2013 ANNUAL REPORT

IGG INC

Incorporated in the Cayman Islands with limited liability

Stock code: 8002

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Xiaojun Li
Mr. Kee Lock Chua

Independent Non-executive Directors

Dr. Horn Kee Leong
Mr. Dajian Yu
Ms. Zhao Lu

BOARD COMMITTEES

Audit Committee

Dr. Horn Kee Leong *(Chairman)*
Mr. Xiaojun Li
Mr. Kee Lock Chua
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 member of The Hong Kong Institute of Chartered Secretaries)*

AUTHORISED REPRESENTATIVES

Mr. Zongjian Cai
Ms. Jessie Shen
Ms. Yin Ping Yvonne Kwong

COMPLIANCE OFFICER

Mr. Yuan Chi

REGISTERED OFFICE

Offshore Incorporations (Cayman) Limited
Floor 4, Willow House, Cricket Square
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Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

CORPORATE INFORMATION

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Ernst & Young

LEGAL ADVISER AS TO HONG KONG LAWS
Orrick, Herrington & Sutcliffe

LEGAL ADVISER AS TO PRC LAWS
Jingtian & Gongcheng

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Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
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www.igg.com

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PRC

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

INVESTOR RELATIONS CONSULTANTS
Hill and Knowlton Asia Limited

COMPLIANCE ADVISOR
China Everbright Capital Limited
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

CHAIRMAN'S STATEMENT

On behalf of the Board of IGG Inc, I am pleased to present to you the annual report of the Group for the year ended 31 December 2013.

HISTORICAL REVIEW AND SUCCESSFUL TRANSFORMATION

Established in 2006, the Group began its legacy by introducing a number of China's indigenous client-based role-playing games to the international market over a two-year span. In 2008, "GodsWar," the Group's first in-house title, quickly gained traction with gamers following its release. This early victory laid the foundation for us to become a development powerhouse, launching six browser-based titles throughout 2011 — including the massively popular "Galaxy Online II", "Texas HoldEm Poker Deluxe," and release of the browser-version "GodsWar" in over ten countries throughout North America, Europe, and Southeast Asia. Following the "Year of the Browser Game" in 2011, we shifted to a new multi-platform strategy with an iOS release of "Texas HoldEm Poker Deluxe," a bold experiment that led to a record-setting revenue year of over USD30 million. In 2012, the debut of newer MMORPG titles like "Wings of Destiny" and multi-lingual versions of our more established games made way for an even greater revenue year of USD40 million.

Beyond revenue growth, our greatest gain from these tumultuous years is the ability to stay abreast of the incessant flux of gaming market trends. The explosive growth of today's mobile gaming market — a far departure from the pen-and-paper games and the MMORPG era of yesteryear — has demonstrated exactly how dynamic this realm can be. Thanks to the Group's unyielding global vision, we are fortunate to have fostered a highly adaptable corporate structure and a dynamic culture that has been instrumental to our continual global success. Furthermore, the strategic insight of our senior executive team was paramount to the Group's remarkable transformation from a client-based game publisher to a titan of the mobile gaming market.

IGG IN THE MOBILE GAMING SPACE

The portability of mobile devices and the diverse genre of on-the-go games have resulted in a massive shift in player behavior and preferences. With a growth rate of approximately 31%, the number of global smartphone users reached 1.5 billion in 2013[1], an incredible feat that offered developers unprecedented access to traditionally impenetrable markets and amounted to a global revenue of USD12.3 billion[2]. It is irrefutable that, with the improvement of hardware performance and the profound lifestyle changes that now define the digital entertainment playing field, mobile gaming has become the central focus of developers while sparking heated discussions amongst players and critics alike.

Despite the growing popularity of smartphone and tablet gaming, success is not as easily attainable as it may seem. Thousands of newly-developed mobile titles flood the market each month while only top-ranking games remain visible to app store patrons; and as the market progressively matures, the revenue and market share gap between high- and low-quality games will become increasingly apparent.

Recognising the immense implications of this movement, the Group has been determined to succeed within the mobile gaming market by initiating a comprehensive and thorough transformation of the Company in mid-2012. By June 2013, six in-house developed mobile games — including the top ranking casino game, "Slot Machines by IGG" — have been launched globally in five different languages. The major turning point arrived with the launch of "Castle Clash" in July 2013, whose unprecedented success marked a brand-new chapter in the Group's mobile gaming business. As recorded in AppAnnie's top grossing Google Play list as at 31 December 2013, "Castle Clash" ranked in the top ten in 31 countries and top five in 13 countries, grossing over USD28 million in just under six months.

Success like this is no accident. We believe that innovative research and development, effective marketing, high-quality localization, region-sensitive global operations, and multilingual, 24-hour customer service bound together by a healthy and vibrant corporate culture centered around equality, openness, and versatility are indispensable qualities of a trailblazing organization. It is precisely this winning combination that has driven the Group to its current successes and will go on to guide us to new frontiers.

PROGRESSION IN THE CHINESE MARKET

In 2013, roughly 580 million Chinese citizens owned a smartphone, accounting for 80% of Chinese internet users. Within the same year, the revenue from the mobile gaming industry amounted to RMB14.8 billion and accounted for 16.7% of the Chinese online gaming market. It's expected that in 2014, the market share of mobile gaming will surpass its browser-based counterpart[3]. To provide some perspective, it took 5 and 7 years respectively for the browser and client-based gaming industries to break beyond a RMB10 billion turnover, while the mobile industry accomplished this feat in merely 2 years. As smartphones become more affordable, operating systems advance in sophistication, and 4G networks gain greater coverage, the mobile device market will become an even greater force to be reckoned with. Meanwhile, it has gradually become clear that China's mobile game operating platforms will be in a state of oligopolistic competition and will be dominated by a few powerful participants.

Unlike our domestic competitors, the Group's focus on the overseas market has allowed for steady and healthy development abroad — a trajectory that now proves immensely favorable in forging strong partnerships with leading domestic platforms. Besides, a healthy and superior platform must continue to showcase game-changing titles in order to maintain engagement and retention for old and new users. Otherwise, the surge in revenue is merely transient and the platform may buckle under the competition. From our perspective, solid growth and sustainable profitability can only be attained by bonding market-proven games with top-performing platforms.

FUTURE PROSPECTS

Sociability has been the nature of internet since its naissance. Looking deeper, greater adoption of social network has also led to demand for greater specialization and segmentation for niche markets. A group's sense of connection is generated from common habits and similar behaviors among the group members. That's why several emerging social applications with key function and clear market segmentation such as Snapchat have quickly become popular. The social network magnates had to allocate resources in instant messaging in 2013 to cope with the challenges.

Having operated and developed games both on and off popular social networks, we recognise that the ability for users to connect and communicate with each other is a central part to building a successful and enduring platform. By creating meaningful and engaging experiences for our players, the provision of effective social networking services will actively extend product life cycles and organically attract new users. To achieve this, we will proactively seek potential mergers and acquisition opportunities for platform cooperation in the domestic and overseas markets, all while developing an in-house platform of our own.

Finally, as a content provider, the Group is devoted to providing high quality games and better experiences for all users. Over the next year, the Group intends to launch approximately 15 to 20 new games while sharpening our abilities in game design, graphic quality, localization, and customer service. Looking forward, we will continue to deliver a diverse portfolio of first-class games to the overseas markets overseen by our sophisticated operating teams. For the Chinese market, we will focus on collaborating with and providing content for dominant mobile platforms. Based on past accomplishments and promising prospects for the coming year, we are confident that the Group will achieve further success in face of growing competition.

Notes:

1. Mary Meeker: 2013 Internet Trends Report;
2. Newzoo: Global Games Trend Report 2012-2016;
3. iResearch: '2013年中國互聯網經濟核心數據發佈', '2013-2017年中國網絡游戲市場數據及預測'.

Zongjian Cai
Chairman and Executive Director
21 March 2014

BUSINESS REVIEW

The Group is a fast-growing global online games (especially mobile games) developer and operator with headquarters in Singapore and regional offices in the United States, China, Canada and the Philippines. The Group offers multi-language mobile games, browser games and client-based games to players around the world. In addition to the Group's international presence, the Group places most of its development personnel in China, which allows the Group to leverage cost advantage and develop its games in a cost-effective manner.

During the year ended 31 December 2013, the global game industry remained highly competitive. In pursuance of the overall corporate strategy of the Group for the year, the Group continued to focus on (i) mobile games development, and (ii) global marketing and operation of the games of the Group.

Successful migration to mobile games

During the year ended 31 December 2013, the Group, based on its strong game research and development capabilities and spirit of continuous innovation, kept on developing new games. To capture the explosive opportunities in global mobile games, the Group has shifted more than 80% of its research and development force to mobile game development. 14 mobile games were launched during the year ended 31 December 2013.

Revenue from mobile games accounted for approximately 49.7% of the total revenue for the year ended 31 December 2013, comparing to 5.1% from the year ended 31 December 2012. Especially, in July 2013, we launched "Castle Clash", which is a fast-paced tower defense game and quickly rose in popularity to become a top ten game in 31 countries and regions and a top five game in 13 countries and regions in terms of daily revenue as at 31 December 2013, according to Appannie.com, an independent third party provider of mobile application analytics. During the year ended 31 December 2013, the revenue of "Castle Clash" derived from Google Play, iOS and other systems were US$25.5 million, US$2.9 million and US$0.5 million, respectively, totaled US$28.9 million and accounted for approximately 66.1% of the total revenue from mobile games. The MAU (monthly active users: the number of individuals who login to a particular game during the 30-day period ending with the measurement date) for this game was approximately 8.9 million as at 31 December 2013.

The games which are important to the Group's business during the year ended 31 December 2013 are as follows:

Castle Clash

Castle Clash is a mobile tower defense game that was launched in July 2013, featuring a lively game layout with a mix of fast-paced strategy and combat features. Players can hire legions of powerful heroes in their quest to become the world's greatest warlords and arm their towns and cities and summon heroes, such as elves, dwarves, beasts and robots to form formidable mercenary armies. The mercenary armies must be mobilized and utilise resources to fight against evil forces. Players can also select certain heroes to help them guard their towns and territories. As at 31 December 2013, this game was available in 13 different languages, including Chinese, English, German, French, Japanese, Spanish, Russian, Thai, Italian, Korean, Indonesian, Portuguese and Turkish.

Texas HoldEm Poker Deluxe

We have both browser and mobile versions of Texas HoldEm Poker Deluxe. The browser version was launched on Facebook in December 2010, and the mobile version, our first in-house developed mobile game, was launched on Apple App Store in October 2011 and on Google Play in January 2012. The game is currently offered in English, German, French, Spanish, Thai, Portuguese, Japanese, Turkish, Russian, and Chinese. Players have the option to play at any table, either electing to meet and play with new people from around the world or join friends in a personalized setting. Players interact with each other by chatting and sending and receiving virtual gifts, including poker chips. Texas HoldEm Poker Deluxe offers players a virtual casino, where players worldwide can join their friends to play with.

Slot Machines by IGG

Slot Machines by IGG is an exciting, top of the line mobile casino app that was launched on Google Play and the Apple App Store in May and July 2013, respectively. Featuring diverse game modes and dozens of unique themes, Slot Machines seamlessly fuses competitive gaming and classic casino fun with dazzling graphics, fast-paced tournaments, and whimsical Bonus Games. Available in English, French, German, Russian and Japanese, Slot Machines is beloved by casino fans all over the world.

Clash of Lords

Clash of Lords is a fantasy mobile tower defense game that was launched in July 2013. It is set against a medieval background in which ancestors of various tribes and clans around the world defend against the attacks carried out by the certain evil forces in order to protect their own ancient magic crystal stones. Each player can learn to collect, distribute and use the magic crystal stones, and lead his own tribe to defeat the evil forces.

From the beginning of 2014 to the date of this report, we have launched 7 mobile games, among which, 3 mobile games were developed in-house and 4 mobile games were licensed from independent third parties.

Global presence

During the year ended 31 December 2013, the Group continued to generate a substantial portion of revenue from players with IP addresses in more than 180 countries. Development and distribution of the games was demonstrated by the strong game development capability and successful multi-language game design and marketing strategy of the Group. As at 31 December 2013, the player community of the Group consisted of over 120 million player accounts around the world, including a total MAU of approximately 13.1 million. For the year ended 31 December 2013, 38.7%, 22.9% and 29.5% of the total revenue of the Group was generated from players with IP addresses in North America, Europe and Asia, respectively.

As of the fourth quarter ended 31 December 2013, according to Distimo.com, an independent third party provider of mobile application analytics, the Group ranked among top 10 over 26 countries in terms of quarterly gross sales generated at Google Play.

Prospects

To further expand the business in the Chinese market, on 7 January 2014, the Group entered into a cooperation agreement with Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) ("Tencent"), a subsidiary of Tencent Holdings Limited, a listed company on the Stock Exchange, to grant the exclusive right to Tencent for the marketing, promotion and operation of such mobile game, "Castle Clash" (simplified Chinese version) on the Tencent mobile game platform in China. Please refer to the announcement of the Company dated 8 January 2014 for further details. The Group foresees our growth in the Chinese market from this cooperation.

