

# 2019

INTERIM  
REPORT

Mobile Royale

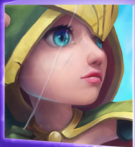
PILVIA

온라인 영웅전쟁RPG

王国纪元



# IGG



# 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

P.O. Box 31119, Grand Pavilion, Hibiscus Way  
802 West Bay Road, Grand Cayman  
KY1-1205 Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

80 Pasir Panjang Road  
#18-84 Mapletree Business City  
Singapore 117372

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

## AUDITOR

KPMG

# CORPORATE INFORMATION

## LEGAL ADVISER AS TO HONG KONG LAWS

Jingtian & Gongcheng LLP

## 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

## PRINCIPAL BANKS

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

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited

## COMPANY WEBSITE

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

## HIGHLIGHTS

	Six months ended 30 June			
	2019		2018	
	US\$' 000	HK\$' 000 <sup>2</sup>	US\$' 000	HK\$' 000 <sup>2</sup>
	(Unaudited)		(Unaudited)	
Revenue	354,666	2,782,177	388,495	3,043,586
Profit for the period	70,702	554,622	98,389	770,809
Profit for the period attributable to equity shareholders of the Company	70,714	554,716	98,613	772,564
Adjusted net income <sup>1</sup>	72,880	571,707	101,135	792,322

- The Group's revenue for the Period was US\$354.7 million, representing a decrease of 9% compared to the revenue of US\$388.5 million for the corresponding period in 2018, but remained stable compared with US\$360.3 million for the second half of 2018.
- The Group's profit for the Period was US\$70.7 million, representing a decrease of 28% compared to the profit of US\$98.4 million for the corresponding period in 2018 and a decrease of 22% compared to the profit of US\$90.9 million for the second half of 2018.
- The Group's profit attributable to equity shareholders of the Company for the Period was US\$70.7 million, representing a decrease of 28% compared to US\$98.6 million for the corresponding period in 2018 and a decrease of 22% compared to US\$90.6 million for the second half of 2018.
- The Group's adjusted net income for the Period was US\$72.9 million, representing a decrease of 28% compared to US\$101.1 million for the corresponding period in 2018 and a decrease of 22% compared to US\$92.9 million for the second half of 2018.
- The Board has resolved to declare an interim dividend of HK13.0 cents per ordinary Share (equivalent to US1.7 cents per ordinary Share), amounting to approximately US\$21.2 million (for the six months ended 30 June 2018: interim dividend of HK17.7 cents per ordinary Share, equivalent to US2.3 cents per ordinary Share).

1 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 periods presented.

2 Amounts denominated in U.S. dollars have been converted into Hong Kong dollars at an exchange rate of HK\$7.8445=US\$1.00 for the Period (for the six months ended 30 June 2018: HK\$7.8343=US\$1.00), for illustration purpose only. Such conversions shall not be construed as representations that such amount in U.S. dollars were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 approximately 700 million registered users. Leveraging its success in client-based and browser online games, the Group changed its strategy to target the mobile games market in 2013. Over the past years, the Group has developed a wide range of popular mobile games available in 23 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, the Philippines, the United Arab Emirates, Indonesia, Brazil, Turkey, Italy and Spain. The Group has users from more than 200 countries and regions worldwide. Over the years, IGG has aggressively pursued a strategy of globalisation in R&D and operations, establishing long-term relationships with more than 100 business partners, including art studios, advertising channels, as well as global platforms such as Apple, Google, Amazon, and Microsoft. The Group’s international presence and partnerships have enhanced its competitive advantage in the industry.

During the Period, the Group continued to receive recognitions and awards from both the gaming industry and the capital market, including “Golden Wave Award - 2018 Best Overseas Game Publisher”, “2018 China Game Ceremony - Influential Enterprise”, and “2019 MAMA Awards - Marketing Diversity” from an international mobile application analytics platform. In addition, the Group was ranked 16th on Google’s “BrandZ™ Top 50 Chinese Global Brand Builders 2019” for the second consecutive time, and named among Finet.HK’s “Top 100 Hong Kong Listed Companies Selection Award 2018 - Top 10 Turnover Growth”.

During the Period, 43%, 27% and 25% of the Group’s total revenue was generated from Asia, North America, and Europe respectively, in line with global mobile games market distribution.

## BUSINESS REVIEW

In 2019, IGG embraced challenges and strived for innovation, continuously upgrading its existing titles and actively driving the development and launch of several new games. The Group’s revenue was US\$354.7 million, down 9% compared to the corresponding period last year, but stayed stable compared to the second half of 2018. The decrease mainly reflected a natural drop in revenue from the two flagship titles - Lords Mobile and Castle Clash. After years of meteoric growth since its launch in March 2016, revenue for Lords Mobile has started to stabilise. Net profit was US\$70.7 million, down 28% compared to the corresponding period in 2018 and 22% compared to the second half of 2018. The decrease in net profit stemmed mainly from lower revenue, as well as the Group’s continued investments in game development, operational and promotional activities, with the aim of driving long-term growth.

To further extend its global reach and strengthen its regional foothold in South America and Western Europe, the Group has been working to set up local teams in Italy and Spain in the first half of 2019, following the successful establishment of subsidiaries in Brazil and Turkey. Furthermore, the Group continues to enhance and encourage internal collaborative competition among development teams to improve their performance and efficiency.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Lords Mobile*

Lords Mobile, released in March 2016, is the Group's first cross-platform, multi-language, global mega-server game. With its compelling features, Lords Mobile still enjoys enduring popularity and generates steady revenue. As of the end of this Period, the game boasted approximately 240 million registered users worldwide and 16 million MAU, with a stable average monthly gross billing of over US\$50 million.

In the first half of 2019, the Group organised the "Lords Fest" World Tour, a series of offline player meetings in multiple cities including Tokyo, Berlin, Bangkok, Taipei, Istanbul and Los Angeles, and launched a series of marketing initiatives to drive its game operations, including cross-promotion with internet influencers and bookshops in Japan, cooperation with local mainstream payment operators in Indonesia, and organising themed events with well-known retail platforms and shopping malls in China. In 2019, the game introduced a wide array of new features including "Kingdom Tycoon", the "Familiars Battle" expansion pack, and "Wonder" level research and heroes. The PC version of Lords Mobile was released on Steam, a leading global game distribution platform, to enhance the overall player experience by strengthening cross-platform integration, and to reach a wider PC-based audience. Amidst intense competition in the global mobile games market and numerous emerging strategy games, Lords Mobile continues to dominate the worldwide ranking as the top-grossing mobile war strategy game for two consecutive years. According to App Annie's daily grossing ranking as at 30 June 2019, Lords Mobile ranked top five in 54 and top 10 in 81 countries and regions on Google Play, and top five in 15 and top 10 in 26 countries and regions on iOS. Furthermore, Lords Mobile has received many industry accolades, including "Golden Wave Awards - 2018 Top 10 Most Popular Mobile Game" and "2018 China Game Ceremony - Popular Online Game".

### *Castle Clash*

Castle Clash is a fast-paced tower defence game launched in 2013. After more than six years of operation, the game continues to maintain its popularity. Frequent content updates and regular addition of new features successfully sustained the game's appeal. Commendably, its soundtrack won the "Best Game Music & Best Composer - Silver Medal" at the Global Music Awards in June 2019. Castle Clash steadily contributed US\$8 million in average monthly gross billing for the Period. According to App Annie, Castle Clash ranked among the top 20 grossing games in 14 countries and regions on Google Play as at 30 June 2019.

### *New Titles*

During the Period, the Group released several meticulously crafted new titles of various genres, including simulation and sandbox games. Among them, Brave Conquest, launched in late June 2019, is an innovative simulation mobile game that integrates kingdom building and role-playing. Only one month of launch, the game quickly gained traction, earning several commendations from Apple's App Store, and was ranked amongst the top 10 most downloaded strategy games in the USA. Craft Legend, another recently released title, is a global mega-server sandbox mobile game. More than just a classic sandbox building game, Craft Legend combines role-playing and multi-player tower defence gameplay, complemented by exceptional 3D graphics to give players a refreshing new experience.

