special dividend paid	24(b)(ii)	—	—	—	—	—	—	—	—	(23,300)	(23,300)	—	(23,300)
2017 first interim and special dividend paid	24(b)(i)	—	—	—	—	—	—	—	—	(60,639)	(60,639)	—	(60,639)
Balance at 31 December 2017 (Note (j))	3	125,435	7,981	(18,501)	(671)	—	88	1,577	(811)	114,072	229,173	(1,355)	227,818

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

Note:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 111 to 181 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018

	Note	2018 US\$' 000	2017 (Note (i)) US\$' 000
Operating activities			
Cash generated from operations	19(b)	258,131	177,125
Income tax paid		(18,907)	(4,889)
Net cash generated from operating activities		239,224	172,236
Investing activities			
Purchases of property, plant and equipment and intangible assets		(5,087)	(2,370)
Proceeds from disposal of property, plant and equipment		14	55
Payment for acquisitions of other financial assets		(34,619)	—
Payment for purchases of available-for-sale investments		—	(4,620)
Proceeds from disposal of other financial assets		1,451	—
Proceeds from disposal of available-for-sale investments		—	2,388
Investments in an associate and joint ventures		(2,782)	(351)
Cash acquired upon obtaining control of an existing joint venture		—	77
Cash disposed of due to losing control of a subsidiary		—	(1,345)
Net cash used in investing activities		(41,023)	(6,166)
Financing activities			
Dividends paid		(52,120)	(83,939)
Payments for repurchase of shares		(75,740)	(37,749)
Payments for purchase of shares for share award scheme		(4,477)	(8,338)
Proceeds from exercise of share options	24	770	1,403
Net cash used in financing activities		(131,567)	(128,623)
Net change in cash and cash equivalents		66,634	37,447
Cash and cash equivalents at 1 January	19(a)	221,892	184,061
Effect of foreign exchange rate changes		(979)	384
Cash and cash equivalents at 31 December	19(a)	287,547	221,892

Note:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 111 to 181 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

1 CORPORATE AND GROUP INFORMATION

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates and joint ventures.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- (i) IFRS 9, Financial instruments
- (ii) IFRS 15, Revenue from contracts with customers
- (iii) IFRIC 22, Foreign currency transactions and advance consideration

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and the related tax impact at 1 January 2018.

	US\$'000
Retained earnings	
Transfer to retained earnings relating to financial assets now measured at FVPL	(4,827)
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	(82)
Related deferred tax impact	<u>8</u>
Net decrease in retained earnings at 1 January 2018	<u><u>(4,901)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, *Financial instruments* (Continued)

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

a. Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under IAS 39, equity investments not held for trading with a carrying amount of US\$11,770,000 were classified as available-for-sale financial assets. These equity investments are classified as at FVPL under IFRS 9 by the Group. The decreased amount in retained earnings relating to financial assets now measured at FVPL was US\$4,827,000.

The measurement categories for all financial liabilities remain the same, and the carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 2(f), (j) (i), (k) and (l).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments (Continued)

b. Credit losses

IFRS 9 replaces the “incurred loss” model in IAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and funds receivable).

For further details on the Group’s accounting policy for accounting for credit losses, see note 2(j)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	US\$' 000
Loss allowance at 31 December 2017 under IAS 39	—
Additional credit loss recognised at 1 January 2018 on:	
— Trade receivables	46
— Funds receivable	36
	<hr/>
Loss allowance at 1 January 2018 under IFRS 9	82
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, *Financial instruments* (Continued)

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held; and
 - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) *IFRS 15, Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Timing of revenue recognition

Under IFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised goods 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 goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The Group has been recognising revenue from sales of Premium Gaming Resource ratably over a period, during which paying players are expected to benefit from an enhanced in-game experience associated with each purchase. This practice provides a faithful depict of the Group's performance in transferring control of service to paying players. The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue arising from sales of Premium Gaming Resource.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(iii) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

(e) Associates and joint ventures

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures (Continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 25(d). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(q)(iii)).
- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(A) Policy applicable from 1 January 2018 (Continued)

Equity investments

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

(B) Policy applicable prior to 1 January 2018

Available-for-sale financial investments include non-derivative financial assets in listed and unlisted equity investments and debt securities.

Available-for-sale financial investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2(q)(ii) and 2(q)(iii), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(j)(i) - policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

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

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

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

Leasehold improvements	The lease terms
Computer equipment	3 years
Office equipment and furniture	3 years
Motor vehicles	5 years

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

(h) Intangible assets

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

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

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

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

Both the period and method of amortisation are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Operating leases

Leases where substantially all of the risks and rewards of ownership of the asset transfer to the lessee are accounted for as finance leases. All other leases are operating leases.

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

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

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

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

Measurement of ECLs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Write-off policy

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

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

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, funds receivable and available-for-sale investments). Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

- For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) *Interim financial reporting and impairment*

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

(k) Trade and other receivables

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

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

(l) Cash and cash equivalents

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

(m) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Pension scheme

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

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

(ii) Share-based payments

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

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

(iii) Shares held for share award scheme

As disclosed in note 21 to the financial statements, the Group has set up the Share Award Scheme Trust for the share award scheme, where the Share Award Scheme Trust purchases shares issued by the Group. The consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for share award scheme" and deducted from the Group's equity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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

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

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

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

(p) Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue and other income

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

(i) *Online game revenue*

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

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

(ii) *Dividend income*

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

(iii) *Interest income*

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue and other income (Continued)

(iv) Government grants

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

(r) Translation of foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Translation of foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the United States Dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the weighted average exchange rates for the year.