In the first quarter of 2014, the Group has incorporated two subsidiaries in Canada to engage in mobile game development and mobile advertising business, respectively. It is believed that incorporation of these subsidiaries will facilitate the diversification of the Group's business scope, reinforce the Group's competitiveness in the mobile game market and strengthen the Group's global reputation.

To cater for the diversified preferences of game players around the world, the Group will continue to license high quality mobile games from independent third-party developers for releasing in the global market.

The Group will make greater efforts to strengthen long-term partnerships with Apple Store, Google Play, as well as more than 40 other game promotional platforms to execute its global marketing strategy in an effective manner.

Besides, the Group will continue to seek potential mergers and acquisitions opportunities to explore business breakthrough and create synergy for further development.

COMPARISON BETWEEN BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from 11 October 2013 (date of Prospectus) to 31 December 2013 is set out below:

Business objectives for the period from 11 October 2013 to 31 December 2013 as stated in the Prospectus	**Actual business progress for the period from 11 October 2013 to 31 December 2013**
Continue the promotion of existing or new online games on various Internet application platforms, social network platforms and other online game promotional platforms.	The Group has increased its advertising campaigns for the major games on various online game promotional platforms.
Acquisition of/investment in online game developers	The Group has not yet acquired any company.
Enhance and diversify the game development capabilities	The Group has recruited more game developing personnel in the PRC and Singapore to further empower and diversify our game development capabilities.
Working capital and other general corporate purposes	The Group has spent its working capital in its day-to-day operations and other general corporate purposes.

USE OF PROCEEDS FROM THE PLACING

The net proceeds from the Company's Placing in October 2013, after deducting underwriting commission and expenses in connection with the Placing, were approximately US$105.0 million. After the Listing, these proceeds were used for the purposes in accordance with the future plans and prospects as set out in the Prospectus.

An analysis of the utilisation of the net proceeds from the Placing and the unused amount as at 31 December 2013 is set out below:

	Net proceeds from the Placing US$'000	Utilised amount as at 31 December 2013 US$'000	Unutilised amount as at 31 December 2013 US$'000
1. Continue the promotion of existing or new online games on various Internet application platforms, social network platforms and other online game promotional platforms.	36,759.1	3,475.8	33,283.3
2. Acquisition of/investment in online game developers.	36,759.1	Nil	36,759.1
3. Enhance and diversify the game development capabilities.	21,000.5	1,290.4	19,710.1
4. Working capital and other general corporate purposes.	10,500.3	645.2	9,855.1
Total	105,019.0	5,411.4	99,607.6

KEY FINANCIAL INFORMATION

	Year ended 31 December	
	2013 US$' 000	2012 US$' 000
Revenue	87,986	43,154
Profit (loss) before tax	8,261	(12,946)
Profit (loss) for the year attributable to owners of the parent	6,948	(13,435)
Adjusted profit*	21,115	7,177

* Adjusted profit represented profit excluding the fair value loss of the redeemable convertible Preferred Shares; 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.

FINANCIAL REVIEW

The Group witnessed a considerable growth of revenue and continued to benefit from steady profitability. During the year ended 31 December 2013, the Group recorded the revenue of approximately US$88.0 million and gross profit of approximately US$65.7 million, achieving growth rate of approximately 103.7% and 100.3%, respectively, as compared to those for the year ended 31 December 2012, respectively. The adjusted profit of the Group for the year ended 31 December 2013 amounted to approximately US$21.1 million, excluding the fair value loss of the redeemable convertible Preferred Shares, representing an approximately 193.1% growth comparing with that for the year ended 31 December 2012.

REVENUE

The Group's revenue for the year ended 31 December 2013 was approximately US$88.0 million, representing an increase of approximately 103.7% over US$43.2 million for the year ended 31 December 2012, primarily due to (i) a significant increase in the revenue generated from the mobile games, mainly attributable to the hit title — "Castle Clash", which was launched in July 2013, (ii) an increase in the revenue generated from the in-house developed game "Wings of Destiny", and (iii) an increase in the revenue generated from the joint operation of several games of the Group.

Revenue by operating segments and game types

The following table sets out the breakdown of the revenue by game types for the years ended 31 December 2013 and 31 December 2012, respectively:

	Year ended 31 December			
	2013		2012	
	US$'000	**%**	US$'000	%
Games operated by us				
Mobile games	**43,717**	**49.7**	2,192	5.1
Browser games	**35,889**	**40.8**	32,627	75.6
Client-based games	**5,645**	**6.4**	6,991	16.2
Joint operation	**2,501**	**2.8**	796	1.8
Games licensing	**234**	**0.3**	548	1.3
Total	**87,986**	**100.0**	43,154	100.0

Revenue by geographical markets

The following table sets forth a breakdown of the revenue by geographical markets based on IP location of the players for the years ended 31 December 2013 and 31 December 2012, respectively:

	Year ended 31 December			
	2013		2012	
	US$'000	**%**	US$'000	%
North America	**34,038**	**38.7**	14,587	33.8
Asia	**26,017**	**29.5**	13,582	31.5
Europe	**20,128**	**22.9**	10,532	24.4
Oceania	**4,215**	**4.8**	2,297	5.3
South America	**3,263**	**3.7**	2,032	4.7
Africa	**325**	**0.4**	124	0.3
Total	**87,986**	**100.0**	43,154	100.0

Revenue by games

The following table sets forth a breakdown of the revenue by games for the years ended 31 December 2013 and 31 December 2012, respectively:

	Year ended 31 December			
	2013		2012	
	US$'000	**%**	US$'000	%
Castle Clash	**28,926**	**32.9**	—	—
Galaxy Online II	**17,469**	**19.9**	21,319	49.4
Texas HoldEm Poker Deluxe	**11,608**	**13.2**	4,727	10.9
Wings of Destiny	**10,001**	**11.4**	1,487	3.4
Godswar	**5,031**	**5.7**	6,728	15.6
Slot Machines by IGG	**3,568**	**4.0**	—	—
Clash of Lords	**978**	**1.1**	—	—
Others	**10,405**	**11.8**	8,893	20.7
Total	**87,986**	**100.0**	43,154	100.0

Cost of sales

The Group's cost of sales for the year ended 31 December 2013 was approximately US$22.3 million, representing an increase of approximately 114.4% over US$10.4 million for the year ended 31 December 2012, primarily due to the increase of channel costs paid to the payment channel providers for their payment channel service as a result of the expansion of mobile game business.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2013 was approximately US$65.7 million, representing an increase of approximately 100.3% over US$32.8 million for the year ended 31 December 2012, primarily due to the increase in revenue, especially the revenue generated from the mobile games.

The Group's gross profit margin for the year ended 31 December 2013 was approximately 74.7%, representing a decrease by approximately 1.2% over 75.9% for the year ended 31 December 2012, primarily due to the increase of costs in relation to the mobile games.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 December 2013 were approximately US$23.2 million, representing an increase of approximately 91.7% over US$12.1 million for the year ended 31 December 2012, primarily due to the significant increase of advertising campaign expenses incurred for the mobile games, especially "Castle Clash", as well as the increase of advertising and promotion expenses for "Slot Machines by IGG", "Clash of Lords" and "Freesky II".

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2013 were approximately US$10.9 million, representing an increase of approximately 53.5% over US$7.1 million for the year ended 31 December 2012, primarily due to (i) one-off listing expenses of approximately US$2.1 million; (ii) the increase of salaries and performance-based bonus paid to an enlarged team of administrative staff; and (iii) the increase in expenses related to the share options granted to administrative staff.

Research and development costs

The Group's research and development costs for the year ended 31 December 2013 were approximately US$9.3 million, representing an increase of approximately 47.6% over US$6.3 million for the year ended 31 December 2012, primarily due to (i) the increase of staff expenses, including salaries and performance-based bonus payable to our game developing personnel and expenses relating to recruitment of more staff to cope with our business expansion; (ii) the increase in share option expenses in relation to game developing employees; and (iii) the increase in research and development outsourcing expenses.

Income tax expense

The Group's income tax expense for the year ended 31 December 2013 was approximately US$1.3 million, representing an increase of approximately 550% over US$0.2 million for the year ended 31 December 2012, primarily attributable to the significant increase of profit before tax.

CAPITAL EXPENDITURES

As a game development and operation company, the Group's capital expenditures were mainly related to purchases of property, plant and equipment such as servers, computer equipments and intangible assets, such as software and trademark. Capital expenditures for the years ended 31 December 2013 and 2012 are set forth as below:

	Year ended 31 December	
	2013	2012
	US$'000	US$'000
Purchase of property, plant and equipment	**940**	658
Purchase of intangible assets	**46**	112

CAPITAL COMMITMENT

Except for the operating lease commitment, the Group had no capital commitment as at 31 December 2013. Our operating lease commitment as at 31 December 2013 was US$2.2 million (31 December 2012: US$3.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, we had net current assets of approximately US$133.7 million, as compared to the net current liabilities of approximately US$57.8 million as at 31 December 2012.

As at 31 December 2013, we had cash and cash equivalents of approximately US$135.5 million (31 December 2012: approximately US$15.1 million).

Our Group did not have any bank borrowings or other financing facilities during the year. The table below sets forth selected cash flow data from our consolidated statement of cash flows:

	2013 US$'000	2012 US$'000
Net cash flows from operating activities	**18,458**	9,748
Net cash flows used in investing activities	**(10,953)**	(863)
Net cash flows from financing activities	**102,856**	42
NET INCREASE IN CASH AND CASH EQUIVALENTS	**110,361**	8,927
Cash and cash equivalents at beginning of year as stated in the consolidated statement of cash flows	**15,135**	6,248
Effect of foreign exchange rate changes, net	**(8)**	(40)
Cash and cash equivalents at end of year as stated in the consolidated statement of cash flows	**125,488**	15,135
Add: Time deposits with original maturity of over three months	**10,000**	—
Cash and cash equivalents as stated in the consolidated statement of financial position	**135,488**	15,135

Operating activities

Net cash flows from operating activities increased from US$9.7 million in 2012 to US$18.5 million in 2013, which was primarily attributable to (i) the operating cash inflows before charges in working capital of US$24.2 million (2012: US$9.1 million); and (ii) changes in working capital represented decreased of cash of US$5.9 million (2012: increase of US$0.6 million).

Investing activities

Net cash flows used in investing activities was US$11.0 million in 2013, representing an increase by US$10.1 million compared to 2012. The increase was primarily attributable to an increase of investments in time deposits with original maturity of over three months, which was in line with the Group's treasury management strategy to earn a higher return on cash.

Financing activities

The significant increase in net cash flows from financing activities by approximately US$102.9 million was primarily attributable to the net proceeds from the Listing.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. 11.7% of the sales are denominated in currencies other than the functional currency of the operating units making the sales for the year ended 31 December 2013 (31 December 2012: 24.5%). The Group currently does not have hedging policy in respect of the foreign currency risk. However, our management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, we are not exposed to any significant foreign currency exchange risk in our operation.

GEARING RATIO

As at 31 December 2013, the gearing ratio of the Group, calculated as total liabilities, excluding the redeemable convertible Preferred Shares, divided by total assets, was 10.3% (31 December 2012: 50.0%).

CAPITAL STRUCTURE

The Shares of the Company were listed on GEM of the Stock Exchange on 18 October 2013. The capital structure of the Company comprised ordinary Shares.

PREFERRED SHARES AND CONVERSION

The Group issued Series A Preferred Shares and Series A-1 Preferred Shares on 30 November 2007 and Series B Preferred Shares subsequently on 12 November 2008 to certain corporate investors, which were measured at fair value. The Preferred Shares have been classified as financial liability at fair value. The initial carrying value of the Series A and Series B Preferred Shares is their issuance price at their respective issuance dates. The initial carrying value of the Series A-1 Preferred Shares is the fair value of the warrants on the exercise date plus the cash proceeds from the exercise. While the Group incurred losses on changes in fair value of the Preferred Shares and such loss negatively impacted the income statement, such losses had no impact on the cash flows of the Group. Furthermore, the Preferred Shares were converted to ordinary Shares on 31 May 2013 in accordance with the then applicable Articles of Association and have been transferred to equity. We have presented adjusted profit for the year ended 31 December 2013 in this report as we believe that adjusted profit for the year is a useful supplement to consolidated statement of profit or loss because it enable us to measure our profitability without taking into consideration of the fair value loss of the Preferred Shares, which were converted to our ordinary Shares on 31 May 2013. We believe adjusted profit for the year ended 31 December 2013 is a more accurate indicator of our profitability and operational performance for the year. However, adjusted profit for the year ended 31 December 2013 should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with IFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted profit for the financial periods presented in this report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

DIVIDEND

During the year ended 31 December 2013, the Group declared a dividend in the amount of US$4,923,497 payable to the Group's then existing Shareholders. Such dividend has been paid on 8 October 2013.