# 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 optimising and improving its games to achieve top-notch quality and longevity. A diverse line-up of new titles, including a space war strategy game, are currently in final fine-tuning phase and are expected to make their debut in the second half of 2019. Furthermore, the Group continuously invests in its R&D and operation teams, and will continue to recruit talent internationally. To discover and cultivate global talent with the passion and aptitude for the gaming industry, the Group continues running its “Inter-G” talent programme and “G-Star” incubation programme, and is also working to establish a training centre in Italy for game artists.

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

## FINANCIAL REVIEW

### Revenue

The Group’s revenue for the Period was US\$354.7 million, decreased by 9% compared with US\$388.5 million for the corresponding period in 2018, but remained stable compared with US\$360.3 million for the second half of 2018. The decrease mainly reflected a natural drop in revenue from two flagship titles - Lords Mobile and Castle Clash. After years of meteoric growth since its launch in March 2016, revenue for Lords Mobile has started to stabilise.

#### *Revenue by geographical regions*

The following table sets forth a breakdown of the Group’s revenue by geographical regions for the Period and the corresponding period in 2018, respectively:

	Six months ended 30 June			
	2019		2018	
	US\$' 000	%	US\$' 000	%
Asia	153,689	43.3	182,179	46.9
North America	94,333	26.6	106,161	27.3
Europe	87,857	24.8	84,695	21.8
Others	18,787	5.3	15,460	4.0
<b>Total</b>	<b>354,666</b>	<b>100.0</b>	<b>388,495</b>	<b>100.0</b>



# MANAGEMENT DISCUSSION AND ANALYSIS

## Revenue by games

The following table sets forth a breakdown of the Group's revenue by games for the Period and the corresponding period in 2018, respectively:

	Six months ended 30 June			
	2019		2018	
	US\$' 000	%	US\$' 000	%
Lords Mobile	282,099	79.5	311,221	80.1
Castle Clash	44,699	12.6	57,075	14.7
Others	27,868	7.9	20,199	5.2
<b>Total</b>	<b>354,666</b>	<b>100.0</b>	<b>388,495</b>	<b>100.0</b>

## Cost of revenue

The Group's cost of revenue for the Period was US\$108.5 million, representing a decrease of 6% compared to US\$115.4 million for the corresponding period in 2018, primarily due to the decrease in channel costs as a result of lower revenue.

## Gross profit and gross profit margin

The Group's gross profit for the Period was US\$246.2 million, representing a decrease of 10% compared to US\$273.1 million for the corresponding period in 2018, primarily due to the natural drop in revenue from Lords Mobile and Castle Clash.

The Group's gross profit margin for the Period was 69%, decreased by 1% compared to 70% for the corresponding period in 2018, primarily due to rise in labour cost and server cost in line with business expansion.

## Selling and distribution expenses

The Group's selling and distribution expenses for the Period was US\$99.6 million, representing a slight increase of 2% compared to US\$97.7 million for the corresponding period in 2018. Selling and distribution expenses-to-revenue ratio for the Period increased to 28%, from 25% in the corresponding period in 2018, primarily due to continued drive of localised marketing and promotional activities worldwide.

## Administrative expenses

The Group's administrative expenses for the Period was US\$20.6 million, representing an increase of 4% compared to US\$19.8 million for the corresponding period in 2018. Administrative expenses-to-revenue ratio for the Period was 6%, up 1% over the corresponding period last year, primarily due to increase in expenditures incurred in view of the Group's global expansion.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Research and development expenses

The Group's research and development expenses for the Period was US\$42.9 million, representing an increase of 48% compared to US\$28.9 million for the corresponding period in 2018. Research and development expenses-to-revenue ratio for the Period increased to 12%, from 7% for the corresponding period in 2018, primarily due to increased investments in R&D teams and outsourcing resources for new R&D projects.

## Income tax expenses

The Group's income tax expenses for the Period was US\$13.3 million, representing a decrease of 48% compared to US\$25.5 million for the corresponding period in 2018, primarily due to lower profit before taxation.

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

## Capital expenditure

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

	Six months ended 30 June	
	2019	2018
	US\$' 000	US\$' 000
Purchase of property, plant and equipment	27,790	1,784
Purchase of intangible assets	516	124

## Capital commitment

As at 30 June 2019, the Group had a capital commitment of US\$0.2 million (31 December 2018: US\$0.9 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity and capital resources and gearing ratio

As at 30 June 2019, the Group had net current assets of US\$230.8 million (31 December 2018: US\$220.2 million), and the gearing ratio of the Group, calculated as total liabilities divided by total assets, was 28.2% (31 December 2018: 29.6%).

As at 30 June 2019, the Group had cash and cash equivalents of US\$270.4 million (31 December 2018: US\$287.5 million).

The Group did not have any bank borrowings or other financing facilities as at 30 June 2019 (31 December 2018: nil).

## Operating activities

Net cash generated from operating activities was US\$46.1 million for the Period, compared to US\$126.6 million for the corresponding period in 2018. The decrease in net cash generated from operating activities was primarily due to i) the decrease in operating profit; ii) fluctuation caused by timing difference of app distribution platforms' payment remittance cycle; and iii) the timing difference for settlement of payables.

## Investing activities

Net cash used in investing activities was US\$28.3 million for the Period, primarily attributable to the acquisition of a property in Italy as a training centre for game artists and office for European regional team. Net cash used in investing activities for the corresponding period in 2018 was US\$5.1 million.

## Financing activities

Net cash used in financing activities was US\$35.0 million for the Period, primarily attributable to the payment of the second interim dividend for the year ended 31 December 2018, as well as the share buy-backs made by the Company during the Period. Net cash used in financing activities for the corresponding period in 2018 was US\$59.9 million.

## Foreign currency risk

The Group's sales and purchases during the Period 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Legal compliance

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

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

## Dividend

The Board resolved to declare an interim dividend of HK13.0 cents per ordinary Share (equivalent to US1.7 cents per ordinary Share), amounting to approximately US\$21.2 million (for the six months ended 30 June 2018: interim dividend of HK17.7 cents per ordinary Share, equivalent to US2.3 cents per ordinary Share).

The register of members of the Company will be closed from Tuesday, 20 August 2019 to Friday, 23 August 2019, both days inclusive, during which period no transfer of Shares will be registered for the purpose of determining Shareholders' entitlements to the interim dividend. The record date for entitlement to the interim dividend is on Friday, 23 August 2019. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 19 August 2019. The payment date of the interim dividend is expected to be on Wednesday, 4 September 2019.

## Human resources

As at 30 June 2019, the Group had 1,609 employees (31 December 2018: 1,421).

The Group's total staff-related costs amounted to US\$34.9 million for the Period (for the six months ended 30 June 2018: US\$30.0 million).

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee of the Company periodically. The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, after evaluating the Group's operating results, individual performance and comparable market statistics.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group 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 Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and Share Award Scheme are set out in note 14 to the unaudited interim financial report.

## Significant investment

During the Period, the Group did not hold any significant investment in equity interest in any other company (for the six months ended 30 June 2018: nil).

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

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

In July 2019, the Acquisition was completed. The final consideration paid by Skyunion Hong Kong Holdings Limited’s designated entities in respect of the Acquisition was approximately Euro20.10 million (equivalent to approximately US\$22.86 million).

Save and except for disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period (for the six months ended 30 June 2018: nil).

## Charges on assets

As at 30 June 2019, no asset of the Group was pledged as a security for bank borrowing or any other financing activities (31 December 2018: nil).

## Contingent liabilities

The Group had no contingent liabilities as at 30 June 2019 (31 December 2018: nil).

# CORPORATE GOVERNANCE

## 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 optimise return for Shareholders.

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

Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. Zongjian Cai is the chairman and chief executive officer of the Group. He has extensive experience in online game industry and is responsible for the overall corporate strategic planning and overall business development of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. 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.