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

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

(s) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

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

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(t) Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

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

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

(b) Fair value of share-based compensation expenses

As mentioned in note 21, the Group has granted share options and awarded shares to its employees. The directors have used the binomial model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk-free rate, dividend yield, expected volatility and expected life of options, is required to be made by the directors in applying the binomial model.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

4 REVENUE AND OPERATING SEGMENT INFORMATION

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

For the year ended 31 December 2018, substantially all revenue is generated from online games and recognised over time. All revenue generated from the Group's business is within the scope of IFRS 15.

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

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

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.

Geographical information

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

4 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

Revenue by geographical regions

	2018 US\$' 000	2017 US\$' 000
Asia	346,090	296,049
North America	198,761	159,352
Europe	170,167	128,874
Others	33,767	22,978
	<u>748,785</u>	<u>607,253</u>

Specified non-current assets

	2018 US\$' 000	2017 US\$' 000
Asia	5,773	5,852
North America	2,913	1,138
Others	135	135
	<u>8,821</u>	<u>7,125</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

5 OTHER NET INCOME

	2018 US\$' 000	2017 US\$' 000
Gain on disposal of other financial assets	1,451	—
Gain on disposal of available-for-sale investment	—	832
Government grants*	1,918	1,001
Bank interest income	2,649	958
Exchange (loss)/gain	(3,678)	1,821
Fair value change on investments	6,633	—
Others	78	215
	<u>9,051</u>	<u>4,827</u>

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

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2018 US\$' 000	2017 US\$' 000
(a) Staff costs		
Salaries, wages and other benefits	58,568	45,201
Equity-settled share-based payment expenses	4,906	4,087
Contributions to defined contribution retirement plan	1,866	1,307
	<u>65,340</u>	<u>50,595</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION (Continued)

	2018	2017
	US\$' 000	(Note) US\$' 000
(b) Other items		
Channel cost	209,655	181,712
Operating lease charges in respect of leasing of properties	6,870	5,037
Amortisation	1,256	329
Depreciation	2,457	2,385
Impairment losses on trade and other receivables and funds receivable	13	—
Net foreign exchange loss/(gain)	3,678	(1,821)
Fair value change on investments	(6,633)	—
Auditors' remuneration		
– audit services	320	350
– non-audit services	35	46
Loss on disposal of property, plant and equipment	106	41

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

7 INCOME TAX

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

	2018	2017
	US\$' 000	US\$' 000
Current tax		
Provision for the year	48,064	23,873
(Over)/under-provision in respect of prior years	(946)	100
	<u>47,118</u>	<u>23,973</u>
Deferred tax (note 22(b))		
Origination and reversal of temporary differences	(48)	(57)
	<u>47,070</u>	<u>23,916</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

7 INCOME TAX (Continued)

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

	2018	2017
	US\$'000	US\$'000
Profit before taxation	236,381	179,048
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	57,721	35,887
Tax effect of non-deductible expenses	9,549	17
Tax effect of non-taxable income	(2,396)	(508)
Tax effect of unused tax losses not recognised	256	803
Tax losses utilised	(11)	(316)
Statutory tax concession	(17,102)	(11,804)
Super deduction for qualified research and development expenses	—	(263)
(Over)/under-provision in prior years	(947)	100
Actual tax expenses	47,070	23,916

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

IGG Singapore Pte. Ltd. is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a preferential tax rate of 10% on qualifying income derived during the year ended 31 December 2018 (2017: 10%).

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Skyunion Hong Kong Holdings Limited ("Skyunion Hong Kong") is eligible for 8.25% tax band for the first HK\$2 million of assessable profits under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2018.

Sky Union, LLC ("IGG US"), a subsidiary in the United States, is subject to federal income tax at 21% (2017: at gradual rates ranging from 15% to 39%). In addition, IGG US is subject to California state income tax at a rate of 8.84%.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Equity-settled share-based payment (note)	2017 Total
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Executive directors							
Mr. Zongjian Cai*	63	350	1,994	2	2,409	44	2,453
Mr. Yuan Xu	63	307	1,160	5	1,535	43	1,578
Mr. Hong Zhang	63	240	1,155	4	1,462	37	1,499
Ms. Jessie Shen	63	263	978	—	1,304	15	1,319
Mr. Feng Chen	21	26	4	1	52	12	64
Non-executive director							
Mr. Yuan Chi	63	—	—	—	63	30	93
Independent non-executive directors							
Dr. Horn Kee Leong	42	—	—	—	42	10	52
Mr. Dajian Yu	21	—	—	—	21	10	31
Ms. Zhao Lu	21	—	—	—	21	10	31
	<u>420</u>	<u>1,186</u>	<u>5,291</u>	<u>12</u>	<u>6,909</u>	<u>211</u>	<u>7,120</u>

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

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 21.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 4 (2017: 4) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other 1 (2017: 1) individual are as follows:

	2018 US\$' 000	2017 US\$' 000
Salaries and other emoluments	601	286
Discretionary bonuses	1,267	1,277
Share-based payments	8	19
Retirement scheme contributions	8	8
	<u>1,884</u>	<u>1,590</u>

The emoluments of the 1 (2017: 1) individual with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK\$12,000,001 - HK\$12,500,000	—	1
HK\$14,500,001 - HK\$15,000,000	1	—
	<u>1</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of US\$189,177,000 (2017: US\$156,026,000) and the weighted average of 1,289,978,000 ordinary shares (2017: 1,330,836,000 shares) in issue during the year calculated as follows.