The declaration of the final dividend of US0.2 cents per ordinary Share (equivalent to HK1.6 cents per ordinary Share), amounting to approximately US$2.9 million (31 December 2012: Nil) is proposed by the Directors, subject to the approval by the Shareholders in the upcoming annual general meeting.

As far as the Company is aware, as at the date of this report, there was no arrangement under which any Shareholder has waived or agreed to waive any dividend proposed to be distributed for the year 2013.

HUMAN RESOURCES

As at 31 December 2013, the Group had 651 employees (31 December 2012: 582). The table below sets forth the number of employees in each functional area as at 31 December 2013 and 2012 respectively:

	As at 31 December			
	2013		2012	
Function	**Number of Employees**	**% of total**	Number of Employees	% of total
Management	**17**	**2.6**	11	1.8
Development team	**324**	**49.8**	292	50.2
IT support team	**52**	**8.0**	46	7.9
Game operation and customer service	**66**	**10.1**	94	16.2
Finance and accounting	**18**	**2.8**	17	2.9
Internal audit	**1**	**0.2**	—	—
Legal department	**3**	**0.5**	—	—
Administration	**19**	**2.9**	15	2.6
Global support	**151**	**23.1**	107	18.4
Total	**651**	**100.0**	582	100.0

The table below sets forth the number of employees by geographic location as at 31 December 2013 and 2012 respectively:

	As at 31 December			
	2013		2012	
Location	**Number of Employees**	**% of total**	Number of Employees	% of total
China	**565**	**86.8**	545	93.6
US	**17**	**2.6**	18	3.1
Singapore	**32**	**4.9**	19	3.3
Philippines	**37**	**5.7**	—	—
Total	**651**	**100.0**	582	100.0

Personnel expenses (including salary, bonuses, social insurance and provident funds, excluding share option expenses) for the year ended 31 December 2013 were approximately US$13.6 million, representing an increase of 34.7% over US$10.1 million for the year ended 31 December 2012, primarily due to (i) the increase of the salaries and welfares due to an increase in headcount, and (ii) the increase in our performance-based bonus.

Share option expenses in connection with the Company's Pre-IPO Share Option Scheme for the year ended 31 December 2013 were US$1.0 million, representing an increase of 900.0% over US$0.1 million for the year ended 31 December 2012, primarily due to an accelerated recognition of share option expenses upon the Listing on 18 October 2013.

SIGNIFICANT INVESTMENT

During the year ended 31 December 2013, the Group did not hold any significant investment in equity interest in any other company.

INTEREST CAPITALISED

No interest was capitalised by the Group for year ended 31 December 2013.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

From the Listing Date to 31 December 2013, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CHARGE ON ASSETS

As at 31 December 2013, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2012: Nil).

CONTINGENT LIABILITIES

The Group had no contingent liabilities or any litigation against it as at 31 December 2013 and 2012, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zongjian Cai (蔡宗建), aged 36, was appointed as our executive Director on 31 October 2007 and is our chief executive officer. Mr. Cai is one of the Founders and is primarily responsible for the corporate strategic planning and overall business development of our Group. Mr. Cai has approximately 14 years of experience in online game industry. He worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.* (福建網龍計算機信息網絡技術有限公司) as a vice president from May 2000 to November 2003 by whom 17173.com was developed. Mr. Cai also worked as the chief executive officer of 17173.com, which is acquired by Sohu.com Inc., a company listed on NASDAQ (Stock Code: SOHU), from November 2003 to January 2005 and a consultant for both Beijing Sohu New Era Information Technology Co., Ltd.* (北京搜狐新時代信息技術有限公司) and 17173.com from January 2005 to June 2005. Mr. Cai graduated from Fuzhou University (福州大學) with a college diploma in computer and accounting in June 1998. In the three years preceding the date of this annual report, Mr. Cai had not been a director of any other listed company.

Mr. Yuan Chi (池元), aged 57, was appointed as our executive Director on 16 August 2007 and is our senior vice president. Mr. Chi is one of the Founders and he is primarily responsible for the game development of our Group. Mr. Chi has approximately 16 years of experience in information technology industry. Prior to joining our Group, Mr. Chi worked as the general manager of Fujian Window Network Information Co., Ltd.* (福建之窗網絡信息有限公司) (www.66163.com) from April 1998 to June 2007. He was the vice president of Fujian Rongji Software Co., Ltd.* (福建榕基軟件股份有限公司), a company listed on Shenzhen Stock Exchange (Stock Code: 002474), from November 2000 to September 2003. Mr. Chi also worked at Fujian NetDragon Computer Information Network Technology Co., Ltd.* (福建網龍計算機信息網絡技術有限公司) from October 2003 to November 2007. Mr. Chi graduated from Fuzhou University with a bachelor's degree in water resources and hydropower engineering in July 1982 and a master degree in hydraulic structure in March 1990. Save as disclosed above, in the three years preceding the date of this annual report, Mr. Chi had not been a director of any other listed company.

Non-executive Directors

Mr. Xiaojun Li (李驍軍), aged 40, was appointed as a non-executive Director on 30 November 2007. Mr. Li has approximately 9 years of experience in corporate management and venture capital. He has been the partner of IDG Capital Partners since August 2006 and acted as the vice president of IDG Technology Venture Investment Fund from September 2004 to August 2006. Mr. Li graduated from University of California Los Angeles with a master degree in electronic engineering in September 1996. He obtained a master of business administration from Wharton Business School at the University of Pennsylvania in May 2004. In the three years preceding the date of this annual report, Mr. Li had not been a director of any other listed company.

Mr. Kee Lock Chua (蔡其樂), aged 52, was appointed as a non-executive Director on 12 November 2008. Mr. Chua serves as the independent director on the board of directors of Logitech International S.A., which is listed in the U.S. and Switzerland. He also serves as independent director of Yongmao Holdings Ltd. and SHC Capital Asia Limited, both of which are listed on the Singapore Stock Exchange. In addition, he is a board member of Beyond Social Services and a member of Mainly I Love Kids (MILK) Charity. Mr. Chua is currently the group president and chief executive officer of Vertex Venture Holdings Ltd and he is also a director of Vertex. He was also the president and executive director of Biosensors International Group, Ltd, a deputy president of NatSteel Group (now known as NSL Ltd) and a president of MediaRing.com Ltd (now known as S i2i Limited) all of which are listed on the Singapore Stock Exchange. Mr. Chua graduated from University of Wisconsin-Madison with a bachelor's degree in mechanical engineering in 1984. He also graduated from Stanford University with a master degree in science in 1987. Save as disclosed above, in the three years preceding the date of this annual report, Mr. Chua had not been a director of any other listed company.

Independent Non-executive Directors

Dr. Horn Kee Leong (梁漢基), aged 61, was appointed as an independent non-executive Director on 16 September 2013. Dr. Leong is currently the chairman of CapitalCorp Partners Private Limited and a member of the Securities Industry Council of Singapore. He has been the non-resident High Commissioner (designate) to Cyprus since March 2013 and non-executive independent director of SAC Capital Private Limited since 20 September 2013. He has also been the independent non-executive chairman and director of SPH Reit Management Pte Ltd and VIVA Industrial Trust Management Pte Ltd, both of which are management company of REITs listed on Singapore Stock Exchange, since 10 June 2013 and 10 October 2013, respectively. Since 1983, until prior to joining CapitalCorp Partners Private Limited, Dr. Leong held various management positions including as an executive director and consultant of Far East Organization Centre Pte. Ltd., the chief executive officer of Yeo Hiap Seng Ltd, the managing director of Orchard

Parade Holdings Limited, a corporate finance director of Rothschild (Singapore) Limited. From 1977 to 1983, Dr. Leong held various positions at the Ministry of Finance and at the Ministry of Trade & Industry of Singapore. He was a member of Parliament of Singapore from 1984 to 2006. He was Singapore's non-resident ambassador to Mexico from September 2006 to February 2013. In addition to the above, Dr. Leong held directorships in the following listed companies in the past three years preceding the date of this annual report:

Period	Name of company	Position
15 December 2000-present	ECS Holdings Limited, listed on Singapore Stock Exchange	Independent non-executive director (Lead independent director since 1 January 2013)
30 June 2000-present	Wilmar International Limited, listed on Singapore Stock Exchange	Independent non-executive director
19 January 2001-present	Tat Hong Holdings Ltd, listed on Singapore Stock Exchange	Independent non-executive director
9 September 2008-present	China Energy Limited, listed on Singapore Stock Exchange	Independent non-executive director
4 November 2010-present	Amtek Engineering Ltd, listed on Singapore Stock Exchange	Independent non-executive director
17 August 2009-30 September 2013	Linair Technologies Limited, listed on Singapore Stock Exchange	Independent non-executive director
18 July 2007-20 April 2012	Kian Ho Bearings Ltd, listed on Singapore Stock Exchange	Non-independent non-executive director

Dr. Leong graduated from Loughborough University with a bachelor degree of technology in production engineering and management in July 1975. He completed distance learning and obtained a bachelor degree of science in economics from University of London in August 1979 and he also finished part time study and obtained a bachelor degree of arts in Chinese Language and Literature from Beijing Normal University* (北京師範大學) in March 2009. Dr. Leong graduated from the European Institute of Business Administration (INSEAD) with a master degree of business administration in 1980 and he also finished part time study and obtained a master degree of business research from the University of Western Australia in September 2009. He also graduated from the University of Western Australia with the degree of doctor of business administration in September 2013. Save as disclosed above, in the three years preceding the date of this annual report, Dr. Leong had not been a director of any other listed company.

Mr. Dajian Yu (余大堅), aged 65, was appointed as an independent non-executive Director on 16 September 2013. Mr.Yu has approximately 13 years of experience in venture capital investment and in senior management in semiconductor, electronic, IT and pharmaceutical industries. Since 2010, he has been the vice preside of Silicon Valley China Venture Management LLC and the director of three portfolio companies, Cadeka Technology Holding Ltd., Effecient Drivetrains, Inc and Consensic International Inc. He has also been the partner of BayHill Partners since 1999. Mr. Yu held senior management positions at several companies, including director of operations at General Parametrics Corporation from 1985 to 1996, vice president at Topology Corporation from 1996 to 1999, and vice president of Fuzhou Tianmeng from 2009 to 2010. Mr. Yu graduated from South China University of Technology (華南理工大學) (formerly known as South China Technology College* (華南工學院)) with a bachelor's degree in electrical engineering in July 1982. In the three years preceding the date of this annual report, Mr. Yu had not been a director of any other listed company.

Ms. Zhao Lu (陸 釗), aged 46, was appointed as an independent non-executive Director on 16 September 2013. Ms. Lu is currently the president of Fujian New Media Animation Game Associate* (福建省動漫遊戲協會新媒體產業聯盟). She was the general manager of Fuzhou Lingdong Network Science and Technology Co., Ltd.* (福州靈動網絡科技有限公司) from February 2009 to December 2012 and the general manager of Tian Liang Customer Service* (天亮客服) of Fujian NetDragon Computer Information Network Technology Co., Ltd.* (福建網龍計算機網絡信息技術有限公司) from December 2003 to February 2009. Ms. Lu graduated from Beijing University of Posts and Telecommunications* (北京郵電大學) (formerly known as Beijing Institute of Posts and Telecommunications* (北京郵電學院)) with a bachelor degree in compunication in July 1989. In the three years preceding the date of this annual report, Ms. Lu had not been a director of any other listed company.

SENIOR MANAGEMENT

Mr. Yuan Xu (許元), aged 38, is our chief operating officer. Mr. Xu has approximately 14 years of experience in project and corporate management. He joined our Group in September 2007 and is primarily responsible for business operation and development of our Group outside the PRC. Prior to joining our Group, Mr. Xu worked as a graduate researcher at University of California, Santa Cruz, from September 1999 to July 2004. He also worked at Nanoconduction Inc as a project leader from September 2004 to June 2007. Mr. Xu graduated from Beijing University of Technology* (北京工業大學) with a bachelor's degree in applied physics in July 1998. He also graduated from University of California, Santa Cruz, with a degree of doctor of philosophy in electrical engineering in June 2004.

Mr. Hong Zhang (張竑), aged 42, is our chief technology officer and senior vice president of global operations. Mr. Zhang has approximately 17 years of experience in information technology industry. He joined our Group in December 2008 and is primarily responsible for the overall technology operation of our Group. Prior to joining our Group, Mr. Zhang worked at Charles Schwab as a senior staff technology from August 2000 to November 2005. He was also employed by Corporate Computer Services Inc. from November 2005 to November 2008 as a software engineer, assigned to Barclays Global Investors as an information technology consultant. Mr. Zhang graduated from Zhejiang University* (浙江大學) with a bachelor's degree in engineering in June 1994, a master degree in engineering in June 1997. He also graduated from University of California, San Francisco, with a master degree in science in September 2000.