## MODEL CODE

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

## REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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



## OTHER INFORMATION

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

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

*Long positions in shares of the Company and the associated 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)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	20.88%
	Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.88%
	Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.88%
	Ms. Jessie Shen (Note 3)	Beneficial owner	3,978,000	0.31%
	Mr. Feng Chen (Note 4)	Beneficial owner	13,640,000	1.07%
	Mr. Yuan Chi (Note 5)	Beneficial owner, interest in a controlled corporation	153,920,000	12.06%
	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%

## OTHER INFORMATION

### Notes:

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

(2) Mr. Zongjian Cai was interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 182,268,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. 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 was interested in all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. 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 Companies Ordinance with limited liability on 6 September 2017.

## OTHER INFORMATION

Save as disclosed above, as of 30 June 2019, none of the Directors and chief executive of the Company was, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to Listing Rules.

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

So far as were known to the Directors or chief executive of the Company, as at 30 June 2019, the following persons had interests and/or short positions of 5% or more of the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

<b>Name</b>	<b>Capacity/Nature of interest</b>	<b>Number of shares/ underlying shares held</b>	<b>Approximate percentage of shareholding</b>
Duke Online (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.88%
Mr. Zongjian Cai (Notes 1, 2)	Beneficial owner, interest in a controlled corporation, spouse interest, interests held jointly with another person	266,501,891	20.88%
Mr. Yuan Xu (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.88%
Mr. Hong Zhang (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.88%
Ms. Kai Chen (Notes 1, 2)	Beneficial owner, spouse interest, interests held jointly with another person	266,501,891	20.88%
Mr. Zhixiang Chen (Notes 1, 2)	Beneficial owner, interests held jointly with another person	266,501,891	20.88%
Edmond Online (Note 3)	Beneficial owner	153,920,000	12.06%
Mr. Yuan Chi (Note 3)	Beneficial owner, interest in a controlled corporation	153,920,000	12.06%

## OTHER INFORMATION

### Notes:

- (1) Pursuant to an act in concert agreement dated 16 September 2013, as amended by an amendment dated 18 October 2016, Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen and Mr. Zhixiang Chen agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. Each of Mr. Zongjian Cai, Duke Online, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Kai Chen (spouse of Mr. Zongjian Cai) and Mr. Zhixiang Chen is therefore deemed to be interested in the Shares held by one another under the SFO.
- (2) Mr. Zongjian Cai was interested in all the issued share capital of Duke Online and he is the sole director of Duke Online. Therefore, he was deemed to be interested in 182,268,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai was deemed to be interested in all Shares held by Ms. Kai Chen under the SFO. 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 all the issued share capital of Edmond Online and he is one of the directors of Edmond Online. Therefore, he was deemed to be interested in 153,434,000 Shares held by Edmond Online under the SFO. 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 30 June 2019, the Directors are not aware of any other persons, other than the Directors and chief executive of the Company whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## OTHER INFORMATION

### 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:

<b>Period within which option can be exercised</b>	<b>Maximum percentage of entitlement</b>
Any time after the date when the options are granted (the “ <b>First Granting Date</b> ”), 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%

## OTHER INFORMATION

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

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

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

Category of grantees	Number of Pre-IPO share options			
	Outstanding as at 31 December 2018	Exercised during the Period	Lapsed/ forfeited during the Period	Outstanding as at 30 June 2019
Senior management	6,400,000	—	—	6,400,000
Connected persons (other than members of the senior management)	630,000	30,000	—	600,000
Other grantees who have been granted share options under the Pre-IPO Share Option Scheme to subscribe for one million Shares or more	847,000	130,000	—	717,000
Other grantees	5,905,000	1,289,200	—	4,615,800
<b>Total</b>	<b>13,782,000</b>	<b>1,449,200</b>	<b>—</b>	<b>12,332,800</b>

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



## OTHER INFORMATION

### 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 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

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

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

## OTHER INFORMATION

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

Category of grantees	Date of grant	Exercise price per Share	Number of share options				Outstanding as at 30 June 2019
			Outstanding as at 31 December 2018	Granted during the Period	Exercised during the Period	Lapsed/ forfeited during the Period	
<b>Directors</b>							
Mr. Zongjian Cai	23 March 2015	HK\$3.90	332,000	—	—	—	332,000
Mr. Yuan Xu	23 March 2015	HK\$3.90	613,000	—	—	—	613,000
Mr. Hong Zhang	23 March 2015	HK\$3.90	605,000	—	—	—	605,000
Ms. Jessie Shen	21 November 2014	HK\$3.51	367,000	—	—	—	367,000
	23 March 2015	HK\$3.90	141,000	—	—	—	141,000
Mr. Feng Chen	23 March 2015	HK\$3.90	300,000	—	—	—	300,000
Mr. Yuan Chi	23 March 2015	HK\$3.90	486,000	—	—	—	486,000
Dr. Horn Kee Leong	4 May 2018	HK\$12.14	180,000	—	—	—	180,000
Ms. Zhao Lu	23 March 2015	HK\$3.90	200,000	—	—	—	200,000
	4 May 2018	HK\$12.14	180,000	—	—	—	180,000
Mr. Dajian Yu	23 March 2015	HK\$3.90	250,000	—	—	—	250,000
	4 May 2018	HK\$12.14	180,000	—	—	—	180,000
<b>Directors' respective associate</b>							
Ms. Meijia Chen (a cousin of Mr. Yuan Xu)	23 March 2015	HK\$3.90	553,000	—	—	—	553,000
Mr. Neng Xu (brother of Mr. Yuan Xu)	20 April 2017	HK\$10.50	37,500	—	—	37,500	—
<b>Employees</b>							
	11 August 2014	HK\$5.47	123,750	—	23,750	—	100,000
	21 November 2014	HK\$3.51	75,000	—	—	—	75,000
	23 March 2015	HK\$3.90	1,521,500	—	150,000	25,000	1,346,500
	10 September 2015	HK\$2.94	25,000	—	—	—	25,000
	20 April 2017	HK\$10.50	630,000	—	22,500	67,500	540,000
	17 November 2017	HK\$10.08	270,000	—	—	—	270,000
	23 August 2018	HK\$10.24	150,000	—	—	—	150,000
<b>Consultants</b>							
	21 November 2014	HK\$3.51	75,000	—	—	—	75,000
	23 March 2015	HK\$3.90	75,000	—	—	—	75,000
<b>Total</b>			<b>7,369,750</b>	<b>—</b>	<b>196,250</b>	<b>130,000</b>	<b>7,043,500</b>

## OTHER INFORMATION

### 11 August 2014

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

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

### 21 November 2014

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

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

### 23 March 2015

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

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

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

## OTHER INFORMATION

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

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

### 10 September 2015

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

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

### 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.

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

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

## OTHER INFORMATION

### 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.

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

### 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.

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 Period, no other share options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

## OTHER INFORMATION

### SHARE AWARD SCHEME

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

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

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

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

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



## OTHER INFORMATION

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

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

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

### 20 March 2019

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

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

### 6 May 2019

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

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

## OTHER INFORMATION

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

Date of grant	Number of awarded shares				Balance as at 30 June 2019
	Outstanding as at 31 December 2018	Granted during the Period	Vested during the Period	Lapsed/ forfeited during the Period	
23 March 2015	616,735	—	591,735	25,000	—
10 September 2015	181,125	—	—	5,500	175,625
8 April 2016	211,389	—	105,691	2,837	102,861
3 June 2016	355,045	—	177,518	—	177,527
30 August 2016	1,358,663	—	—	32,500	1,326,163
18 November 2016	571,751	—	—	—	571,751
20 April 2017	1,580,534	—	526,837	5,000	1,048,697
27 June 2017	429,789	—	138,758	13,500	277,531
8 September 2017	556,500	—	—	17,250	539,250
17 November 2017	721,180	—	—	—	721,180
23 March 2018	909,798	—	227,444	15,000	667,354
23 August 2018	1,386,618	—	—	20,000	1,366,618
9 November 2018	355,000	—	—	130,000	225,000
20 March 2019	—	245,000	—	—	245,000
6 May 2019	—	215,482	—	—	215,482
<b>Total</b>	<b>9,234,127</b>	<b>460,482</b>	<b>1,767,983</b>	<b>266,587</b> <sup>(Note)</sup>	<b>7,660,039</b>

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

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.