Weighted average number of ordinary shares:

	2018	2017
	'000	'000
Issued ordinary shares at 1 January	1,328,453	1,349,900
Effect of share award scheme	(21,039)	(16,471)
Effect of shares options exercised	7,482	10,846
Effect of repurchase of ordinary shares	(24,918)	(13,439)
	<u>1,289,978</u>	<u>1,330,836</u>
Weighted average number of ordinary shares at 31 December	<u>1,289,978</u>	<u>1,330,836</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of US\$189,177,000 (2017: US\$156,026,000) and the weighted average number of ordinary shares of 1,317,177,000 shares (2017: 1,365,755,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted):

	2018	2017
	'000	'000
Weighted average number of ordinary shares at 31 December	1,289,978	1,330,836
Effect of deemed issue of shares under the Company's share option scheme	17,874	27,782
Effect of deemed issue of shares under the Company's share award scheme	9,325	7,137
	<u>1,317,177</u>	<u>1,365,755</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,317,177</u>	<u>1,365,755</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements US\$' 000	Computer equipment US\$' 000	Office equipment and furniture US\$' 000	Motor vehicles US\$' 000	Total US\$' 000
Cost:					
At 1 January 2017	5,602	7,084	882	480	14,048
Exchange adjustments	372	159	43	32	606
Additions	310	926	110	105	1,451
Disposals	—	(499)	(3)	(200)	(702)
At 31 December 2017 and 1 January 2018	6,284	7,670	1,032	417	15,403
Exchange adjustments	(308)	(159)	(41)	(23)	(531)
Additions	2,066	2,144	287	82	4,579
Disposals	—	(1,801)	(50)	—	(1,851)
At 31 December 2018	8,042	7,854	1,228	476	17,600
Accumulated depreciation:					
At 1 January 2017	852	4,916	345	203	6,316
Exchange adjustments	50	100	19	14	183
Charge for the year	873	1,129	292	91	2,385
Written back on disposals	—	(483)	(3)	(120)	(606)
At 31 December 2017 and 1 January 2018	1,775	5,662	653	188	8,278
Exchange adjustments	(84)	(102)	(28)	(11)	(225)
Charge for the year	1,015	1,128	241	73	2,457
Written back on disposals	—	(1,697)	(34)	—	(1,731)
At 31 December 2018	2,706	4,991	832	250	8,779
Net book value:					
At 31 December 2018	5,336	2,863	396	226	8,821
At 31 December 2017	4,509	2,008	379	229	7,125

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

12 INTANGIBLE ASSETS

	Trademarks and domain names US\$' 000	Software US\$' 000	Copyright US\$' 000	Licenses US\$' 000	Total US\$' 000
Cost:					
At 1 January 2017	434	1,022	1,539	928	3,923
Exchange adjustments	5	138	(92)	—	51
Additions	1,008	338	4	—	1,350
Disposals	—	(45)	—	—	(45)
At 31 December 2017 and 1 January 2018	1,447	1,453	1,451	928	5,279
Exchange adjustments	(4)	(36)	(10)	—	(50)
Additions	2	306	—	—	308
Disposals	—	(10)	—	—	(10)
At 31 December 2018	1,445	1,713	1,441	928	5,527
Accumulated amortisation:					
At 1 January 2017	369	837	1,509	815	3,530
Exchange adjustments	5	135	(93)	—	47
Charge for the year	48	141	27	113	329
Written back on disposals	—	(45)	—	—	(45)
At 31 December 2017 and 1 January 2018	422	1,068	1,443	928	3,861
Exchange adjustments	(4)	(28)	(9)	—	(41)
Charge for the year	1,024	228	4	—	1,256
Written back on disposals	—	(10)	—	—	(10)
At 31 December 2018	1,442	1,258	1,438	928	5,066
Net book value:					
At 31 December 2018	3	455	3	—	461
At 31 December 2017	1,025	385	8	—	1,418

13 OTHER NON-CURRENT ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES

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

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

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

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

On 9 February 2018, the Board of Directors of the Company resolved to inject capital of US\$50 million into its subsidiary, Fuzhou Tianji and the paid-up capital of Fuzhou Tianji was increased to US\$58.8 million.

On 28 December 2018, the Original Registered Shareholders transferred their shareholdings in Fuzhou Tianmeng to the New Registered Shareholders. The contractual arrangements among Fuzhou Tianji, Fuzhou Tianmeng and the New Registered Shareholders were substantially the same as the Previous Structured Contracts. Fuzhou Tianmeng continues to be controlled by Fuzhou Tianji, which is a wholly-owned subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

15 INTERESTS IN ASSOCIATES AND JOINT VENTURES

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

	2018	2017
	US\$' 000	US\$' 000
Aggregate carrying amount of individually immaterial associates and joint ventures in the consolidated financial statements	5,949	447
Aggregate amounts of the Group's shares of these associates and joint ventures' losses	(1,329)	(663)

16 OTHER FINANCIAL ASSETS

	Note	31 December	1 January	31 December
		2018	2018	2017
		US\$' 000	US\$' 000	US\$' 000
Financial assets measured at FVPL	(i)			
– Unquoted equity investments		<u>44,075</u>	6,943	—
		<u>44,075</u>	<u>6,943</u>	—
Available-for-sale financial assets	(i)			
– Unquoted equity investments		—	—	11,770
		—	—	11,770

Note:

- (i) Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the initial application of IFRS 9 at 1 January 2018 (see note 2(c)(i)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES

	Note	31 December 2018 US\$' 000	1 January 2018 US\$' 000	31 December 2017 US\$' 000
Trade receivables, net of loss allowance	(i)	958	844	890
Prepayments		4,793	8,525	8,525
Deposits		914	465	465
Other receivables		2,732	3,211	3,211
		<u>9,397</u>	<u>13,045</u>	<u>13,091</u>

Note:

- (i) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see note 2(c)(i)).