Mr. Zhixiang Chen (陳智祥), aged 36, is our senior vice president and a director of IGG Singapore. Mr. Chen has approximately 10 years of experience in online game industry. He is primarily responsible for the business operation and development of our Group in the PRC. Mr. Chen joined our Group in December 2005 and participated in founding our Group and our IGG.com platform from December 2005 to June 2006. He was our chief operation officer from December 2007 to June 2009. He was the president of IGG Singapore from August 2009 to August 2012, responsible for expanding our overseas (South East Asia) business. Prior to joining our Group, Mr. Chen worked at Beijing Sohu New Era Information Technology Co., Ltd. Fuzhou branch from June 2004 to September 2004 and from January 2005 to November 2005. Mr. Chen graduated from Fujian Normal University* (福建師範大學) with a bachelor's degree in mathematics education in July 1999. He also obtained a second bachelor's degree in software engineering from Xiamen University* (廈門大學) in July 2004.

Ms. Jessie Shen (沈潔蕾), aged 43, is our senior vice president of finance and one of our joint company secretaries. Ms. Shen has approximately 17 years of experience in accounting and corporate finance. She joined our Group in March 2009 and is primarily responsible for corporate finance, accounting and tax management of our Group. Prior to joining our Group, she worked as an auditor at Diwan, Ernst & Young from July 1992 to August 1994, and a financial associate manager of Aurora Corporation, a company listed on the Taiwan Stock Exchange (Stock Code: 2373), from March 1995 to March 1998 and from August 2001 to January 2002. Ms. Shen also held various positions at Rock Mobile Group from January 2003 to March 2007. She worked at Neo Solar Power Corp., a company listed on Taiwan Stock Exchange (Stock Code: 3576), as a finance manager from December 2007 to March 2009. Ms. Shen graduated from Tunghai University with a bachelor's degree in accounting in June 1992. She also graduated from Rutgers, The State University of New Jersey with a master degree in business administration in October 1999. Ms. Shen passed the exam of a certified public accountant in both Washington State and Taiwan, and was a member of the Institute of Internal Auditors and a member of Taiwan Institute of Internal Auditors* (中華民國內部稽核協會). However, Ms. Jessie Shen does not practise as a certified public accountant in Washington and Taiwan.

CORPORATE GOVERNANCE REPORT

The Directors have pleasure in presenting this corporate governance report for the year ended 31 December 2013.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, 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 an essential factor 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.

Except for the following deviations from code provisions A.1.1, A.2.1 and A.2.7 of the Corporate Governance Code, the Company has complied with the Corporate Governance Code from the Listing Date to 31 December 2013.

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 strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

As the Company was listed on the Stock Exchange on 18 October 2013, during the year ended 31 December 2013, (1) the Board has only held two meetings after the Listing, and (2) the chairman of the Board has not held meetings with non-executive Directors (including the independent non-executive Directors) without the executive Directors after the Listing, which deviated from code provisions A.1.1 and A.2.7 of the Corporate Governance Code, respectively. Going onward, (1) the Board will meet regularly and Board meetings will be held at least four times a year at approximately quarterly intervals, and (2) the chairman of the Board will at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors, in compliance with code provisions under the Corporate Governance Code.

BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

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

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

The Board currently comprises seven Directors, consisting of two executive Directors, Mr. Zongjian Cai (the chairman of the Board) and Mr. Yuan Chi, two non-executive Directors, Mr. Xiaojun Li and Mr. Kee Lock Chua, and three independent non-executive Directors, Dr. Horn Kee Leong, Mr. Dajian Yu and Ms. Zhao Lu. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed 'Biographical Details of Directors and Senior Management' of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Company has complied with Rule 5.05(1) of the GEM Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non- executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 5.05(2) of the GEM Listing Rules. The Company has appointed three independent non-executive Directors representing more than one-third of the Board and is in compliance with Rule 5.05A of the GEM Listing Rules.

Model Code

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 of the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code regarding directors' securities transactions from the Listing Date to 31 December 2013 and up to the date hereof.

Independent Non-Executive Directors

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

The Board has three independent non-executive Directors with one of them, Dr. Horn Kee Leong, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 5.05(2) of the GEM Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 5.09 of the GEM Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 5.09 of the GEM Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirements under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirements of the Corporate Governance Code on continuous professional development from the Listing Date to 31 December 2013:

	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management/Industry or Other Professional Skills	
Name of Director	**Read materials**	**Attend Seminars/ Briefings**	**Read materials**	**Attend Seminars/ Webinars/ Briefings**
Executive Director				
Mr. Zongjian Cai	√	√	√	√
Mr. Yuan Chi	√	√	√	√
Non-executive Directors				
Mr. Xiaojun Li	√	√	√	√
Mr. Kee Lock Chua	√	√	√	√
Independent non-executive Directors				
Dr. Horn Kee Leong	√	√	√	√
Mr. Dajian Yu	√	√	√	√
Ms. Zhao Lu	√	√	√	√

Directors' and Officers' Insurance

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

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications.

The individual attendance record of each Director at the meetings of the Board and the general meetings from the Listing Date to 31 December 2013 is set out below:

Name of Director	Attendance/ Number of Board Meeting(s)	Attendance/ Number of General Meeting(s) *(Note1)*
Executive Directors		
Mr. Zongjian Cai *(Chairman and chief executive officer)*	2/2	N/A
Mr. Yuan Chi	2/2	N/A
Non-executive Directors		
Mr. Xiaojun Li	2/2	N/A
Mr. Kee Lock Chua	2/2	N/A
Independent non-executive Directors		
Dr. Horn Kee Leong	2/2	N/A
Mr. Dajian Yu	2/2	N/A
Ms. Zhao Lu	2/2	N/A

Note:

1. *From the Listing Date and up to 31 December 2013, no general meeting was convened.*

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

Appointments and Re-election of Directors

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

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

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

The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Board Committees

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

Audit Committee

The Company has established an audit committee on 5 December 2008 and adjusted composition of the audit committee on 16 September 2013 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among other things, to review and to supervise the financial reporting process and internal control systems of the Group. The audit committee comprises all non-executive Directors and all independent non-executive Directors, namely, Dr. Horn Kee Leong (chairman of the audit committee), Mr. Xiaojun Li, Mr. Kee Lock Chua, Mr. Dajian Yu and Ms. Zhao Lu.

The audit committee had reviewed the Group's unaudited quarterly results for the nine months ended 30 September 2013 and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the internal control of the Group during the year of 2013.

From the Listing Date to 31 December 2013, one meeting was held by the audit committee. The individual record of each member of the audit committee at the meeting of the audit committee is set out below:

Name of Director	Attendance/ Number of Audit Committee Meeting(s)
Dr. Horn Kee Leong	1/1
Mr. Xiaojun Li	1/1
Mr. Kee Lock Chua	1/1
Mr. Dajian Yu	1/1
Ms. Zhao Lu	1/1

Remuneration Committee

The Company established a remuneration committee on 5 December 2008 and adjusted composition of the remuneration committee on 16 September 2013 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the remuneration committee are, among other things, to evaluate the performance, and to make recommendation to the Board on the remuneration package of the Directors and senior management. The remuneration committee consists of three members, namely, the independent non-executive Director, Ms. Zhao Lu (chairman of the remuneration committee), the executive Director, Mr. Zongjian Cai and the independent non-executive Director, Mr. Dajian Yu.

From the Listing Date to 31 December 2013, the remuneration committee surveyed peer companies' remuneration package and reviewed the remuneration packages of the executive Directors and the senior management. The remuneration committee has also reviewed the Share Award Scheme and benefit plan to key employees.

From the Listing Date to 31 December 2013, two meetings were held by the remuneration committee. The individual record of each member of the remuneration committee at the meeting of the remuneration committee is set out below:

Name of Director	Attendance/ Number of Remuneration Committee Meeting(s)
Ms. Zhao Lu	2/2
Mr. Zongjian Cai	2/2
Mr. Dajian Yu	2/2

Nomination Committee

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

From the Listing Date to 31 December 2013, no meeting was held by the nomination committee.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with GEM Listing Rules, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report. During the year ended 31 December 2013, the Board reviewed and determined the policy for the corporate governance of the Company.

Joint Company Secretaries

The Joint Company secretaries of the Company are Ms. Jessie Shen and Ms. Ying Ping Yvonne Kwong. Ms. Yin Ping Yvonne Kwong, vice president of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as its company secretary to act jointly with Ms. Jessie Shen (appointed on 9 July 2013). The Company's primary contact person at the Company is Ms. Jessie Shen. Please refer to the paragraph headed "Procedures by which enquiries may be put to the Board" in this section for contact details. The biographical details of Ms. Jessie Shen are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report. Both Ms. Jessie Shen and Ms. Yin Ping Yvonne Kwong have informed the Company that their trainings covering corporate governance and accounting matters satisfy the requirements under the Rule 5.15 of the GEM Listing Rules during the year of 2013. The Company considers that the training of the joint company secretaries is in compliance with the requirements under Rule 5.15 of the GEM Listing Rules during the year of 2013.

FINANCIAL REPORTING

The Board, supported by the senior vice president of finance and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

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

Auditor's Remuneration

The audit committee of the Board is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorised external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages Ernst & Young as its external auditors. Details of the fees paid/payable to Ernst & Young during the year ended 31 December 2013 are as follows:

	US$'000
Audit services	581.9
Non-audit services	489.8
	1,071.7

Note: The non-audit services mainly covered tax compliance and consulting services.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of the Shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the Shareholders and the assets of the Company.

During the year of 2013, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has been implemented effectively. Such review covered financial, compliance and operational controls as well as risk management mechanisms.

SHAREHOLDERS' RIGHTS

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

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

Procedures by which enquiries may be put to the Board

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

Address: 10 Jalan Kilang, # 07-03, Sime Darby Enterprise Centre, Singapore 159410
Telephone no.: (86 591) 8727 8282 ext. 8899
Fax no.: (86 591) 8798 7629
Email: jessie@igg.com
Attention: Jessie Shen

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

Constitutional Documents

Apart from the adoption of the existing memorandum of Articles as effective on 16 September 2013 and the existing Articles of Association as effective on 18 October 2013, there has been no change in the Company's constitutional documents during the year ended 31 December 2013.

Communications with Shareholders

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the Shareholders receiving accurate, clear, comprehensive and timely information of the Group through the Company's financial reports (quarterly, interim and annual reports), annual general meeting and other general meetings that may be convened, as well as by making available all the disclosure submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website (www.igg.com). The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategies, operations, management and plans. Members of the Board and of the various Board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is a fast-growing global online games (especially mobile games) developer and operator with headquarters in Singapore and regional offices in the United States, China, Canada and the Philippines. There has been no significant change in the Group's principal activities during the year.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2013 are set out in note 18 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last three financial years, as extracted from the published audited financial statements, is set out on page 145 of the annual report. The summary does not form part of the audited financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 61 to 144 of this annual report.

During the year ended 31 December 2013, the Group declared dividend in the amount of US$4,923,497 payable to the Group's then existing Shareholders. Such dividend has been paid on 8 October 2013.

The declaration of the final dividend of US0.2 cents per ordinary Share (equivalent to HK1.6 cents per ordinary Share), amounting to approximately US$2.9 million (31 December 2012: nil) has been proposed by the Directors, subject to the approval by the Shareholders in the upcoming annual general meeting.

INTEREST OF COMPLIANCE ADVISER

As notified by China Everbright Capital Limited ("China Everbright"), the Company's compliance adviser, neither China Everbright nor any of its directors or employees or associates had any significant interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2013.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled on Friday, 9 May 2014. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Wednesday, 7 May 2014 to Friday, 9 May 2014, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the annual general meeting , all transfers of Shares, accompanied by the relevant share certificates must be lodged with the Company' s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, 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, 5 May 2014.

The proposed final dividend is subject to the passing of an ordinary resolution by the Shareholders at the annual general meeting. The record date for entitlement to the proposed final dividend is Tuesday, 20 May 2014. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 16 May 2014 to Tuesday, 20 May 2014, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 15 May 2014. The payment of final dividend will be made and despatched on or about Thursday, 29 May 2014.

RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2013 are set out in the consolidated statement of changes in equity and note 31 to the consolidated financial statement, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately US$114 million. The amount of approximately US$114 million represents the Company's share premium account of approximately US$185 million and accumulated deficits of approximately US$71 million in aggregate as at 31 December 2013, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2013 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company for the year ended 31 December 2013 are set out in note 29 to the consolidated financial statements.