## OTHER INFORMATION

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

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Period 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 six months ended 30 June 2019 were there rights to acquire benefits by means of the acquisition of shares in, or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

### COMPETING INTEREST

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 Period.

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

The Company had bought back the Shares on the Stock Exchange during the Period with details as follows:

Month of Purchase	Number of Shares		Price per Share		Total Paid HK\$
	Purchased	Highest Price Paid	Lowest Price Paid	HK\$	
April 2019	1,090,000	9.61	9.44	10,357,720	
May 2019	3,187,000	9.51	9.21	29,727,540	
June 2019	1,411,000	9.08	8.46	12,219,020	
<b>Total</b>	<b>5,688,000</b>			<b>52,304,280</b>	

## OTHER INFORMATION

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

### AUDIT COMMITTEE

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

The audit committee has reviewed the unaudited condensed consolidated financial report of the Group for the Period and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure in accordance with the Listing Rules has been made in respect thereof.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### 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.

## OTHER INFORMATION

- (ii) Equity Pledge Agreement: on 30 November 2007, Fuzhou Tianji and the Founders entered into an equity interest pledge agreement (as supplemented by supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into by the same parties, collectively the “**Equity Pledge Agreement**”), pursuant to which Fuzhou Tianji was entitled to exercise its rights to sell the Founders’ pledged interest in the registered capital of Fuzhou Tianmeng on the occurrence of certain specified events.
- (iii) Power of Attorney of Mr. Zongjian Cai: on 30 November 2007, Mr. Zongjian Cai issued a power of attorney (as supplemented by a supplemental power of attorney dated 16 September 2013 issued by Mr. Zongjian Cai, collectively the “**Power of Attorney of Mr. Zongjian Cai**”), pursuant to which Mr. Zongjian Cai authorised Fuzhou Tianji to exercise all the shareholders’ rights of Mr. Zongjian Cai in Fuzhou Tianmeng.
- (iv) Power of Attorney of Mr. Yuan Chi: on 30 November 2007, Mr. Yuan Chi issued a power of attorney (as supplemented by a supplemental power of attorney dated 16 September 2013 issued by Mr. Yuan Chi, collectively the “**Power of Attorney of Mr. Yuan Chi**” and together with the Power of Attorney of Mr. Zongjian Cai, the “**Power of Attorney**”), pursuant to which Mr. Yuan Chi authorised 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;

## OTHER INFORMATION

- (ii) The new loan agreement, pursuant to which, among others, the Group agreed to offer each of Mr. Deyang Zheng and Mr. Chengfeng Luo an interest-free loan in the sum of RMB5.255 million (equivalent to approximately US\$0.76 million) for the purpose of providing to the New Registered Holders the consideration under the Equity Transfer Agreement; and
- (iii) The tripartite agreement, pursuant to which, among others, the Group, 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 the Group.

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.



## OTHER INFORMATION

- (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.
- (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.

## OTHER INFORMATION

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.

### Contribution of the Structured Contracts to the Group

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

The tables below compare the number of games operated, game revenue and assets attributable to Fuzhou Tianmeng during the Period:

#### Number of games operated:

	Developed in-house As at 30 June 2019	Licensed
Fuzhou Tianmeng	1	1

#### Game revenue\*:

	Revenue attributable to the relevant entity For the six months ended 30 June 2019 US\$' 000	Percentage of the total revenue of the Group %
Fuzhou Tianmeng	36,474	10.3

\* Game revenue is from external customers.

#### Assets:

	Assets attributable to the relevant entity As at 30 June 2019 US\$' 000	Percentage of the total assets of the Group %
Fuzhou Tianmeng	49,753	11.1

## OTHER INFORMATION

### On-going reporting and approvals

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

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

- The Company confirms that in order to ensure the operation of the Structured Contracts, the Company has reviewed the overall performance and compliance with the Structured Contracts for the Period.
- The independent non-executive Directors will review 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 Structured Contracts.
- The Company has engaged KPMG as its auditor to perform procedures annually on the transactions contemplated under the Structured Contracts and the auditor will carry out procedures annually to ensure that no dividend has been distributed by Fuzhou Tianmeng to its equity holders which was not subsequently assigned or transferred to our Group and relevant transactions have received approval of the Board and were entered into in accordance with the terms of the Structured Contracts.
- The Group has not renewed and/or reproduced any of the framework of and terms and conditions similar to those of the Structured Contracts in relation to any existing or new wholly foreign-owned enterprise or operating company.
- Fuzhou Tianmeng has provided the Company's management and auditor with full access to relevant records for the purpose of the auditor's performance of review procedures on relevant transactions under the Structured Contracts.

### Regulatory Matters in Relation to the Structured Contracts

#### *FITE Regulations*

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “**FITE Regulations**”), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in basic telecommunications business and value-added telecommunications business. The foreign investor’s ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50% except in E-commerce, domestic multi-party communication, store and forward, call center, which can be operated by a wholly foreign-owned enterprise according to the Special Administrative Measure (Negative List) for the Access of Foreign Investment (2019). In addition, the FITE Regulations require a foreign investor to demonstrate a good track record and prior experience in providing value-added telecommunications services business before it can acquire any equity interest in a value-added telecommunications services business in the PRC (the “**Qualification Requirements**”). However, as advised by our PRC legal advisers, Jingtian & Gongcheng, as at the date of this report, there are no administrative or implementing rules in the PRC defining the term “a good track record and prior experience”. Our PRC legal advisers, Jingtian & Gongcheng, also advised the disclosures in the Prospectus with regard to the qualification requirements on the Group’s business stipulated under the provisions on FITE Regulations remain unchanged since the Listing Date and up to the date hereof.

The Group has been relying on our extensive experience in the overseas online game business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interests in Fuzhou Tianmeng when the restrictions on the percentage of foreign ownership in value-added telecommunications services and on foreign ownership in value-added telecommunication enterprises are lifted. Our PRC legal advisers, Jingtian & Gongcheng, advised that the Company has reasonably assessed the requirements under all applicable rules and committed financial and other resources in light of the Qualification 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.

#### *Foreign Investment Law*

On 15 March 2019, the second session of the 13th National People’s Congress voted to pass the Foreign Investment Law(外商投資法), which will come into force on 1 January 2020.

## OTHER INFORMATION

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

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

Since the Foreign Investment Law does not clarify whether the Structured Contracts are a form of Foreign Investment, and the Foreign Investment Law has not yet come 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 recognised as a form of Foreign Investment under the Foreign Investment Law. If when the Foreign Investment Law is in force, the Structured Contracts is recognised 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.

The Company confirms that if the Structured Contracts are required to be unwind or the Company is required to dispose the interests in Fuzhou Tianmeng in the future, it can engage other domestic publishers with the due qualifications and licenses to operate its online games in the PRC, which may adversely affect the Group’s operational and financial performance because engaging other domestic publishers may impose more costs to the Group. However, the Company expects that such adverse impact on the Group’s operational and financial performance will not be material considering that (1) the revenue and assets attributable to the Structured Contracts are about 10.3% and 11.1% respectively, and (2) there is no legal obstacle for Fuzhou Tianmeng to transfer its assets to Fuzhou Tianji or IGG Singapore, as the case maybe, a subsidiary of the Group.