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

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

	2018 US\$' 000	2017 US\$' 000
Within 3 months	456	735
3 to 6 months	246	155
Over 6 months but within 9 months	256	—
	<u>958</u>	<u>890</u>

Generally, trade debtors are due within 6 months from the date of billing. Further details on the Group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 25(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

18 FUNDS RECEIVABLE

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

As at 31 December 2018, all the funds receivable were aged within three months and US\$29,000 of loss allowance was provided for the funds receivable (31 December 2017: nil). Further details on the Group's credit policy and credit risk arising from funds receivable are set out in note 25(a).

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018	2017
	US\$' 000	US\$' 000
Cash at bank and on hand	274,121	209,444
Deposits with other financial institutions	13,426	12,448
Cash and cash equivalents in the consolidated cash flow statement	<u>287,547</u>	<u>221,892</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

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

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

	Note	2018 US\$' 000	2017 (Note) US\$' 000
Profit before taxation		236,381	179,048
Adjustments for:			
Gain on disposal of other financial assets	5	(1,451)	—
Gain on disposal of available-for-sale investment	5	—	(832)
Share of results of associates and joint ventures	15	1,329	663
Loss on disposal of items of property, plant and equipment	6(b)	106	41
Depreciation	6(b)	2,457	2,385
Amortisation of intangible assets	6(b)	1,256	329
Equity-settled share-based payment expenses	6(a)	4,906	4,087
Fair value change on investments	5	(6,633)	—
Impairment losses on trade and other receivables and funds receivable	6(b)	13	—
Changes in working capital:			
Increase in inventory		(154)	(126)
Decrease/(increase) in funds receivable		10,889	(29,514)
Decrease/(increase) in trade and other receivables		4,083	(5,925)
Increase in trade and other payables		5,544	13,847
(Decrease)/increase in deferred revenue		(499)	12,982
(Increase)/decrease in other non-current assets		(96)	140
Cash generated from operations		258,131	177,125

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

20 TRADE AND OTHER PAYABLES

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

	2018	2017
	US\$' 000	US\$' 000
Within 3 months	20,529	16,798
3 to 6 months	591	141
6 months to 1 year	133	22
Over 1 year	184	3
Total creditors	21,437	16,964
Salary and welfare payables	6,437	5,681
Other tax payables	6,658	6,614
Other payables and accruals	6,877	6,367
	41,409	35,626

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

21 SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

(a) Pre-IPO Share Option Scheme

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

	2018		2017	
	Weighted average exercise price US\$	Number of options	Weighted average exercise price US\$	Number of options
Outstanding at the beginning of the year	0.0630	22,381,000	0.0619	36,874,412
Exercised during the year	0.0483	(8,599,000)	0.0602	(14,468,412)
Forfeited/Lapsed during the year	—	—	0.0865	(25,000)
Outstanding at the end of the year	0.0722	13,782,000	0.0630	22,381,000
Exercisable at the end of the year	0.0722	13,782,000	0.0630	22,381,000

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

21 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

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

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

2018		
Number of options	Exercise price per share US\$	Exercise period
436,000	0.0500	since IPO to 31-07-2019
5,349,500	0.0525	since IPO to 20-04-2021
20,000	0.0525	since IPO to 02-05-2021
10,000	0.0525	since IPO to 15-05-2021
493,500	0.0865	since IPO to 13-08-2021
946,000	0.0865	since IPO to 14-01-2022
3,640,000	0.0865	since IPO to 20-05-2022
<u>2,887,000</u>	0.0865	since IPO to 30-03-2023
<u><u>13,782,000</u></u>		

As at 31 December 2018, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 3.43 years (2017: 3.26 years).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

21 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(b) Post-IPO Share Option Scheme

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

	2018		2017	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the year	4.79	7,569,666	3.92	7,598,500
Granted during the year	11.73	690,000	10.39	1,050,000
Exercised during the year	3.84	(732,416)	4.04	(1,028,834)
Forfeited/Lapsed during the year	8.75	(157,500)	5.00	(50,000)
Outstanding at the end of the year	5.45	7,369,750	4.79	7,569,666
Exercisable at the end of the year	4.26	4,762,500	3.89	3,276,335

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

21 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

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

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

2018		
Number of options	Exercise price per share HK\$	Exercise period
123,750	5.47	11-08-2015 to 10-08-2024
517,000	3.51	21-11-2015 to 20-11-2024
3,909,834	3.90	23-03-2016 to 22-03-2025
1,166,666	3.90	03-06-2016 to 22-03-2025
25,000	2.94	10-09-2016 to 09-09-2025
667,500	10.50	20-04-2018 to 19-04-2027
270,000	10.08	17-11-2018 to 16-11-2027
540,000	12.14	04-05-2019 to 03-05-2028
150,000	10.24	23-08-2019 to 22-08-2028
<u>7,369,750</u>		

As at 31 December 2018, the Post-IPO share options outstanding had a weighted average remaining contractual life of 6.72 years (31 December 2017: 7.50 years).