DIRECTORS

The Directors for the year ended 31 December 2013 and as of the date of this annual report were:

Executive Directors
Mr. Zongjian Cai *(Chairman)*
Mr. Yuan Chi

Non-Executive Directors
Mr. Xiaojun Li
Mr. Kee Lock Chua

Independent Non-Executive Directors
Dr. Horn Kee Leong
Mr. Dajian Yu
Ms. Zhao Lu

In accordance with Article 84, Mr. Zongjian Cai, Mr. Yuan Chi, Mr. Xiaojun Li will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 20 to 25 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in the Company:

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. Zongjian Cai *(Notes 1, 4)*	Interest in a controlled corporation, spouse interest, interests held jointly with another person	446,599,179	32.87%
Mr. Yuan Chi *(Notes 2, 4)*	Interest in a controlled corporation, interests held jointly with another person	446,599,179	32.87%
Mr. Dajian Yu *(Note 3)*	Beneficial owner	400,000	0.03%

Notes:

(1) Mr. Zongjian Cai is interested in all the issued share capital of Duke Online and he is therefore deemed to be interested in 178,699,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai is also deemed to be interested in all Shares held by Ms. Kai Chen under the SFO.

(2) Mr. Yuan Chi is interested in all the issued share capital of Edmond Online and he is therefore deemed to be interested in 158,080,000 Shares held by Edmond Online under the SFO.

(3) Mr. Dajian Yu is interested in 400,000 Shares which were issued to him upon the exercise of the Pre-IPO share options on 9 February 2012.

(4) On 16 September 2013, Mr. Zongjian Cai, Mr. Yuan Chi, Duke Online, Edmond Online, Mr. Yuan Xu, Ms. Kai Chen, Mr. Hong Zhang and Mr. Zhixiang Chen entered into an act in concert agreement, pursuant to which each of them agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. The Controlling Shareholders expect that the material matters will cover, among other things, the matters which shall be approved at the annual general meeting, declaration of dividends, business plan, notifiable transactions and connected transactions subject to Shareholders' approval, if any.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the Shares or underlying Shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2013, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Duke Online *(Note 4)*	Beneficial owner, interests held jointly with another person	446,599,179 Shares	32.87%
Mr. Zongjian Cai *(Notes 1, 4)*	Interest in a controlled corporation, spouse interest, interests held jointly with another person	446,599,179 Shares	32.87%
Edmond Online *(Note 4)*	Beneficial owner, interests held jointly with another person	446,599,179 Shares	32.87%

Name of Shareholders	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. Yuan Chi *(Notes 2, 4)*	Interest in a controlled corporation, interests held jointly with another person	446,599,179 Shares	32.87%
Mr. Yuan Xu *(Note 4)*	Beneficial owner, interests held jointly with another person	446,599,179 Shares	32.87%
Mr. Hong Zhang *(Note 4)*	Beneficial owner, interests held jointly with another person	446,599,179 Shares	32.87%
Ms. Kai Chen *(Note 3, 4)*	Beneficial owner, spouse interest, interests held jointly with another person	446,599,179 Shares	32.87%
Mr. Zhixiang Chen *(Note 4)*	Beneficial owner, interests held jointly with another person	446,599,179 Shares	32.87%
IDG Group *(Note 5)*	Beneficial owner	287,577,880 Shares	21.16%
IDG-Accel China Growth Fund GP II Associates Ltd. *(Note 5)*	Interest in a controlled corporation	287,577,880 Shares	21.16%
IDG-Accel China Growth Fund II Associates L.P. *(Note 5)*	Interest in a controlled corporation	265,837,000 Shares	19.56%
Vertex *(Note 6)*	Beneficial owner	119,225,000 Shares	8.77%
Temasek Holdings (Private) Limited *(Note 6)*	Interest in a controlled corporation	119,225,000 Shares	8.77%

Note:

(1) Mr. Zongjian Cai is interested in all the issued share capital of Duke Online and he is therefore deemed to be interested in 178,699,027 Shares held by Duke Online under the SFO. Mr. Zongjian Cai is also deemed to be interested in all Shares held by Ms. Kai Chen under the SFO.

(2) Mr. Yuan Chi is interested in all the issued share capital of Edmond Online and he is therefore deemed to be interested in 158,080,000 Shares held by Edmond Online under the SFO.

(3) Ms. Kai Chen is also deemed to be interested in all Shares held by Mr. Zongjian Cai under the SFO.

(4) On 16 September 2013, Mr. Zongjian Cai, Mr. Yuan Chi, Duke Online, Edmond Online, Mr. Yuan Xu, Ms. Kai Chen, Mr. Hong Zhang and Mr. Zhixiang Chen entered into an act in concert agreement, pursuant to which each of them agreed that they would act in concert with each other with respect to material matters relating to the Company's operation. The Controlling Shareholders expect that the material matters will cover, among other things, the matters which shall be approved at the annual general meeting, declaration of dividends, business plan, notifiable transactions and connected transactions subject to Shareholders' approval, if any.

(5) The IDG Group is comprised of two limited partnerships, IDG-Accel China Growth Fund II L.P., which holds 265,837,000 Shares and IDG-Accel China Investors II L.P., which holds 21,740,880 Shares. Each member of the IDG Group is managed by its general partner, who has the full and exclusive power and authority to manage and control the fund and its business. Each member of the IDG Group also consists of limited partner or limited partners who merely play the passive function of injecting capital into the fund and have no voting or management right. The members of the IDG Group are equity investment in portfolios with China-related business and operations.

IDG-Accel China Growth Fund II L.P. is controlled by its general partner, namely, IDG-Accel China Growth Fund II Associates L.P., which is, in turn, controlled by its general partner, namely, IDG-Accel China Growth Fund GP II Associates Ltd. Therefore, each of IDG-Accel China Growth Fund II Associates L.P. and IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in all Shares held by IDG-Accel China Growth Fund II L.P. under the SFO.

IDG-Accel China Investors II. L.P. is controlled by its general partner, IDG-Accel China Growth Fund GP II Associates Ltd. Therefore, IDG-Accel China Growth Fund GP II Associates Ltd. is deemed to be interested in all Shares held by IDG-Accel China Investors II. L.P. under the SFO.

(6) Vertex is 100% owned by Vertex Venture Holdings Limited, which is ultimately owned by Temasek Holdings (Private) Limited.

Save as disclosed above, as at 31 December 2013, the Directors of the Company are not aware of any other person or corporation having an interest or short position in Shares and underlying Shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted a Pre-IPO Share Option Scheme on 12 November 2008 and amended by written resolutions of all Shareholders passed on 16 September 2013. 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 principal terms of the share options granted pursuant to the Pre-IPO Share Option Scheme are summarised as follows:

(a) the exercise price of the options granted on respective dates are:

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

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 86,208,000 Shares as at the Listing Date, and no further share options have been granted under the Pre-IPO Share Option Scheme on or after the Listing Date;

(c) all share options granted under the Pre-IPO Share Option Scheme shall vest according to the following schedule:

Period within which option can be exercised *(Note 1)*	**Maximum percentage of entitlement**
Any time after the date when the options are granted (the "First Granting Date"), subject to grantee's completion of 12 months' continuous service	25%
Any time after the first anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%
Any time after the second anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%
Any time after the third anniversary of the First Granting Date, subject to grantee's completion of 12 months' continuous service	25%

Note:

1. For the options granted to Mr. Hanling Fang, on 20 January 2007, 50% of the options shall vest after the first anniversary of the First Granting Date and the remaining 50% shall vest after the second anniversary of the First Granting Date;

   For the options granted to Ms. Jessie Shen on 19 March 2009, 25% of the options shall vest after the first anniversary of the First Granting Date and 1/48 of the options shall vest each month thereafter; and

   For the options granted to Mr. Yuan Xu on 5 December 2008, if there is any change in the control in the Group, all options shall vest immediately upon such occurrence.

(d) the exercise period for each share option granted under the Pre-IPO Share Option Scheme commences from the relevant vesting date and ends 10 years after the date of grant.

On 25 December 2013, 150,000 share options have expired due to the employment termination of one employee of the Company. As a result, there are 86,058,000 options outstanding under the Pre-IPO Share Option Scheme as of 31 December 2013.

Saved as disclosed above, no Pre-IPO Share Options were lapsed or cancelled from the Listing Date to 31 December 2013.

Share Option Scheme

The Company has adopted the Share Option Scheme on 16 September 2013 to give 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 (as defined in the Share Option Scheme), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions

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 exceeds 1% of the Company's issued share capital from time to time.

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

(a) the nominal value of a Share on the offer date;

(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.

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

During the year ended 31 December 2013, no options were granted under the Share Option Scheme.

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) ("**Awarded Shares**") 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 the Computershare Hong Kong Trustees Limited, as the trustee ("**Trustee**") from the open market by utilising the Company's resources provided to the Trustee, subject to the absolute discretion of the Board. The Company will contribute or grant cash to the Trustee to enable the Scheme to operate with necessary funds to purchase and/or subscribe for Shares. The vesting period shall, in any event, be no longer than ten years.

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

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

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

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

During the year ended 31 December 2013, no Awarded Shares were granted under the Share Award Scheme.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time for the year ended 31 December 2013 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director 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 to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2013 and up to the date hereof.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the year ended 31 December 2013.

DEED OF NON-COMPETITION

Each of the Controlling Shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-competition. The independent non-executive Directors have reviewed the status of compliance and confirmed that the Controlling Shareholders have complied with all the undertakings under the Deed of Non-competition.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2013.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted at the end of the year ended 31 December 2013 or at any time during the year ended 31 December 2013.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2013 are set out in note 35 to the consolidated financial statements.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

A. Non-exempt continuing connected transactions

Structured Contracts

During the year ended 31 December 2013, the transactions under the Structured Contracts entered into, among others, by Fuzhou Tianji and Fuzhou Tianmeng constituted continuing connected transactions of the Company under the GEM Listing Rules.

Fuzhou Tianmeng is currently owned by Mr. Zongjian Cai and Mr. Yuan Chi. Both Mr. Zongjian Cai and Mr. Yuan Chi are executive Directors and Controlling Shareholders and therefore connected persons of the Company under the GEM Listing Rules. Fuzhou Tianmeng is regarded as an associate of Mr. Zongjian Cai and Mr. Yuan Chi for the purpose of the GEM Listing Rules and accordingly is regarded as a connected person of the Company under the GEM Listing Rules.

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

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

(i) Call Option Agreement: on 30 November 2007, Fuzhou Tianji, Fuzhou Tianmeng and the Founders entered into an exclusive acquisition rights agreement (as supplemented by a supplemental agreement dated 16 September 2013 entered into by the same parties, collectively the "**Call Option Agreement**"), pursuant to which the Founders irrevocably granted the exclusive right to Fuzhou Tianji to require the Founders to transfer their equity interest in Fuzhou Tianmeng to Fuzhou Tianji.

(ii) Equity Pledge Agreement: on 30 November 2007, Fuzhou Tianji and the Founders entered into an equity interest pledge agreement (as supplemented by supplemental agreements dated 5 January 2009 and 16 September 2013, respectively, entered into by the same parties, collectively the "**Equity Pledge Agreement**"), pursuant to which Fuzhou Tianji was entitled to exercise its rights to sell the Founders' pledged interest in the registered capital of Fuzhou Tianmeng on occurrence of certain specified events.

(iii) Power of Attorney of Mr. Zongjian Cai: on 30 November 2007, Mr. Zongjian Cai issued a power of attorney (as supplemented by a supplemental power of attorney dated 16 September 2013 issued by Mr. Zongjian Cai, collectively the "**Power of Attorney of Mr. Zongjian Cai**"), pursuant to which Mr. Zongjian Cai authorised Fuzhou Tianji to exercise all the shareholders' rights of Mr. Zongjian Cai in Fuzhou Tianmeng.

(iv) Power of Attorney of Mr. Yuan Chi: on 30 November 2007, Mr. Yuan Chi issued a power of attorney (as supplemented by a supplemental power of attorney dated 16 September 2013 issued by Mr. Yuan Chi, collectively the "**Power of Attorney of Mr. Yuan Chi**"), pursuant to which Mr. Yuan Chi 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 in an agreement for online game licensing (the "**Online Game Licensing Agreement**"), pursuant to which Fuzhou Tianji will license various online game software to Fuzhou Tianmeng for operation in the PRC market for a consideration of an initial licensing fee and commissions payable on a quarterly basis according to a percentage generally accepted in the market and such commission shall be a fair value.

Pursuant to Rule 20.42(3) of the GEM Listing Rules, the Company applied to the Stock Exchange, and the Stock Exchange has agreed to grant a waiver from (i) strict compliance with the announcement and independent Shareholders' approval of our Company, (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to Fuzhou Tianji under the Structured Contracts, and (iii) fixing the terms of the Structured Contracts to three years or less, for as long as our Shares are listed on the Stock Exchange, was sought from the Stock Exchange, subject to numerous conditions as set out in the section headed "Continuing Connected Transactions" of the Prospectus.