## OTHER INFORMATION

During the Period, the Group has implemented the following measures to ensure the effective operation of the Structured Contracts and the Group's compliance with the Structured Contracts:

- major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- the Board will review the overall performance of and compliance with the Structured Contracts at least once a year;
- the Company will disclose the overall performance and compliance with the Structured Contracts in its annual/interim report to update the Shareholders and potential investors;
- the Directors will provide periodic updates in the annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations and the development of 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 Structured Contracts, review the legal compliance of Fuzhou Tianji and Fuzhou Tianmeng to deal with specific issues or matters arising from the Structured Contracts.

# REVIEW REPORT ON THE INTERIM FINANCIAL REPORT



## REVIEW REPORT TO THE BOARD OF DIRECTORS OF IGG INC

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

### INTRODUCTION

We have reviewed the interim financial report set out on pages 39 to 70 which comprises the consolidated statement of financial position of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) as of 30 June 2019 and the related consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The Directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

### SCOPE OF REVIEW

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

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

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

5 August 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June	
		2019 US\$' 000	2018 US\$' 000
<b>Revenue</b>	3	<b>354,666</b>	388,495
Cost of revenue		<u>(108,500)</u>	<u>(115,406)</u>
<b>Gross profit</b>		<b>246,166</b>	273,089
Other net income/(loss)		2,731	(2,545)
Selling and distribution expenses		(99,592)	(97,672)
Administrative expenses		(20,648)	(19,844)
Research and development expenses		(42,936)	(28,902)
Other operating expenses		(587)	(8)
Finance costs	4(a)	(239)	—
Share of results of associates and joint ventures		<u>(845)</u>	<u>(217)</u>
<b>Profit before taxation</b>	4	<b>84,050</b>	123,901
Income tax expenses	5	<u>(13,348)</u>	<u>(25,512)</u>
<b>Profit for the period</b>		<b><u>70,702</u></b>	<b><u>98,389</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		70,714	98,613
Non-controlling interests		<u>(12)</u>	<u>(224)</u>
<b>Profit for the period</b>		<b><u>70,702</u></b>	<b><u>98,389</u></b>
<b>Earnings per share</b>	6		
Basic		<u>US\$0.0562</u>	<u>US\$0.0754</u>
Diluted		<u>US\$0.0551</u>	<u>US\$0.0740</u>

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

The notes on pages 46 to 70 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 13.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2019 - unaudited

	Six months ended 30 June	
	2019	2018
	US\$' 000	US\$' 000
<b>Profit for the period</b>	<b>70,702</b>	<b>98,389</b>
<b>Other comprehensive income for the period, after tax</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of overseas subsidiaries	(1,235)	(2,312)
<b>Total comprehensive income for the period</b>	<b>69,467</b>	<b>96,077</b>
<b>Attributable to:</b>		
Equity shareholders of the Company	69,479	96,301
Non-controlling interests	(12)	(224)
<b>Total comprehensive income for the period</b>	<b>69,467</b>	<b>96,077</b>

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

The notes on pages 46 to 70 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 - unaudited

	Note	At 30 June 2019 US\$' 000	At 31 December 2018 US\$' 000
<b>Non-current assets</b>			
Property, plant and equipment	7	21,727	8,821
Intangible assets		799	461
Other non-current assets	8	27,679	2,182
Interest in associates and joint ventures		5,105	5,949
Other financial assets		43,349	44,075
		<u>98,659</u>	<u>61,488</u>
<b>Current assets</b>			
Inventories		337	280
Trade and other receivables	9	19,789	9,397
Funds receivable	10	52,203	40,701
Restricted deposits		5,255	—
Cash and cash equivalents	11	270,424	287,547
		<u>348,008</u>	<u>337,925</u>
<b>Current liabilities</b>			
Trade and other payables	12	48,394	41,409
Tax payables		35,623	44,705
Deferred revenue		29,502	31,564
Lease liabilities	2(d)	3,679	—
		<u>117,198</u>	<u>117,678</u>
<b>Net current assets</b>		<u>230,810</u>	<u>220,247</u>
<b>Total assets less current liabilities</b>		<u>329,469</u>	<u>281,735</u>
<b>Non-current liabilities</b>			
Lease liabilities	2(d)	8,384	—
Deferred tax liabilities		558	353
		<u>8,942</u>	<u>353</u>
<b>NET ASSETS</b>		<u>320,527</u>	<u>281,382</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2019 - unaudited

	Note	At 30 June 2019 US\$'000	At 31 December 2018 US\$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	13(b)	3	3
Reserves		<u>320,524</u>	<u>282,600</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<b>320,527</b>	282,603
<b>Non-controlling interests</b>		<u>—</u>	<u>(1,221)</u>
<b>TOTAL EQUITY</b>		<b><u>320,527</u></b>	<b><u>281,382</u></b>

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

The notes on pages 46 to 70 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019 - unaudited

Attributable to equity shareholders of the Company												
Note	Share capital US\$' 000	Share premium US\$' 000	Share-based payment reserve US\$' 000	Shares held for share award scheme US\$' 000	Share repurchased for cancellation US\$' 000	Statutory reserve US\$' 000	Other reserve US\$' 000	Exchange reserve US\$' 000	Retained profits US\$' 000	Total US\$' 000	Non-controlling interests US\$' 000	Total equity US\$' 000
<b>Balance at 31 December 2018 and 1 January 2019</b>	3	52,985	9,348	(19,948)	(2,682)	88	2,454	(4,996)	245,351	282,603	(1,221)	281,382
<b>Changes in equity for the six months ended 30 June 2019:</b>												
Profit for the period	—	—	—	—	—	—	—	—	70,714	70,714	(12)	70,702
Other comprehensive income	—	—	—	—	—	—	—	(1,235)	—	(1,235)	—	(1,235)
<b>Total comprehensive income</b>	—	—	—	—	—	—	—	(1,235)	70,714	69,479	(12)	69,467
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	1,233	1,233
Equity-settled share-based payment	—	—	2,166	—	—	—	—	—	—	2,166	—	2,166
Share purchased for the share award scheme	13(b)	—	—	(508)	—	—	—	—	—	(508)	—	(508)
Repurchase of ordinary shares	13(b)	—	—	—	(6,666)	—	—	—	—	(6,666)	—	(6,666)
Cancellation of ordinary shares	13(b)	—*	(8,555)	—	8,555	—	—	—	—	—	—	—
Exercise of share options	13(b)	—*	283	(70)	—	—	—	—	—	213	—	213
Vesting of awarded shares	13(b)	—	(309)	(1,260)	1,569	—	—	—	—	—	—	—
Dividends received for share award schemes	—	—	—	—	—	—	491	—	—	491	—	491
2018 second interim dividend paid	13(a)	—	—	—	—	—	—	—	(27,251)	(27,251)	—	(27,251)
<b>Balance at 30 June 2019</b>	<b>3</b>	<b>44,404</b>	<b>10,184</b>	<b>(18,887)</b>	<b>(793)</b>	<b>88</b>	<b>2,945</b>	<b>(6,231)</b>	<b>288,814</b>	<b>320,527</b>	<b>—</b>	<b>320,527</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2019 - unaudited