For both Pre-IPO share options and Post-IPO share options, the weighted average closing price of the Company's shares at the date share options were exercised during the year was HK\$9.60 (year ended 31 December 2017: HK\$9.21). Share options exercised under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme during the year ended 31 December 2018 resulted in the issuance of 9,331,416 (2017: 15,497,246) ordinary shares of the Company and share premium of US\$1,133,000 (2017: US\$2,189,000), as further detailed in note 24(c) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

21 SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(c) Share award scheme

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

Movements in the number of shares held for the share award scheme and awarded shares for the year ended 31 December 2018 are as follows:

	Number of shares held for the share award scheme not yet granted	Number of awarded shares granted but not yet vested	Total
At 1 January 2018	12,227,183	10,706,867	22,934,050
Purchased*	3,495,000	—	3,495,000
Granted	(2,731,416)	2,731,416	—
Forfeited/Lapsed	448,661	(448,661)	—
Vested	—	(3,755,495)	(3,755,495)
	<u>13,439,428</u>	<u>9,234,127</u>	<u>22,673,555</u>
At 31 December 2018			
Vested but not transferred as at 31 December 2018			<u>—</u>

* During the year ended 31 December 2018, the Company purchased a total of 3,880,000 shares for the share award scheme, among which 3,495,000 shares had been settled and transferred to the Company's shares held for the share award scheme by 31 December 2018.

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

The weighted average fair value of awarded shares granted during the year ended 31 December 2018 was HK\$10.11 per share.

The awarded shares granted during the year ended 31 December 2018 and outstanding as at the period then ended will vest in anniversary of grant date with each of 25% being vested annually. The consideration paid by the Company, including any directly attributable incremental costs, is deducted from the Group's equity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 US\$' 000	2017 US\$' 000
Balance at the beginning of the year	22,551	4,964
Provision for Corporate income tax for the year	47,118	23,973
Withholding Tax	(6,057)	(1,497)
Income tax paid during the year	<u>(18,907)</u>	<u>(4,889)</u>
Balance at the end of the year	<u><u>44,705</u></u>	<u><u>22,551</u></u>

(b) Deferred tax assets and liabilities recognised:

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

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

	Allowances in depreciation/ amortisation US\$' 000	Credit loss allowance (Note) US\$' 000	Others US\$' 000	Total US\$' 000
Deferred tax arising from:				
At 1 January 2017	480	—	(14)	466
(Credited)/charged to profit or loss	<u>(71)</u>	<u>—</u>	<u>14</u>	<u>(57)</u>
At 31 December 2017	409	—	—	409
Impact on initial application of IFRS 9	<u>—</u>	<u>(8)</u>	<u>—</u>	<u>(8)</u>
At 1 January 2018	409	(8)	—	401
Credited to profit or loss	<u>(47)</u>	<u>(1)</u>	<u>—</u>	<u>(48)</u>
At 31 December 2018	<u><u>362</u></u>	<u><u>(9)</u></u>	<u><u>—</u></u>	<u><u>353</u></u>

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 2(c)(i)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

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

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

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

	2018 US\$' 000	2017 US\$' 000
Net deferred tax asset recognised in the consolidated statement of financial position	(9)	—
Net deferred tax liability recognised in the consolidated statement of financial position	<u>362</u>	<u>409</u>
	<u><u>353</u></u>	<u><u>409</u></u>

(c) Deferred tax assets not recognised

The Group had accumulated tax losses arising from subsidiaries of approximately US\$1,551,000 (2017: US\$4,030,000). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

(d) Deferred tax liabilities not recognised

Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective on 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries. In the opinion of the directors, it is not probable that the subsidiaries established in Mainland China will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiaries for which deferred tax liabilities have not been recognised totalled approximately US\$5,133,000 at 31 December 2018 (2017: US\$7,062,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

23 DEFERRED REVENUE

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

Revenue of US\$32,063,000 recognised in the year ended 31 December 2018 was included in the balance of deferred revenue at the beginning of the year.

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

Company

	Note	Share capital	Share premium	Share-based payment reserve (note 24 (d)(ii))	Shares held for share award scheme	Shares repurchased for cancellation	Other reserve (note 24 (d)(v))	Retained earnings	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2017		3	160,554	6,316	(10,941)	—	415	61,709	218,056
Changes in equity for 2017:									
Profit for the year		—	—	—	—	—	—	135,491	135,491
Equity-settled share-based payment		—	—	4,087	—	—	—	—	4,087
Shares purchased for the share award scheme	24(c)	—	—	—	(9,492)	—	—	—	(9,492)
Repurchase of ordinary shares	24(c)	—	—	—	—	(37,749)	—	—	(37,749)
Cancellation of ordinary shares	24(c)	—*	(37,078)	—	—	37,078	—	—	—
Exercise of share options	24(c)	—*	2,189	(786)	—	—	—	—	1,403
Vesting of awarded shares	24(c)	—	(230)	(1,702)	1,932	—	—	—	—
Dividends received for share award scheme		—	—	—	—	—	1,154	—	1,154
2016 second interim and special dividend paid	24(b)	—	—	—	—	—	—	(23,300)	(23,300)
2017 first interim and special dividend paid	24(b)	—	—	—	—	—	—	(60,639)	(60,639)
Balance at 31 December 2017 (Note (i))		<u>3</u>	<u>125,435</u>	<u>7,915</u>	<u>(18,501)</u>	<u>(671)</u>	<u>1,569</u>	<u>113,261</u>	<u>229,011</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Movements in components of equity (Continued)