On-going reporting and approvals

- The Company confirms that in order to ensure the operation of the Structured Contracts, the Company has reviewed the overall performance and compliance with the Structured Contracts for the year ended 31 December 2013.
- The independent non-executive Directors have reviewed the Structured Contracts for the year ended 31 December 2013 and confirmed that for the year ended 31 December 2013: (i) the transactions carried out during such year have been entered into in accordance with relevant terms of the Structured Contracts such that all revenue generated by Fuzhou Tianmeng deducting all related expenses, costs and the taxes payable by it has been retained by the Group; (ii) no dividends or other distributions have been made by Fuzhou Tianmeng to its equity interest holders; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the existing Structured Contracts.
- The Company has engaged Ernst & Young as its auditors to perform procedures annually on the transactions contemplated under the Structured Contracts and the auditors have carried out procedures for the year ended 31 December 2013 and confirmed that no dividend has been distributed by Fuzhou Tianmeng to its equity holders which was not subsequently assigned or transferred to our Group and relevant transactions have received approval of the Board and were entered into in accordance with the terms of the Structured Contracts.
- The Group has not renewed and/or reproduced any of the framework of and terms and conditions similar to those of the Structured Contracts in relation to any existing or new wholly foreign-owned enterprise or operating company.
- Fuzhou Tianmeng has provided the Company's management and auditors with full access to relevant records for the purpose of the auditors' performance of review procedures on relevant transactions under the Structured Contracts.

B. Continuing connected transaction exempt from independent Shareholders' approval

Research and Development Outsourcing Agreement

During the year ended 31 December 2013, the transaction under the Research and Development Outsourcing Agreement carried out by IGG Singapore and GameCoreTech Software Corporation ("**GameCoreTech**") constitutes continuing connected transaction of the Company under the GEM Listing Rules.

GameCoreTech is a company wholly owned by Mr. Neng Xu, who is Mr. Yuan Xu's brother. Mr. Yuan Xu is a Controlling Shareholder and therefore a connected person of the Company under the GEM Listing Rules. Mr. Neng Xu is a connected person of the Company under the GEM Listing Rules. Therefore, GameCoreTech is regarded as an associate of Mr. Neng Xu for the purpose of the GEM Listing Rules and accordingly is regarded as a connected person of the Company under the GEM Listing Rules.

On 16 September 2013, IGG Singapore entered into a Research and Development Outsourcing Agreement with GameCoreTech ("**Research and Development Outsourcing Agreement**"). Pursuant to the Research and Development Outsourcing Agreement entered into between GameCoreTech and IGG Singapore, GameCoreTech shall be responsible for the main planning of the mobile games softwares, art production, specific development work, allocation of development resources, project management, and delivery of various versions of the mobile games softwares to be developed by GameCoreTech in accordance with the specific instructions given by IGG Singapore from time to time for a term from 20 May 2013 to 31 December 2015, renewable for a term of at most three years upon expiry (subject to compliance with the provisions under the GEM Listing Rules regarding connected transactions). Upon expiry of the term of the Research and Development Outstanding Agreement, the Group will then review the Group's business development, market trends and Unity 3D technology related skills accumulated by the research and development team of the Group and determine whether to extend the cooperation with GameCoreTech. To the extent the Group determines to continue the cooperation, the Group will further negotiate with GameCoreTech on an arm's length basis at that time. Pursuant to the Research and development outsourcing agreement, IGG Singapore agreed to pay GameCoreTech US$650,000 (excluding tax) annually, subject to annual adjustments, which is determined based on arm's length negotiation and the expected mobile games research and development costs to be involved, mainly taking into account of the prevailing market rental of GameCoreTech's office and equipment in Canada of around US$10,000 per month, the scale of employees to be involved in the research and development of softwares, their labour costs in Canada (the Company anticipates that approximately eight staff will be needed for the research and development of the mobile game softwares and the average salary will be around US$5,000 per month multiplied by 13 months) and some miscellaneous expenses of around US$10,000 per annum. The Company has obtained certain quotations for the provision of research and development services from Independent Third Parties who provide research and development services in the same industry and made comparison with that of GameCoreTech. The price of research and development services provided by GameCoreTech is comparable to that from Independent Third Parties. Details of the Research and Development Outsourcing Agreement have been set out in the Prospectus.

Pursuant to Rule 20.42(3) of the GEM Listing Rules, the Company has applied for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rule 20.47 of the GEM Listing Rules in relation to the announcement requirements in respect of the above continuing connected transaction.

During the year ended 31 December 2013, the aggregate amount of the transactions under the Research and Development Outsourcing Agreement was US$150,000 which was below the annual cap, under the waiver granted by the Stock Exchange of US$379,166.

Given that IGG Singapore has incorporated a wholly owned subsidiary in Canada on 30 January 2014 to engage in research and development of mobile applications and has appointed Mr. Neng Xu as one of the directors of the new subsidiary, the Directors consider the Research and Development Outsourcing Agreement is unnecessary to the Group. On 5 March 2014, IGG Singapore, GameCoreTech and Mr. Neng Xu entered into a termination agreement pursuant to which the parties agreed to irrevocably terminate the Research and Development Outsourcing Agreement. IGG Singapore and GameCoreTech have confirmed that, there are no outstanding rights and obligations under the Research and Development Outsourcing Agreement as at the termination date.

The Board confirmed that the termination of the Research and Development Outsourcing Agreement will not have any material adverse impact on the financial position and business operation of the Group.

C. Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Structured Contracts and Research and Development Outsourcing Agreement (collectively referred to as the "**Continuing Connected Transactions**") and confirmed that during the year ended 31 December 2013:

(i) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Company;

(ii) as appropriate, the Continuing Connected Transactions are on normal commercial terms or, on terms no less favourable to the Company than terms available to or from Independent Third Parties; and

(iii) the Continuing Connected Transactions have been entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

D. Confirmation of auditors of the Company

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

After performing the procedure related to continuing connected transactions, Ernst & Young confirmed that:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of US$194,500 the continuing connected transactions under consulting services agreement and research *(Note 1)* and Development Outsourcing Agreement, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Section "Continuing Connected Transactions" of the prospectus of the Company dated 11 October 2013 (the "Prospectus") in respect of each of the disclosed continuing connected transactions.

e. nothing has come to their attention that causes them to believe that dividend or other distribution was made by Fuzhou Skyunion Digital Co., Ltd. to its equity holders.

Ernst & Young have issued their letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 20.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Note:

1. *The consulting services agreement is a continuing connected transaction exempt from the reporting, annual review, announcement and independent Shareholders' approval pursuant to Rule 20.33 of GEM Listing Rules. For more details, please refer to the section headed "Continuing Connected Transactions" in the Prospectus.*

E. Regulatory Matters in Relation to the Structure Contracts

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the "**FITE Regulations**"), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to be engaged in basic telecommunications business and value-added telecommunications business. The foreign investor's ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50%. In addition, the FITE Regulations require a foreign investor to demonstrate a good track record and prior experience in providing value-added telecommunications services business before it can acquire any equity interest in a value-added telecommunications services business in the PRC. However, as advised by our PRC legal advisers, Jingtian & Gongcheng, as date of this report, there are no administrative or implementing rules in the PRC defining the term "a good track record and experience in providing value-added telecommunication services overseas". The relevant governmental authority has great discretion in determining whether a foreign investor has satisfied such "good record and experience". Our PRC legal advisers, Jingtian & Gongcheng, also advised the disclosures in the Prospectus with regard to the qualification requirements as stipulated under the provisions on FITE Regulations remain unchanged since the Listing Date and up to the date hereof.

In compliance with the requirements under the FITE Regulations, the Group has implemented the following measures:

- Our Directors will review the overall performance and compliance with the Structured Contracts and provide periodic updates in our annual/interim reports regarding the qualification requirements as stipulated under the FITE Regulations, including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet these qualification requirements.

- We have engaged Jingtian & Gongcheng as our PRC legal advisers to provide on-going legal advice on various compliance matters. Our PRC legal advisers closely monitor the regulatory development applicable to us and timely inform us should there be any updates regarding the qualification requirements under the FITE Regulations.

- We will continue to consult with our legal advisers and compliance adviser from time to time should we have any inquires regarding the Structured Contracts, including but not limited to the qualification requirements under the FITE Regulations.

DIRECTORS' REPORT

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, 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 an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

From the Listing Date to 31 December 2013, except for the following deviations from code provisions A.1.1, A.2.1 and A.2.7 of the Corporate Governance Code, the Company has complied with the Corporate Governance Code. The Group's principal corporate governance practices are set out on pages 26 to 36 of the annual report.

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 strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

As the Company was listed on the Stock Exchange on 18 October 2013, during the year ended 31 December 2013, (1) the Board has only held two meetings after the Listing and (2) the chairman of the Board has not held meetings with non-executive Directors (including the independent non-executive Directors) without the executive Directors after the Listing, which deviated from code provisions A.1.1 and A.2.7 of the Corporate Governance Code, respectively. Going onward, (1) the Board will meet regularly and Board meetings will be held at least four times a year at approximately quarterly intervals and (2) the chairman of the Board will at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors, in compliance with code provisions under the Corporate Governance Code.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Details of Directors' remuneration and five individuals with highest emoluments are set out in note 9 and 10 to the consolidated financial statements.

The Company has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme to motivate and reward Directors and eligible employees. Details of the schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme" in this report and note 30 to the consolidated financial statements.

None of the Directors waived any emoluments during the year ended 31 December 2013.

PENSION SCHEME

Particulars of the pension scheme of the Group are set out in note 4 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual players and licensees of games of the Group. The five largest customers of the Group during the year ended 31 December 2013 accounted for 3.1% of the Group's total revenue.

The largest and five largest suppliers of the Group during the year ended 31 December 2013 accounted for 17.9% and 45.6% of the Group's total purchases respectively.

So far as is known to the Directors, at no time during the year ended 31 December 2013 did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

EVENTS AFTER REPORTING PERIOD

Details of the events after reporting period are set out in note 39 to the consolidated financial statements.

AUDITOR

Ernst & Young will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

AUDIT COMMITTEE

The audit committee of the Company had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2013.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the GEM Listing Rules for the period from the Listing Date to 31 December 2013 and up to the date hereof.

BANK LOAN AND OTHER BORROWINGS

The Group did not record any bank loans or other borrowings as at 31 December 2013.

On behalf of the Board
Zongjian Cai
Chairman

Fuzhou, PRC, 21 March 2014

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To the shareholders of IGG Inc

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of IGG Inc (the "Company") and its subsidiaries (together, the "Group") set out on pages 61 to 144, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
21 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
CONTINUING OPERATIONS			
REVENUE	7	**87,986**	43,154
Cost of sales		**(22,264)**	(10,358)
Gross profit		**65,722**	32,796
Other income and gains	7	**592**	422
Selling and distribution expenses		**(23,246)**	(12,071)
Administrative expenses		**(10,855)**	(7,093)
Research and development costs		**(9,333)**	(6,331)
Fair value loss of redeemable convertible preferred shares	26	**(14,167)**	(20,612)
Other expenses		**(452)**	(57)
PROFIT/(LOSS) BEFORE TAX	8	**8,261**	(12,946)
Income tax expense	11	**(1,313)**	(163)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**6,948**	(13,109)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	13	**—**	(326)
PROFIT/(LOSS) FOR THE YEAR		**6,948**	(13,435)
Attributable to:			
Owners of the parent		**6,948**	(13,435)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15		
(expressed in US$ per share)			
Basic			
– For profit/(loss) for the year		**0.0078**	(0.0251)
– For profit/(loss) from continuing operations		**0.0078**	(0.0245)
Diluted			
– For profit/(loss) for the year		**0.0071**	(0.0251)
– For profit/(loss) from continuing operations		**0.0071**	(0.0245)

Details of the dividends payable and proposed for the year are disclosed in note 14 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	2013 US$'000	2012 US$'000
PROFIT/(LOSS) FOR THE YEAR	**6,948**	(13,435)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**17**	(55)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**17**	(55)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**6,965**	(13,490)
Attributable to:		
Owners of the parent	**6,965**	(13,490)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 US$'000	2012 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,674**	1,517
Other intangible assets	17	**97**	152
Non-current rental deposits		**157**	152
Deferred tax assets	27	**435**	365
Total non-current assets		**2,363**	2,186
CURRENT ASSETS			
Accounts receivable	19	**314**	496
Amount due from related party	35	**114**	—
Prepayments, deposits and other receivables	20	**919**	476
Funds receivable	21	**12,248**	3,233
Cash and cash equivalents	22	**135,488**	15,135
Total current assets		**149,083**	19,340
CURRENT LIABILITIES			
Accounts payable	23	**3,228**	1,841
Other payables and accruals	24	**3,006**	3,124
Tax payable		**1,317**	—
Deferred revenue	25	**7,805**	5,556
Redeemable convertible preferred shares	26	**—**	66,596
Total current liabilities		**15,356**	77,117
NET CURRENT ASSETS/(LIABILITIES)		**133,727**	(57,777)
TOTAL ASSETS LESS CURRENT LIABILITIES		**136,090**	(55,591)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**317**	250
Total non-current liabilities		**317**	250
NET ASSETS/(LIABILITIES)		**135,773**	(55,841)
EQUITY			
Issued capital	29	**3**	1
Reserves	31	**132,891**	(55,842)
Proposed final dividend	14	**2,879**	—
Total equity/(deficits)		**135,773**	(55,841)