Attributable to equity shareholders of the Company												
Note	Share capital US\$'000	Share premium US\$'000	Share-based payment reserve US\$'000	Shares held for share award scheme US\$'000	Share repurchased for cancellation US\$'000	Statutory reserve US\$'000	Other reserve US\$'000	Exchange reserve US\$'000	Retained profits US\$'000	Total US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
<b>Balance at 31 December 2017</b>	3	125,435	7,981	(18,501)	(671)	88	1,577	(811)	114,072	229,173	(1,355)	227,818
Impact on initial application of IFRS 9	—	—	—	—	—	—	—	—	(4,901)	(4,901)	—	(4,901)
<b>Adjusted balance at 1 January 2018</b>	3	125,435	7,981	(18,501)	(671)	88	1,577	(811)	109,171	224,272	(1,355)	222,917
<b>Changes in equity for the six months ended 30 June 2018:</b>												
Profit for the period	—	—	—	—	—	—	—	—	98,613	98,613	(224)	98,389
Other comprehensive income	—	—	—	—	—	—	—	(2,312)	—	(2,312)	—	(2,312)
Total comprehensive income	—	—	—	—	—	—	—	(2,312)	98,613	96,301	(224)	96,077
Equity-settled share-based payment	—	—	2,522	—	—	—	—	—	—	2,522	—	2,522
Repurchase of ordinary shares 13(b)	—	—	—	—	(37,034)	—	—	—	—	(37,034)	—	(37,034)
Cancellation of ordinary shares 13(b)	*	(32,622)	—	—	32,622	—	—	—	—	—	—	—
Exercise of share options 13(b)	*	708	(198)	—	—	—	—	—	—	510	—	510
Vesting of awarded shares 13(b)	—	210	(1,756)	1,546	—	—	—	—	—	—	—	—
Dividends received for share award schemes	—	—	—	—	—	—	409	—	—	409	—	409
2017 second interim dividend paid 13(a)	—	—	—	—	—	—	—	—	(23,803)	(23,803)	—	(23,803)
<b>Balance at 30 June 2018</b>	3	93,731	8,549	(16,955)	(5,083)	88	1,986	(3,123)	183,981	263,177	(1,579)	261,598

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

The notes on pages 46 to 70 form part of this interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2019 - unaudited

	Six months ended 30 June	
	2019 US\$' 000	2018 US\$' 000
<b>Operating activities</b>		
Cash generated from operations	63,644	136,430
Income tax paid	(17,548)	(9,798)
<b>Net cash generated from operating activities</b>	<b>46,096</b>	<b>126,632</b>
<b>Investing activities</b>		
Payment for acquisitions of other financial assets	(2)	(2,000)
Investment in a joint venture	—	(1,209)
Payment for the purchases of property, plant and equipment and intangible assets	(3,660)	(1,908)
Deposit placed for acquisition of a property	(24,646)	—
Proceeds from disposal of property, plant and equipment	25	—
<b>Net cash used in investing activities</b>	<b>(28,283)</b>	<b>(5,117)</b>
<b>Financing activities</b>		
Capital element of lease rentals paid	(1,023)	—
Interest element of lease rentals paid	(239)	—
Dividends paid	(26,760)	(23,394)
Payments for repurchase of shares	(6,666)	(37,034)
Payments for purchase of shares for share award scheme	(508)	—
Proceeds from exercise of share options	213	510
<b>Net cash used in financing activities</b>	<b>(34,983)</b>	<b>(59,918)</b>
<b>Net change in cash and cash equivalents</b>	<b>(17,170)</b>	<b>61,597</b>
<b>Cash and cash equivalents at 1 January</b>	<b>287,547</b>	<b>221,892</b>
<b>Effect of foreign exchanges rates changes</b>	<b>47</b>	<b>(1,007)</b>
<b>Cash and cash equivalents at 30 June</b>	<b>270,424</b>	<b>282,482</b>

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

The notes on pages 46 to 70 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standard Board (“IASB”). The interim financial report was authorised for issue on 5 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of IGG Inc (the “Company”) and its subsidiaries (together the “Group”) since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The Company’s auditor has expressed an unqualified opinion on those financial statements in its report dated 6 March 2019.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES

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

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

### IFRS 16, Leases

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

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

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

#### (a) Changes in the accounting policies

##### (i) New definition of a lease

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

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

#### (a) *Changes in the accounting policies (Continued)*

##### (ii) Lessee accounting

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

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

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

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

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

(b) *Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies*

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) *Transitional impact*

At 1 January 2019, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.25%.

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

#### (c) Transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 16 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

#### (c) Transitional impact (Continued)

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

	Carrying amount at 31 December 2018 US\$' 000	Capitalisation of operating lease contracts US\$' 000	Carrying amount at 1 January 2019 US\$' 000
<b>Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:</b>			
Property, plant and equipment	8,821	12,514	21,335
<b>Total non-current assets</b>	<b>61,488</b>	<b>12,514</b>	<b>74,002</b>
Trade and other payables	41,409	(270)	41,139
Lease liabilities (current)	—	3,364	3,364
<b>Current liabilities</b>	<b>117,678</b>	<b>3,094</b>	<b>120,772</b>
<b>Net current assets</b>	<b>220,247</b>	<b>(3,094)</b>	<b>217,153</b>
<b>Total assets less current liabilities</b>	<b>281,735</b>	<b>9,420</b>	<b>291,155</b>
Lease liabilities (non-current)	—	9,420	9,420
<b>Total non-current liabilities</b>	<b>353</b>	<b>9,420</b>	<b>9,773</b>
<b>Net assets</b>	<b>281,382</b>	<b>—</b>	<b>281,382</b>

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 US\$' 000	At 1 January 2019 US\$' 000
Included in "Property, plant and equipment":		
Properties leased for own use, carried at depreciated cost	<u>11,337</u>	<u>12,514</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

#### (d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value		Present value	
	of the minimum lease payments	Total minimum lease payments	of the minimum lease payments	Total minimum lease payments
	US\$' 000	US\$' 000	US\$' 000	US\$' 000
Within 1 year	3,679	3,746	3,167	3,232
After 1 year but within 2 years	3,308	3,511	3,301	3,506
After 2 years but within 5 years	4,606	5,194	5,755	6,530
After 5 years	470	596	561	718
	<u>8,384</u>	<u>9,301</u>	<u>9,617</u>	<u>10,754</u>
	<u>12,063</u>	<u>13,047</u>	<u>12,784</u>	<u>13,986</u>
Less: total future interest expenses		<u>(984)</u>		<u>(1,202)</u>
Present value of lease liabilities		<u>12,063</u>		<u>12,784</u>

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

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

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

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

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019			2018	
			Deduct: Estimated amounts	Hypothetical amounts for	Compared to
Amounts reported under IFRS 16 (A) US\$' 000	Add back: IFRS 16 depreciation and interest expense (B) US\$' 000	related to operating lease as if under IAS 17 (C) US\$' 000	2019 as if under IAS 17 (D=A+B-C) US\$' 000	2019 as if under IAS 17 (D=A+B-C) US\$' 000	amounts reported for 2018 under IAS 17 US\$' 000
<b>Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:</b>					
<b>Profit from operations</b>	85,134	1,650	1,767	85,017	124,118
Finance costs	(239)	239	—	—	—
<b>Profit before taxation</b>	<b>84,050</b>	<b>1,889</b>	<b>1,767</b>	<b>84,172</b>	<b>123,901</b>
<b>Profit for the period</b>	<b>70,702</b>	<b>1,889</b>	<b>1,767</b>	<b>70,824</b>	<b>98,389</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

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

	2019			2018
	Amounts reported under IFRS 16 (A) US\$' 000	Estimated	Hypothetical	Compared to amounts reported for 2018 under IAS 17  US\$' 000
		amounts related	amounts for	
		to operating leases as if under IAS 17 (Note (i)& (ii)) (B) US\$' 000	2019 as if under IAS 17 (C=A+B) US\$' 000	
<b>Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:</b>				
Cash generated from operations	63,644	(1,262)	62,382	136,430
<b>Net cash generated from operating activities</b>	<b>46,096</b>	<b>(1,262)</b>	<b>44,834</b>	<b>126,632</b>
Capital element of lease rentals paid	(1,023)	1,023	—	—
Interest element of lease rentals paid	(239)	239	—	—
<b>Net cash used in financing activities</b>	<b>(34,983)</b>	<b>1,262</b>	<b>(33,721)</b>	<b>(59,918)</b>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES (Continued)

### IFRS 16, Leases (Continued)

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

Notes:

- (i) The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.
- (ii) In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

## 3 REVENUE AND OPERATING SEGMENT INFORMATION

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

For the six months ended 30 June 2019, substantially all revenue is generated from online games and recognised over time.