Company

Note	Share capital	Share premium	Share-based payment reserve (note 24 (d)(ii))	Shares held for share award scheme	Shares repurchased for cancellation	Other reserve (note 24 (d)(v))	Retained earnings	Total
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Balance at 31 December 2017 (Note (i))	3	125,435	7,915	(18,501)	(671)	1,569	113,261	229,011
Impact on initial application of IFRS 9	—	—	—	—	—	—	(2,676)	(2,676)
Adjusted balance on 1 January 2018	3	125,435	7,915	(18,501)	(671)	1,569	110,585	226,335
Changes in equity for 2018:								
Profit for the year	—	—	—	—	—	—	190,013	190,013
Equity-settled share-based payment	—	—	4,906	—	—	—	—	4,906
Shares purchased for the share award scheme	24(c)	—	—	(4,477)	—	—	—	(4,477)
Repurchase of ordinary shares	24(c)	—	—	—	(75,740)	—	—	(75,740)
Cancellation of ordinary shares	24(c)	—*	(73,729)	—	73,729	—	—	—
Exercise of share options	24(c)	—*	1,133	(363)	—	—	—	770
Vesting of awarded shares	24(c)	—	146	(3,176)	3,030	—	—	—
Dividends received for share award scheme		—	—	—	—	877	—	877
2017 second interim dividend paid	24(b)	—	—	—	—	—	(23,803)	(23,803)
2018 first interim dividend paid	24(b)	—	—	—	—	—	(29,194)	(29,194)
Balance at 31 December 2018	3	52,985	9,282	(19,948)	(2,682)	2,446	247,601	289,687

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

Note:

- (i) The Group, including the Company, has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2018	2017
	US\$' 000	US\$' 000
Interim dividend declared and paid of HK17.7 cents per ordinary share (2017: HK13.0 cents per ordinary share)	29,194	22,523
Special dividend declared and paid of nil (2017: HK22.0 cents per ordinary share)	—	38,116
	29,194	60,639
Second interim dividend proposed after the end of the reporting period of HK16.7 cents per ordinary share (2017: HK14.0 cents per ordinary share)	27,270	23,850

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

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018	2017
	US\$' 000	US\$' 000
Second interim dividend in respect of the previous financial year, approved and paid during the period, of HK14.0 cents per ordinary share (2017: HK8.0 cents per ordinary share)	23,803	13,934
Special dividend in respect of the previous financial year, approved and paid during the period of nil (2017: HK5.4 cents per ordinary share)	—	9,366
	23,803	23,300

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital

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

	Note	Number of shares in issue	Issued capital US\$' 000	Share premium US\$' 000	Shares held for share award scheme US\$' 000	Shares repurchased for cancellation US\$' 000
At 1 January 2017		1,349,900,187	3	160,554	(10,941)	—
Vesting of awarded shares		—	—	(230)	1,932	—
Share options exercised (note 21)		15,497,246	—*	2,189	—	—
Shares purchased for the share award scheme		—	—	—	(9,492)	—
Repurchase of ordinary shares		—	—	—	—	(37,749)
Cancellation of ordinary shares		(36,944,000)	—*	(37,078)	—	37,078
At 31 December 2017 and 1 January 2018		1,328,453,433	3	125,435	(18,501)	(671)
Vesting of awarded shares		—	—	146	3,030	—
Share options exercised (note 21)		9,331,416	—*	1,133	—	—
Shares purchased for the share award scheme	i	—	—	—	(4,477)	—
Repurchase of ordinary shares	ii	—	—	—	—	(75,740)
Cancellation of ordinary shares		(56,163,000)	—*	(73,729)	—	73,729
At 31 December 2018		<u>1,281,621,849</u>	<u>3</u>	<u>52,985</u>	<u>(19,948)</u>	<u>(2,682)</u>

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

Note:

- (i) During the year ended 31 December 2018, the Company purchased 3,880,000 shares from the open market pursuant to the share award scheme at an average price of approximately HK\$10.05 per share with total consideration of HK\$38,997,633 (equivalent to approximately US\$4,985,000). As at 31 December 2018, 3,495,000 of the purchased shares had been settled and transferred to the Company's shares held for share award scheme, with the corresponding consideration of HK\$35,016,931 (equivalent to approximately US\$4,477,000) debited to shares held for share award scheme.
- (ii) During the year ended 31 December 2018, the Company repurchased 57,512,000 shares on the Stock Exchange with an average price of approximately HK\$10.33 per share. The total amount paid on the repurchased shares was HK\$594,112,990 (equivalent to approximately US\$75,740,000).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) *Share premium*

Under the Companies Law of the Cayman Islands, the share premium of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) *Share-based payment reserve*

The share-based payment reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised. The amount will either be transferred to the share premium when the related share options are exercised, or be transferred to treasury shares when the related awarded shares are vested and transferred, or be transferred to retained earnings should the related options expire or be forfeited.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(r).

(iv) *Fair value reserve (recycling)*

Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with IAS 39.

(v) *Other reserve*

Other reserve comprises the dividends received for share award scheme.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, repurchase the Company's own shares or issue new shares. No change was made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital by regularly reviewing the gearing ratio, which is total liabilities, divided by total assets. Capital represents total equity shown in the consolidated statement of financial position.

	2018	2017
	US\$' 000	US\$' 000
Total current liabilities	117,678	90,240
Total non-current liabilities	353	409
	118,031	90,649
Total current assets	337,925	295,621
Total non-current assets	61,488	22,846
	399,413	318,467
Gearing ratio	29.6%	28.5%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and funds receivable.

Trade receivables and Funds receivable

The Group's trading terms with its customers are mainly on cash settlement, except for well-established corporate customers in the online game joint operation business, for which the credit term is generally one to six months.