Approved and authorized for issue by the board of directors on 21 March 2014

Zongjian Cai	**Yuan Chi**
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Issued capital US$'000	Share premium US$'000	Share option reserve US$'000	Reserve funds (note 31(a)) US$'000	Other reserve US$'000	Exchange fluctuation reserve US$'000	Accumulated deficits US$'000	Proposed final dividend US$'000	Total equity US$'000
At 1 January 2013	1	3,580	805	88	8	(110)	(60,213)	—	(55,841)
Profit for the year	—	—	—	—	—	—	6,948	—	6,948
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	—	17	—	—	17
Total comprehensive income for the year	—	—	—	—	—	17	6,948	—	6,965
Equity-settled share option arrangement	—	—	1,030	—	—	—	—	—	1,030
Exercise of share options	—	584	(282)	—	—	—	—	—	302
Conversion of redeemable convertible preferred shares (note 26)	1	80,762	—	—	—	—	—	—	80,763
Issuance of shares for the IPO	1	94,844	—	—	—	—	—	—	94,845
Issuance of shares under the over-allotment option	—	17,741	—	—	—	—	—	—	17,741
Share issuance expenses	—	(5,109)	—	—	—	—	—	—	(5,109)
Dividend declared and paid to then existing shareholders	—	(4,923)	—	—	—	—	—	—	(4,923)
Proposed 2013 final dividend	—	(2,879)	—	—	—	—	—	2,879	—
At 31 December 2013	3	184,600*	1,553*	88*	8*	(93)*	(53,265)*	2,879	135,773

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Issued capital US$'000	Share premium US$'000	Share option reserve US$'000	Reserve funds (note 31(a)) US$'000	Other reserve US$'000	Exchange fluctuation reserve US$'000	Accumulated deficits US$'000	Total deficits US$'000
At 1 January 2012	1	3,453	787	—	8	(55)	(46,713)	(42,519)
Loss for the year	—	—	—	—	—	—	(13,435)	(13,435)
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(55)	—	(55)
Total comprehensive loss for the year	—	—	—	—	—	(55)	(13,435)	(13,490)
Equity-settled share option arrangement	—	—	126	—	—	—	—	126
Transfer of share option reserve upon the expiry of share options	—	—	(23)	—	—	—	23	—
Exercise of share options	—	127	(85)	—	—	—	—	42
Appropriations to statutory reserve funds	—	—	—	88	—	—	(88)	—
At 31 December 2012	1	3,580*	805*	88*	8*	(110)*	(60,213)*	(55,841)

* These components of equity comprise the consolidated reserves of US$132,891,000 (2012: deficit of US$55,842,000) in the consolidated statements of financial position as at 31 December 2013.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**8,261**	(12,946)
From a discontinued operation		**—**	(326)
Adjustments for:			
Interest income	8	**(160)**	(24)
Loss/(gain) on disposal of items of property, plant and equipment	8	**10**	(6)
Fair value loss of redeemable convertible preferred shares	8	**14,167**	20,612
Depreciation	8	**754**	1,014
Amortisation of other intangible assets	8	**105**	264
Loss on disposal of a discontinued operation	13	**—**	405
Equity-settled share compensation costs	8	**1,030**	126
		24,167	9,119
Increase in funds receivable		**(9,015)**	(883)
Decrease/(increase) in accounts receivable		**68**	(561)
Increase in prepayments, deposits and other receivables		**(443)**	(392)
Increase in accounts payable		**1,387**	1,650
Increase in deferred revenue		**2,249**	265
Increase/(decrease) in other payables and accruals		**(118)**	689
Increase in non-current rental deposits		**—**	(152)
Cash flows generated from operations		**18,295**	9,735
Interest received		**160**	24
Income tax paid		**3**	(11)
Net cash flows from operating activities		**18,458**	9,748

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**33**	25
Purchases of items of property, plant and equipment		**(940)**	(658)
Purchases of other intangible assets		**(46)**	(112)
Cash outflow in respect of the disposal of a discontinued operation	13	**—**	(118)
Increase in short term deposits with original maturity of over three months		**(10,000)**	—
Net cash flows used in investing activities		**(10,953)**	(863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**302**	42
Proceeds from issuance of shares		**112,586**	—
Share issuance expenses		**(5,109)**	—
Dividends declared and paid to then existing shareholders		**(4,923)**	—
Net cash flows from financing activities		**102,856**	42
NET INCREASE IN CASH AND CASH EQUIVALENTS		**110,361**	8,927
Cash and cash equivalents at beginning of year		**15,135**	6,248
Effect of foreign exchange rate changes, net		**(8)**	(40)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**125,488**	15,135
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**31,374**	12,786
Time deposits		**104,114**	2,349
Cash and cash equivalents as stated in the consolidated statement of financial position	22	**135,488**	15,135
Less: Time deposits with original maturity of over three months		**(10,000)**	—
Cash and cash equivalents as stated in the consolidated statement of cash flows		**125,488**	15,135

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 US$'000	2012 US$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**4,137**	3,107
Total non-current assets		**4,137**	3,107
CURRENT ASSETS			
Due from subsidiaries	18	**20,382**	11,732
Cash and cash equivalents	22	**93,477**	121
Total current assets		**113,859**	11,853
CURRENT LIABILITIES			
Due to subsidiaries	18	**262**	235
Other payables and accruals	24	**14**	263
Redeemable convertible preferred shares	26	**—**	66,596
Total current liabilities		**276**	67,094
NET CURRENT ASSETS/ (LIABILITIES)		**113,583**	(55,241)
TOTAL ASSETS LESS CURRENT LIABILITIES		**117,720**	(52,134)
Net assets/(liabilities)		**117,720**	(52,134)
EQUITY			
Issued capital		**3**	1
Reserves	31	**114,838**	(52,135)
Proposed final dividend	14	**2,879**	—
Total equity/ (deficits)		**117,720**	(52,134)

1. CORPORATE INFORMATION

IGG Inc (the "Company") was incorporated in the Cayman Islands on 16 August 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered address of the Company is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman, KY1-1112, Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 October 2013 (the "Listing Date").

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

In the opinion of the directors of the Company, as of the date of this report, controlling shareholders comprising the following investment entities and individuals are the ultimate substantial shareholders:

a) Duke Online Holdings Limited ("Duke Online"), which was incorporated in the British Virgin Islands (the "BVI") and fully owned by Mr. Zongjian Cai;

b) Edmond Online Holdings Limited ("Edmond Online"), which was incorporated in the BVI and fully owned by Mr. Yuan Chi;

c) Ms. Kai Chen;

d) Mr. Zhixiang Chen;

e) Mr. Yuan Xu; and

f) Mr. Hong Zhang.

Individuals stated above from (c) to (f) were collectively referred to as Management Team. On 16 September 2013, Duke Online, Edmond Online, Mr. Zongjian Cai, Mr. Yuan Chi and members of the Management Team entered into an act-in-concert agreement, pursuant to which each of them agreed that they would act in concert with each other with respect to material matters relating to the Company's operation.

Under the prevailing laws and regulations in the People's Republic of China (the "PRC", or Mainland China which excludes, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan), companies with foreign ownership are prohibited from online game business and online advertising business in Mainland China. The Group historically operated its online games and online advertising in Mainland China through Fuzhou Tianmeng and Fuzhou Online Game Information Technology Co., Ltd. ("Fuzhou Online Game") (collectively, the "PRC Operating Entities"). Fuzhou Online Game was disposed of by the Group in 2012, details of which is set out in note 13 to the financial statements.

1. CORPORATE INFORMATION (Continued)

Certain structured contracts ("Structured Contracts") were effectuated among the PRC Operating Entities, Fuzhou Tianji and Mr. Zongjian Cai and Mr. Yuan Chi (the "Registered Shareholders") who are the legal shareholders of the PRC Operating Entities and also the core founders of the Company. The Structured Contracts for Fuzhou Tianmeng and Fuzhou Online Game were effectuated in November 2007 and August 2009, respectively.

The Structured Contracts provide the Group through Fuzhou Tianji with effective control over PRC Operating Entities. In particular, Fuzhou Tianji undertakes to provide the PRC Operating Entities with certain technical services as required to support their operations. In return, the Group is entitled to substantially all of the operating profits and residual benefits generated by the PRC Operating Entities through intercompany charges levied on these services rendered. The Registered Shareholders are also required to transfer their interests in the PRC Operating Entities to the Group or the Group's designee upon a request made by the Group when permitted by the PRC laws for a consideration, as permitted under the PRC laws. The ownership interests in the PRC Operating Entities have also been pledged by the Registered Shareholders to the Group in respect of the continuing obligations of the PRC Operating Entities. Fuzhou Tianji has not provided any financial support that it was not previously contractually required to do so to the PRC Operating Entities during the year. Fuzhou Tianji intends continuously to provide to or assist the PRC Operating Entities in obtaining financial support when deemed necessary. Accordingly, the Group has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities.

As a result, Fuzhou Tianmeng was accounted for as a subsidiary of the Company. The formation of the Structured Contracts for Fuzhou Tianmeng was accounted for as a business combination between entities under common control by applying the pooling of interests method, where the assets and liabilities of Fuzhou Tianmeng are reflected at their existing carrying values at the date of consolidation. The Group acquired Fuzhou Online Game from independent third parties through formation of Structured Contracts which was accounted for as business combination by using the acquisition method where the assets and liabilities of Fuzhou Online Game are reflected at their fair values at the date of consolidation. This approach was adopted because in management's belief it best reflected the substance of the formation.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs", which include all International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rules"). All IFRSs effective for the accounting periods commencing from 1 January 2013 and Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets which are effective for accounting periods commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of these financial statements throughout the year.

These financial statements have been prepared under the historical cost convention, except for redeemable convertible preferred shares which have been measured at fair value. These financial statements are presented in United States Dollar ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and Fuzhou Tianmeng (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiaries and Fuzhou Tianmeng are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and Fuzhou Tianmeng are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

As explained in note 1 above, the acquisition of subsidiaries and Fuzhou Tianmeng under common control has been accounted for using the pooling of interests method. The pooling of interests method involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book value.

No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries and Fuzhou Tianmeng below. A change in the ownership interest of a subsidiary or Fuzhou Tianmeng, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary or Fuzhou Tianmeng, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary or Fuzhou Tianmeng, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the financial statements.

IFRS 9	*Financial Instruments*[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[3]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 14	Regulatory Deferred Accounts[4]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 Finan*cial Instruments: Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
Annual Improvements 2010 – 2012 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
Annual Improvements 2011 – 2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 No mandatory effective date yet determined but is available for adoption

4 Effective for annual periods beginning on or after 1 January 2016

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSS (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSS (Continued)

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries and the PRC Operating Entities

Subsidiaries and the PRC Operating Entities are entities, directly or indirectly, controlled by the Company and/or its other subsidiaries.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries and the PRC Operating Entities are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries (including the PRC Operating Entities) are stated at cost less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates (after taking account of the residual value) used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and 20%
Computer equipment	31.7%
Office equipment and furniture	31.7%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Royalty fees

Royalty fees represent upfront licence fees from exclusive operation licences of the Group's in-house developed games in certain regions. They are stated at cost less any impairment losses and are amortised on the straight-line basis over the estimated useful life.

Trademarks and domain names, software and copyright

All these intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 5 years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate less any allowance for impairment. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement or profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivative designated as hedging instruments in effective hedges, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, financial liabilities included in other payables and accruals, and redeemable convertible preferred shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Redeemable convertible preferred shares

The redeemable convertible preferred shares were designated as at fair value through profit or loss on initial recognition.

A financial liability may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The redeemable convertible preferred shares with embedded derivatives whose economic risks and characteristics are not closely related to those of the host contract (the liability component) as a whole is designated as financial liabilities at fair value through profit or loss on initial recognition.

Transaction costs that are directly attributable to the issue of the redeemable convertible preferred shares designated as financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss.

At the end of the reporting period subsequent to initial recognition, the redeemable convertible preferred shares are measured at fair value, with changes in fair value arising on re-measurement recognised directly in the statement of profit or loss in the period in which they arise.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of each of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

(a) Online game and mobile game revenue

The Group operates its online games and mobile games that allow players to play for free. Players can purchase virtual currency to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. Players can pay for virtual currency using different payment platforms such as Facebook Payments, credit cards, PayPal, Apple Inc.'s App Store or Google Play. The third-party payment platforms are entitled to the relevant service fees which are withheld and deducted from the gross proceeds of virtual currency collected from the players, with the net amounts remitted to the Group. The consideration received for the purchase of the virtual currency or virtual items is non-refundable and the related contracts are non-cancellable. Such consideration received is initially included in deferred revenue on the consolidated statement of financial position. The Group recognises revenue on a gross basis and treats the relevant service fees as cost of sales in the consolidated statement of profit or loss.