The Group’s customer base was diversified and no customer had transactions with the Group exceeding 10% of the Group’s aggregate revenue during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

(a) Revenues by geographical regions

	Six months ended 30 June	
	2019	2018
	US\$' 000	US\$' 000
Asia	153,689	182,179
North America	94,333	106,161
Europe	87,857	84,695
South America	10,286	6,654
Oceania	5,498	6,689
Africa	3,003	2,117
	<u>354,666</u>	<u>388,495</u>



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 3 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

### (b) Specified non-current assets

	At 30 June 2019 US\$'000	At 31 December 2018 US\$'000
Asia	16,221	5,773
North America	5,273	2,913
Others	233	135
	<u>21,727</u>	<u>8,821</u>

## 4 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	Six months ended 30 June	
	2019 US\$'000	2018 US\$'000
Interest on lease liabilities	239	—
	<u>239</u>	<u>—</u>

### (b) Staff costs

	Six months ended 30 June	
	2019 US\$'000	2018 US\$'000
Salaries, wages and other benefits	31,598	26,625
Equity-settled share-based payments expenses	2,166	2,522
Contributions to defined contribution retirement plans	1,150	814
	<u>34,914</u>	<u>29,961</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 4 PROFIT BEFORE TAXATION (Continued)

### (c) Other items

	Six months ended 30 June	
	2019	2018
	US\$' 000	US\$' 000
Channel cost	99,245	108,605
Depreciation		
– owned property, plant and equipment	1,544	1,146
– right-of-use assets	1,650	—
Amortisation	180	626
Net foreign exchange (gain)/loss	(1,025)	3,326
Fair value loss on investments	671	583
Impairment losses on trade and other receivables and funds receivable	64	31
(Gain)/loss on disposal of property, plant and equipment	(1)	5

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

## 5 INCOME TAX

	Six months ended 30 June	
	2019	2018
	US\$' 000	US\$' 000
Current tax - Singapore	12,905	23,353
Current tax - Others	238	2,151
Deferred taxation	205	8
	<u>13,348</u>	<u>25,512</u>

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

IGG Singapore Pte. Ltd. is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a concessionary tax rate of 10% on qualifying income derived during the six months ended 30 June 2019 (six months ended 30 June 2018: 10%).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 5 INCOME TAX (Continued)

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.

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

## 6 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of US\$70,714,000 (six months ended 30 June 2018: US\$98,613,000) and the weighted average of 1,259,124,000 ordinary shares (six months ended 30 June 2018: 1,307,865,000 ordinary shares) in issue during the interim period.

Weighted average number of ordinary shares (basic)

	Six months ended 30 June	
	2019	2018
	shares	shares
	'000	'000
Issued ordinary shares at 1 January	1,281,622	1,328,453
Effect of share award scheme	(22,259)	(22,084)
Effect of share options exercised	1,129	6,341
Effect of repurchase of ordinary shares	(1,368)	(4,845)
Weighted average number of ordinary shares (basic) at 30 June	<u>1,259,124</u>	<u>1,307,865</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 6 EARNINGS PER SHARE (Continued)

### (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\$70,714,000 (six months ended 30 June 2018: US\$98,613,000) and the weighted average number of ordinary shares of 1,282,471,000 (six months ended 30 June 2018: 1,332,290,000 ordinary shares) during the interim period, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2019	2018
	shares	shares
	'000	'000
Weighted average number of ordinary shares at 30 June	1,259,124	1,307,865
Effect of deemed issue of shares under the Company's share option scheme	15,346	17,713
Effect of deemed issue of shares under the Company's share award scheme	8,001	6,712
Weighted average number of ordinary shares (diluted) at 30 June	<u>1,282,471</u>	<u>1,332,290</u>

## 7 PROPERTY, PLANT AND EQUIPMENT

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

As discussed in note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of office premises, and therefore recognised the additions to right-of-use assets of US\$301,000.

### (b) Acquisitions of owned assets

During the six months ended 30 June 2019, the Group acquired items of leasehold improvements, computer equipment and office equipment with a cost of US\$3,124,000 (six months ended 30 June 2018: US\$1,646,000).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 8 OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent deposit placed for acquisition of a property and housing loans to employees and rental deposits.

## 9 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2019 US\$'000	At 31 December 2018 US\$'000
Within 3 months	423	456
3 to 6 months	365	246
6 months to 1 year	240	256
Trade debtors net of loss allowance	1,028	958
Prepayments	15,568	4,793
Deposits	191	914
Other receivables	3,002	2,732
	<u>19,789</u>	<u>9,397</u>

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.

## 10 FUNDS RECEIVABLE

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

As at 30 June 2019, all the funds receivable were aged within three months.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 11 CASH AND CASH EQUIVALENTS

	At 30 June 2019 US\$' 000	At 31 December 2018 US\$' 000
Cash at bank and in hand	263,355	274,121
Deposits with other financial institutions	<u>7,069</u>	<u>13,426</u>
Cash and cash equivalents in the statement of financial position and cash flow statement	<u><b>270,424</b></u>	<u><b>287,547</b></u>

## 12 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:

	At 30 June 2019 US\$' 000	At 31 December 2018 US\$' 000
Within 3 months	29,482	20,529
3 to 6 months	411	591
6 months to 1 year	96	133
Over 1 year	<u>200</u>	<u>184</u>
Total creditors	<b>30,189</b>	21,437
Salary and welfare payables	5,384	6,437
Other tax payables	7,019	6,658
Other payables and accruals (Note)	<u>5,802</u>	<u>6,877</u>
	<u><b>48,394</b></u>	<u><b>41,409</b></u>

Note:

On the date of transition to IFRS 16, accrued lease payments of US\$270,000 previously included in "Other payables and accruals" were adjusted to right-of-use assets recognised at 1 January 2019. See note 2.

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 UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 13 CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

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

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
Interim dividend declared after the interim period of HK13.0 cents per ordinary share (2018: HK17.7 cents per ordinary share)	<u>21,200</u>	<u>29,517</u>

The interim dividend 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 interim period

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
Second interim dividend in respect of the previous financial year, approved and paid during the period, of HK16.7 cents per ordinary share (2018: HK14.0 cents per ordinary share)	<u>27,251</u>	<u>23,803</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 13 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (b) Share capital and reserves

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

	Number of shares in issue	Issued capital US\$' 000	Share premium US\$' 000	Shares held for share award scheme US\$' 000	Shares repurchased for cancellation US\$' 000
At 1 January 2019	1,281,621,849	3	52,985	(19,948)	(2,682)
Vesting of awarded shares	—	—	(309)	1,569	—
Share options exercised (note 14)	1,645,450	—*	283	—	—
Share purchased for the share award scheme	—	—	—	(508)	—
Repurchase of ordinary shares	—	—	—	—	(6,666)
Cancellation of ordinary shares	(6,991,000)	—*	(8,555)	—	8,555
At 30 June 2019	<u>1,276,276,299</u>	<u>3</u>	<u>44,404</u>	<u>(18,887)</u>	<u>(793)</u>
At 1 January 2018	1,328,453,433	3	125,435	(18,501)	(671)
Vesting of awarded shares	—	—	210	1,546	—
Share options exercised (note 14)	8,319,250	—*	708	—	—
Repurchase of ordinary shares	—	—	—	—	(37,034)
Cancellation of ordinary shares	(21,868,000)	—*	(32,622)	—	32,622
At 30 June 2018	<u>1,314,904,683</u>	<u>3</u>	<u>93,731</u>	<u>(16,955)</u>	<u>(5,083)</u>

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

(i) During the six months ended 30 June 2019, the Company repurchased 5,688,000 shares on the Stock Exchange with an average price of approximately HK\$9.20 per share. The total amount paid on the repurchased shares was HK\$52,304,280 (equivalent to approximately US\$6,666,000).



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 13 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) 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.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the Group's total debt and the Group's gearing ratio changed from 29.6% to 31.7% on 1 January 2019 when compared to its position as at 31 December 2018.