The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. Funds receivable from third-party payment service providers are normally settled within three months. The Group carefully considers and monitors the creditworthiness of these third-party payment service providers.

The Group does not hold any collateral or other credit enhancements over its trade receivables and funds receivable balances. Trade receivables and funds receivable are non-interest bearing.

The Group measures loss allowances for trade receivables and funds receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance is not further distinguished between the Group's different customer bases.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade receivables and Funds receivable (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount US\$' 000	Loss allowance US\$' 000
Current (not past due)	5.83%	745	43
Less than 3 months past due	8.30%	279	23
		<u>1,024</u>	<u>66</u>

The following table provides information about the Group's exposure to credit risk and ECLs for funds receivable as at 31 December 2018:

	Expected loss rate	Gross carrying amount US\$' 000	Loss allowance US\$' 000
Current (not past due)	0.07%	<u>40,730</u>	<u>29</u>

Expected loss rates are based on actual loss experience over the past year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(j)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, no provision has been made for impairment of trade and other receivables. The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired were as follows:

	2017 US\$'000
Neither past due nor impaired	735
Less than 3 months past due	155
	<hr/>
	890
	<hr/> <hr/>

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2017, all the funds receivable were aged within three months and no allowance for doubtful debts was provided for the funds receivable.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Comparative information under IAS 39 (Continued)

Movement in the loss allowance account in respect of trade receivables and funds receivable during the year is as follows:

	2018 US\$'000
Balance at 31 December 2017 under IAS 39	—
Impact on initial application of IFRS 9 (note 2(c)(i))	<u>82</u>
Balance at 1 January	<u>82</u>
Amounts written off during the year	(7)
Impairment losses recognised during the year	<u>20</u>
Balance at 31 December	<u><u>95</u></u>

(b) Liquidity risk

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

As at 31 December 2018, the Group held cash and cash equivalents of US\$287,547,000 (2017: US\$221,892,000) and had no bank or other interest-bearing borrowings.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table indicates the instantaneous change in the Group's profit after tax and retained earnings that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant:

	2018			2017		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax US\$' 000	Effect on retained earnings US\$' 000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax US\$' 000	Effect on retained earnings US\$' 000
Singapore dollars	5%	3,232	3,232	5%	1,848	1,848
	(5)%	(3,232)	(3,232)	(5)%	(1,848)	(1,848)
US dollars	5%	(315)	(315)	5%	558	558
	(5)%	315	315	(5)%	(558)	(558)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into US dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement

(i) *Financial assets and liabilities measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

All of the unquoted equity investments accounted for under available-for-sale investments and other financial assets are measured based on Level 3 valuations.

Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the adoption of IFRS 9 at 1 January 2018 (see note 2(c)(i)).

Information about Level 3 fair value measurements

The fair value of unquoted equity instruments is determined with reference to the net asset value of the investments.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2018 US\$'000	2017 US\$'000
Unquoted equity securities:		
At 1 January	11,770	7,150
Transferred to retained earnings relating to financial assets now measured at FVPL	(4,827)	—
Additional investments acquired	34,619	4,000
Transfer to interest in an associate upon the acquisition of additional holding in an investment	(3,297)	—
Fair value gain on investments	6,633	—
Exchange adjustments	(193)	620
	<u>44,705</u>	<u>11,770</u>
At 31 December	<u>44,705</u>	<u>11,770</u>

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2017 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

26 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 US\$' 000	2017 US\$' 000
Contracted for:	<u>874</u>	<u>51</u>

- (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 US\$' 000	2017 US\$' 000
Within 1 year	3,143	1,191
After 1 year but within 5 years	<u>8,920</u>	<u>5,934</u>
	<u>12,063</u>	<u>7,125</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

27 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2018 US\$' 000	2017 US\$' 000
Short-term employee benefits	6,490	6,762
Equity-settled share-based payment	<u>30</u>	<u>151</u>
	<u>6,520</u>	<u>6,913</u>

Total remuneration is included in "staff costs" (see note 6(a)).

(b) Other transactions and outstanding balances with related parties

For the year ended 31 December 2018, Tap Media Technology Pte. Ltd., a joint venture of the Group since 17 June 2017, provided advertising services to the Group. The advertising expense recognised for the year ended 31 December 2018 was US\$2,432,000 (for the period from 17 June 2017 to 31 December 2017: US\$1,178,000), and the balance of prepayment as at 31 December 2018 was US\$1,089,000 (31 December 2017: US\$1,233,000).

Save as disclosed above, the Group did not have any other material transactions or outstanding balances with related parties.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 US\$' 000	2017 US\$' 000
Non-current assets			
Investments in subsidiaries	14	304,922	171,162
Interest in associates and joint ventures		5,949	447
Available-for-sale investments		—	9,000
Other financial assets		11,671	—
		<u>322,542</u>	<u>180,609</u>
Current assets			
Prepayments, deposits and other receivables		112	124
Amounts due from subsidiaries		35	2,497
Cash and cash equivalents		20,395	49,466
		<u>20,542</u>	<u>52,087</u>
Current liabilities			
Amounts due to subsidiaries		51,690	—
Other payables and accruals		1,707	3,685
		<u>53,397</u>	<u>3,685</u>
Net current (liabilities)/assets		<u>(32,855)</u>	<u>48,402</u>
Total assets less current liabilities		<u>289,687</u>	<u>229,011</u>
NET ASSETS		<u>289,687</u>	<u>229,011</u>
CAPITAL AND RESERVES			
Share capital	24	3	3
Reserves		289,684	229,008
TOTAL EQUITY		<u>289,687</u>	<u>229,011</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

29 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, Leases	1 January 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	1 January 2019
Amendments to IAS 28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in US dollars unless otherwise indicated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

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.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 26, at 31 December 2018 the Group’s future minimum lease payments under non-cancellable operating leases amount to US\$12,063,000, the majority of which is payable in 5 years after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to US\$12,784,000 and US\$12,514,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group’s financial statement from 2019 onwards.