The Group's gearing ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	At 30 June 2019 US\$' 000	At 1 January 2019 US\$' 000	At 31 December 2018 US\$' 000
Total current liabilities	117,198	120,772	117,678
Total non-current liabilities	8,942	9,773	353
	<u>126,140</u>	<u>130,545</u>	<u>118,031</u>
Total current assets	348,008	337,925	337,925
Total non-current assets	98,659	74,002	61,488
	<u>446,667</u>	<u>411,927</u>	<u>399,413</u>
Gearing ratio	<u>28.2%</u>	<u>31.7%</u>	<u>29.6%</u>

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 14 SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

### Pre-IPO Share Option Scheme

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

	<u>Six months ended 30 June 2019</u>		<u>Six months ended 30 June 2018</u>	
	<b>Weighted average exercise price US\$</b>	<b>Number of options</b>	<b>Weighted average exercise price US\$</b>	<b>Number of options</b>
Outstanding at the beginning of the period	0.0722	13,782,000	0.0630	22,381,000
Exercised during the period	0.0643	(1,449,200)	0.0463	(8,021,000)
Forfeited during the period	—	—	—	—
Outstanding at the end of the period	0.0731	<u>12,332,800</u>	0.0723	<u>14,360,000</u>
Exercisable at the end of the period	0.0731	<u>12,332,800</u>	0.0723	<u>14,360,000</u>

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

<b>At 30 June 2019</b>		
<b>Number of options</b>	<b>Exercise price per share US\$</b>	<b>Exercise period</b>
51,000	0.0500	since IPO to 31-07-2019
4,825,500	0.0525	since IPO to 20-04-2021
20,000	0.0525	since IPO to 02-05-2021
350,500	0.0865	since IPO to 13-08-2021
785,000	0.0865	since IPO to 14-01-2022
3,625,000	0.0865	since IPO to 20-05-2022
2,675,800	0.0865	since IPO to 30-03-2023
<u>12,332,800</u>		

As at 30 June 2019, the Pre-IPO share options outstanding had a weighted average remaining contractual life of 2.96 years (31 December 2018: 3.43 years).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

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

### Post-IPO Share Option Scheme

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

	Six months ended 30 June 2019		Six months ended 30 June 2018	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the period	5.45	7,369,750	4.79	7,569,666
Granted during the period	—	—	12.14	540,000
Exercised during the period	4.85	(196,250)	3.72	(298,250)
Forfeited during the period	9.23	(130,000)	5.47	(20,000)
Outstanding at the end of the period	5.40	7,043,500	5.34	7,791,416
Exercisable at the end of the period	4.50	6,036,000	4.17	4,873,666

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

At 30 June 2019	Exercise price per share HK\$	Exercise period
Number of options		
100,000	5.47	11-08-2015 to 10-08-2024
517,000	3.51	21-11-2015 to 20-11-2024
3,734,834	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
540,000	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>7,043,500</u>		

As at 30 June 2019, the Post-IPO share options outstanding had a weighted average remaining contractual life of 6.28 years (31 December 2018: 6.72 years).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

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

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

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 period was HK\$10.88 (six months ended 30 June 2018: HK\$9.59). Share options exercised under Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme during the six months ended 30 June 2019 resulted in the issuance of 1,645,450 (six months ended 30 June 2018: 8,319,250) ordinary shares of the Company and share premium of US\$283,000 (six months ended 30 June 2018: US\$708,000), as further detailed in note 13 to the financial statements.

### Share award scheme

The share award scheme of the Company was adopted by the Board on 24 December 2013. The 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 six months ended 30 June 2019 are as follows:

	Number of shares held for the share award scheme not yet granted	Number of awarded shares granted but not yet vested	Total
At 1 January 2019	13,439,428	9,234,127	22,673,555
Purchased*	385,000	—	385,000
Granted	(460,482)	460,482	—
Forfeited	266,587	(266,587)	—
Vested	—	(1,767,983)	(1,767,983)
At 30 June 2019	<u>13,630,533</u>	<u>7,660,039</u>	<u>21,290,572</u>

\* During the year ended 31 December 2018, the Company purchased a total of 3,880,000 shares of the share award scheme, among which 385,000 shares were settled and transferred to the Company's shares held for the share award scheme during this period.

The weighted average fair value of awarded shares granted during the six months ended 30 June 2019 was HK\$10.26 per share.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### (a) Financial assets and liabilities measured at fair value

#### (i) 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 classified under financial assets measured at FVPL are measured based on Level 3 valuations.

#### (ii) Information about Level 3 fair value measurements

The fair value of unquoted equity investments is determined with reference to latest available financial information of the investees, adjusted by market multiples when applicable.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
Unquoted equity investments:		
At 1 January	44,075	11,770
Transferred to retained earnings relating to financial assets now measured at FVPL	—	(4,827)
Additional investments acquired	2	2,000
Fair value loss on investments	(671)	(583)
Exchange adjustments	(57)	(50)
At 30 June	<u>43,349</u>	<u>8,310</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 30 June 2019.

## 16 OPERATING LEASE COMMITMENTS

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

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

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

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in US dollars unless otherwise indicated)

## 17 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

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

	Six months ended 30 June	
	2019	2018
	US\$' 000	US\$' 000
Short-term employee benefits	2,195	4,380
Equity-settled share-based payment	4	23
	<u>2,199</u>	<u>4,403</u>

Total remuneration is included in "staff costs" (see note 4(b)).

### (b) Other transactions with related parties

For the six months ended 30 June 2019, 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 six months ended 30 June 2019 was US\$1,937,000 (six months ended 30 June 2018: US\$902,000), and the balance of prepayment as at 30 June 2019 was US\$482,000 (31 December 2018: US\$1,089,000).

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

## 18 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In July 2019, the Group completed the acquisition of a property and the property management company in Italy. The total consideration for the acquisition was approximately Euro20,100,000, equivalent to approximately US\$22,855,000.

## 19 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

## DEFINITION

“3D”	three-dimensional
“Board” or “Board of Directors”	the board of Directors of the Company
“Business day(s)”	a day on which banks in Hong Kong and the Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or the Cayman Islands
“BVI”	British Virgin Islands
“China” or “PRC”	the People’s Republic of China, for the purpose of this interim report, excluding Hong Kong, Macau and Taiwan
“Company”	IGG Inc, an exempted company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“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 the Listing Rules
“Director(s)”	the director(s) of the Company
“Duke Online”	Duke Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Zongjian Cai
“Edmond Online”	Edmond Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Yuan Chi
“Euro”	the common basic monetary unit of the European Union
“Founders”	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)
“Fuzhou Tianji”	Fuzhou TJ Digital Entertainment Co., Ltd (福州天極數碼有限公司), a limited liability company established under the laws of the PRC on 15 November 2007, a wholly-owned subsidiary of the Group
“Fuzhou Tianmeng”	Fuzhou Skyunion Digital Co., Ltd (福州天盟數碼有限公司), a limited liability company established under the laws of the PRC on 12 December 2006, which is owned as to 50% by Mr. Deyang Zheng and 50% by Mr. Chengfeng Luo, respectively
“Group”, “IGG”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“IGG Singapore”	IGG Singapore Pte. Ltd., a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of the Company
“Listing”	the listing of the Shares on the GEM
“Listing Date”	18 October 2013, on which dealings in Shares first commence on the GEM



## DEFINITION

“Listing Rules”	the Rules Governing the Listing of the Securities on the Stock Exchange
“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 Registered Holders”	Mr. Deyang Zheng (鄭德陽) and Mr. Chengfeng Luo (羅承鋒)
“PC”	personal computer
“Period”	the six months ended 30 June 2019
“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
“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
“Shareholder(s)”	the shareholder(s) 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
“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
“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
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“U.S. dollar(s)” or “US\$” or “USD” and “US cents”	United States dollars and cents, respectively, the lawful currency of the United States of America
“%”	per cent

\* If there is any inconsistency between the English and Chinese texts of this report, the English text of this report shall prevail over the Chinese text.