FINANCIAL SUMMARY

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2018	2017	2016	2015	2014
	US\$' 000	US\$' 000 (Note)	US\$' 000	US\$' 000	US\$' 000
Revenue	748,785	607,253	322,087	202,546	204,612
Cost of revenue	(225,237)	(192,661)	(103,184)	(62,007)	(58,827)
Gross profit	523,548	414,592	218,903	140,539	145,785
Other net income	9,051	4,827	1,668	1,378	4,110
Selling and distribution expenses	(186,592)	(159,016)	(80,102)	(41,652)	(43,064)
Administrative expenses	(44,658)	(33,444)	(23,583)	(21,840)	(16,672)
Research and development expenses	(63,599)	(46,697)	(35,961)	(26,944)	(17,202)
Other operating expenses	(40)	(551)	(2,575)	(6,546)	(1,342)
Share of results of associates and joint ventures	(1,329)	(663)	(1,057)	—	—
Profit before taxation	236,381	179,048	77,293	44,935	71,615
Income tax expenses	(47,070)	(23,916)	(5,670)	(3,687)	(5,223)
Profit for the year	189,311	155,132	71,623	41,248	66,392
Attributable to:					
Equity shareholders of the Company	189,177	156,026	72,616	41,492	66,373
Non-controlling interests	134	(894)	(993)	(244)	19

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c) to the consolidated financial statements.

FINANCIAL SUMMARY

	As at 31 December				
	2018	2017	2016	2015	2014
	US\$' 000	(Note) US\$' 000	US\$' 000	US\$' 000	US\$' 000
Assets, Liabilities and Equity					
TOTAL ASSETS	399,413	318,467	243,431	220,126	217,574
TOTAL LIABILITIES	118,031	90,649	47,776	28,872	30,295
TOTAL EQUITY	281,382	227,818	195,655	191,254	187,279

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c) to the consolidated financial statements.

DEFINITION

“Board”	the board of directors of the Company
“Business day(s)”	a day on which banks in Hong Kong and the Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or the Cayman Islands
“BVI”	British Virgin Islands
“China” or “PRC”	the People’s Republic of China, for the purpose of the annual report, excluding Hong Kong, Macau and Taiwan
“Company”	IGG Inc, an exempted company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholders”	has the meaning ascribed thereto in the Listing Rules
“Corporate Governance Code”	code on corporate governance practices contained in Appendix 14 to Listing Rules
“Director(s)”	the director(s) of the Company
“Duke Online”	Duke Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Zongjian Cai

DEFINITION

“Edmond Online”	Edmond Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Yuan Chi
“Founders”	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)
“Fuzhou Tianji”	Fuzhou TJ Digital Entertainment Co., Ltd* (福州天極數碼有限公司), a limited liability company established under the laws of the PRC on 15 November 2007, a wholly-owned subsidiary of the Group
“Fuzhou Tianmeng”	Fuzhou Skyunion Digital Co., Ltd* (福州天盟數碼有限公司), a limited liability company established under the laws of the PRC on 12 December 2006, which is owned as to 50% by Mr. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Group”, “IGG”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“IGG Philippines”	IGG Philippines Corp., a company incorporated under the laws of the Philippines on 11 January 2013, which is wholly-owned by IGG Singapore
“IGG Singapore”	IGG Singapore Pte. Ltd., a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of the Company
“IGG US”	Sky Union, LLC, a limited liability company formed in the State of Nevada, the United States, on 21 October 2005, a wholly-owned subsidiary of the Company
“Independent Third Party(ies)”	individual(s) or company(ies) who is/are not connected with (within the meaning of the Listing Rules) any of the Company, Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates

DEFINITION

“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
“New Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 12 November 2008 and amended by written resolutions of all Shareholders passed on 16 September 2013, certain principal terms of which are summarised in the paragraph headed “Pre-IPO Share Option Scheme” in Appendix IV to the Prospectus
“Previous Structured Contracts”	a series of contracts (as supplemented) which include the Call Option Agreement, the Exclusive Technical Consulting Service Agreement, the Equity Pledge Agreement, the Power of Attorney and the Online Game Licensing Agreement
“Prospectus”	the prospectus of the Company dated 11 October 2013

DEFINITION

“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities Futures Ordinance, chapter 571 of the laws of Hong Kong
“SGD”	Singapore dollar, the lawful currency of Singapore
“Share(s)”	means ordinary share(s) of US\$0.0000025 each in the share capital of the Company
“Share Award Scheme”	the share award scheme adopted by the Company on 24 December 2013, the principal terms of which are summarised in the announcement of the Company dated 24 December 2013
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 16 September 2013, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Structured Contracts”	a series of contracts which include the New Call Option Agreement, the New Exclusive Technical Consulting Service Agreement, the New Equity Pledge Agreement, the New Power of Attorney, the New Online Game Licensing Agreement and the Spouse Undertakings
“Transfer of Listing”	the transfer of listing of the Shares from GEM to the Main Board pursuant to Chapter 9A of the Listing Rules

DEFINITION

“USD” or “US\$” and “US cents” United States dollars and cents, respectively, the lawful currency of the United States of America

“Year” the year ended 31 December 2018

“%” 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.*