The virtual items are considered value-added services and rendered over a pre-specified period or throughout the whole game life. The revenue from these virtual items is recognised either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate. Future usage patterns may differ from the historical usage patterns on which the Group's revenue recognition policy is based. The Group monitors the operational statistics and usage patterns of the virtual items. Once virtual currency is charged to a player's personal online game or mobile game account, it can be used by the player until the specific game has been closed down. Unused balance of virtual currency is recognised as revenue when the specific game has been closed down or the players' account has been inactive for 360 consecutive days, whichever is earlier. The Group determines that the likelihood that the Group would provide further online game and mobile game service with respect to the players whose accounts have been inactive for 360 consecutive days is remote.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(a) Online game and mobile game revenue (Continued)

The Group entered into an agreement with Facebook, which required the Group to accept Facebook Payments as the primary in-game payment method for the Group's games played through the Facebook platform. From July 2010 through the third quarter of 2013, Facebook Credit is Facebook's proprietary virtual currency that Facebook sells for use on the Facebook platform. Facebook sets the price players pay for Facebook Credits and collects the cash from the sale of Facebook Credits. Facebook's current stated face value of a Facebook Credit is $0.10. For each Facebook Credit purchased by players and redeemed in the games, Facebook remits to the Group $0.07. In July 2013, Facebook began to transit payments made on the Facebook platform from Facebook Credits to Facebook's local currency-based payments program. The Group recognises revenue on a gross basis based on the stated face value and amount of Facebook Credits redeemed in the game or the price charged by Facebook to the players for each transaction under the local currency-based payments program. And the Group recorded the portion retained by Facebook as cost of sales.

The Group is susceptible to chargebacks claims, in which the players report to the payment platforms the purchase of virtual currency or virtual items as suspicious or fraudulent activity. The payment platforms may not substantially review the claim and will normally refund the credit card. The Group estimates chargebacks from Facebook and third-party payment processors to account for potential future chargebacks based on historical data and record such amounts as a reduction of revenue.

(b) Licensing revenue

The Group receives royalty income from third-party licensees in exchange for exclusive operation of the Group's self-developed games in certain regions and providing related technical support. The royalty fees include an upfront fee and a monthly fee, which is determined based on an agreed percentage of virtual currency purchased by the players with accounts registered with the third parties. The upfront fee is recognised ratably over the contracted licence period. The Group is unable to reliably estimate the monthly royalty fee because it has no access to the data of players' purchase activity conducted through the licensees. Accordingly, the monthly royalty fee is recognised when the licensees confirm their sales activities for the period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(c) Joint operation revenue

When the Group's games are jointly operated through the websites of third-party joint operators, the Group views the third-party joint operators as its customers and recognises revenue on a net basis as it acts as an agent in the arrangement. The Group does not have the primary responsibility for fulfilment and acceptability of the game services. The Company has been given access to third-party joint operators' platform to monitor monthly sales activities for purposes of estimating revenue.

Accordingly, revenue from such arrangement is recognised in the month game players purchase the Group's virtual currency. The amount of revenue is measured based on the portion to which the Company is entitled and the amount of game players' purchase of the Group's virtual currency through the joint operator's websites.

(d) Interest income

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

Share-based payments

The Company operates the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme I for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of the reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes — Mainland China

The employees of the Group's subsidiaries, which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Pension scheme — non-China

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each reporting period. Contributions to these plans are expensed as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Judgements (Continued)

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 below.

The Group's determination as to whether to accrue for deferred tax for withholding taxes from the distribution of dividends from the subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, no deferred tax for withholding taxes is provided.

Estimates of current and deferred income tax and sales tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact on the income and deferred tax provisions in the period in which such determination was made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair value of share-based compensation expenses

As mentioned in note 30, the Group has granted share options to its employees. The directors have used the binominal model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk-free rate, dividend yield, expected volatility and expected life of options, is required to be made by the directors in applying the binomial model.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of redeemable convertible preferred shares

As described in note 26, the Company's redeemable convertible preferred shares are measured as fair value through profit or loss. The Company engaged an independent appraiser to assist it in determining the fair value. The determination of fair value was made after consideration of a number of factors, including but not limited to: the Group's financial and operating results; the global economic outlook in general and the specific economic and competitive factors affecting the Group's business; business risks the Group faces; and market yields and return volatility of comparable corporate bonds. This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Online game and mobile game revenue recognition

(a) Estimation of the sales value of unutilised virtual items

Online game and mobile game revenue is recognised based on the actual consumption of the virtual items converted from virtual currency. Income received in respect of unutilised virtual items is recognised as deferred revenue. As to the amount of deferred revenue in respect of unutilised virtual items, management's estimation is required in determining the average sales value of those unutilised virtual items because the Company is unable to track the sales value of each individual unutilised virtual item.

A number of promotional activities by offering to game players volume discounts of virtual currency were conducted throughout the reporting period. In assessing the amount of average sales value for the virtual currency which accordingly will affect the value of unutilised virtual items, management considers the discount rate offered in different promotional activities and the income received during the period when such activities were conducted. Based on these factors, management determines an average discount rate which gives rise to the best estimate of the discount given to virtual currency sold during the reporting period. In addition, a number of unutilised virtual items were granted free of charge by completing certain tasks or entering into lucky draw within the games. The portion of unutilised virtual items obtained within the games by means other than paying with virtual currency is estimated based on the Company's statistics. The average sales value of each virtual item paid with virtual currency is then determined by factoring the average discount rate to the face value of the virtual currency and standard price of the virtual items measured in virtual currency.

5. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Online game and mobile game revenue recognition (Continued)

(b) Estimation of the user life of paying players

The Group recognises revenue from the sales of virtual items and virtual currency ratably over the estimated average user life of paying players for the applicable games in which the Group is not able to track the consumption of virtual items. Future paying player usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average user life of paying players may change in the future.

The Group will continue to monitor the estimation used in determining the sales value of virtual items and average user life of paying players, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. OPERATING SEGMENT INFORMATION

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

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

Geographical information

(a) Revenue from external customers based on the IP locations of the game players

	2013	2012
	US$'000	US$'000
North America	**34,038**	14,587
Asia	**26,017**	13,582
Europe	**20,128**	10,532
Oceania	**4,215**	2,297
South America	**3,263**	2,032
Africa	**325**	124
	87,986	43,154

6. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	2013	2012
	US$'000	US$'000
PRC (including Taiwan)	**1,051**	959
North America	**880**	824
Singapore	**415**	403
Philippines	**17**	—
	2,363	2,186

The non-current assets information above is based on the locations of the assets.

No revenue from a single external customer amounted to 10% or more of the Group's revenue during the financial periods presented.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the services rendered after allowances for chargebacks, and the royalties derived from licensing agreements.

An analysis of revenue, other income and gains from continuing operations is as follows:

	Group	
	2013	2012
	US$'000	US$'000
Revenue		
Online game revenue	**85,251**	41,810
Licensing revenue	**234**	548
Joint operation revenue	**2,501**	796
	87,986	43,154
Other income and gains		
Government grants*	**355**	261
Bank interest income	**160**	24
Gain on disposal of items of property, plant and equipment	**—**	6
Rental income**	**—**	95
Others	**77**	36
	592	422

7. REVENUE, OTHER INCOME AND GAINS (Continued)

* Government grants were received from the government of the PRC mainly for subsidising the staff training costs incurred by the Group for its service outsourcing and technology export businesses. There are no unfulfilled conditions or contingencies relating to the grants.

** Rental income was generated from the sub-lease to an unrelated party portion of our office spaces in Fuzhou.

8. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax from continuing operations is arrived at after charging/(crediting):

		Group	
		2013	2012
	Notes	**US$'000**	US$'000
Channel cost		**17,246**	5,636
Royalty fee		**1,413**	1,598
Depreciation	16	**754**	1,014
Amortisation of other intangible assets	17	**105**	264
Minimum lease payments under operating leases of buildings		**2,645**	2,228
Auditors' remuneration			
– audit service		**582**	35
– non audit service		**490**	7
		1,072	42
Employee benefit expense (including directors' remuneration, note 9):			
Salaries and wages		**10,790**	8,530
Staff welfare expenses		**787**	343
Equity-settled share compensation costs		**1,030**	126
Pension scheme contributions		**807**	450
Foreign exchange differences, net		**346**	18
Fair value loss of redeemable convertible preferred shares		**14,167**	20,612
Loss/(gain) on disposal of items of property, plant and equipment		**10**	(6)
Bank interest income	7	**(160)**	(24)
Government grants	7	**(355)**	(261)

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013	2012
	US$'000	US$'000
Fee	**150**	120
Other emoluments:		
Salaries, allowances and benefits in kind	**184**	110
Performance related bonuses*	**40**	271
Pension scheme contributions	**8**	6
	232	387
	382	507

* Executive directors of the Company are entitled to bonus payments which are determined based on the operating results of the Group.

(a) Independent non-executive directors

The remuneration paid to independent non-executive directors during the year was as follows:

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2013					
Dr. Horn Kee Leong	**10**	—	—	—	**10**
Mr. Dajian Yu	**5**	—	—	—	**5**
Ms. Zhao Lu	**5**	—	—	—	**5**
	20	—	—	—	**20**

No independent non-executive director was appointed by the Company during the year ended 31 December 2012. There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2013					
Executive directors					
Mr. Zongjian Cai	**60**	**110**	**23**	**4**	**197**
Mr. Yuan Chi	**60**	**74**	**17**	**4**	**155**
	120	**184**	**40**	**8**	**352**
Non-executive directors					
Mr. Xiaojun Li	**5**	**—**	**—**	**—**	**5**
Mr. Kee Lock Chua	**5**	**—**	**—**	**—**	**5**
	10	**—**	**—**	**—**	**10**
2012					
Executive directors					
Mr. Zongjian Cai	60	62	175	3	300
Mr. Yuan Chi	60	48	96	3	207
	120	110	271	6	507

Included in the total remuneration in the year ended 31 December 2013, US$31,746 and US$24,762 were paid to two companies wholly owned by Mr. Zongjian Cai and Mr. Yuan Chi, respectively (2012: US$235,000 and US$152,000, respectively).

There were no emoluments payable to the non-executive directors during the year ended 31 December 2012. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2012: two), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013	2012
	US$'000	US$'000
Salaries, allowances and benefits in kind	**424**	374
Performance related bonuses	**61**	288
Equity-settled share option expense	**56**	74
Pension scheme contributions	**20**	22
	561	758

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2013	2012
Nil to US$100,000	**—**	—
US$100,001 to US$150,000	**2**	—
US$150,001 to US$200,000	**1**	3
	3	3

In prior years, share options were granted to the non-director and non-chief executive, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised to the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

11. INCOME TAX

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

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

IGG Singapore is subject to the prevailing corporate tax rate of 17% in Singapore and is entitled to a preferential tax rate of 5% on qualifying income derived during the incentive period as a result of the Development and Expansion Incentive granted by the Singapore Economic Development Board for being an intellectual property owner and international headquarter for the Group's on-line game business. The incentive period covers a time frame of 7 years from 1 January 2010 to 31 December 2016, as long as IGG Singapore is able to meet certain conditions as set out in the letter of award issued by the Singapore Economic Development Board on 27 January 2010 and subsequently amended on 28 December 2012. Unless IGG Singapore reaches a subsequent agreement to extend the incentive period, IGG Singapore will not be entitled to the preferential tax rate of a 5% from 1 January 2017 onwards. IGG Singapore met the requisite conditions and thus a 5% preferential tax rate will be applied during the years ended 31 December 2012 and 2013 and the year ending 31 December 2014.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25% for the year ended 31 December 2013 on their respective taxable income, except for Fuzhou Tianmeng which was certified as Software Enterprise and is exempted from income tax for two years starting from the first year in which it generate taxable profit, followed by a 50% reduction for the next three years. In the year ended 31 December 2012, Fuzhou Tianmeng started generating taxable profit and therefore is exempted from income tax for the years ended 31 December 2012 and 2013.

11. INCOME TAX (Continued)

For the years ended 31 December 2013 and 2012, IGG US, a subsidiary of the Company in the United States, was subject to federal income tax at graduated rates ranging from 15% to 39%. In addition, IGG US is also subject to the California state income tax rate of 8.84%.

	Group	
	2013	2012
	US$'000	US$'000
Current year provision:		
US	**45**	11
Hong Kong	**—**	—
Singapore	**832**	—
PRC	**437**	—
Subtotal of current tax	**1,314**	11
Deferred tax (note 27)		
US	**49**	45
Singapore	**(114)**	116
PRC	**64**	(9)
Subtotal of deferred tax	**(1)**	152
Total tax charge for the year	**1,313**	163

11. INCOME TAX (Continued)

During the years ended 31 December 2013 and 2012, IGG Singapore was the headquarter of the Group where it recorded majority of its revenue. A reconciliation of the tax expense applicable to loss before tax at IGG Singapore's statutory tax rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., IGG Singapore's statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2013		2012	
	US$'000	%	US$'000	%
Profit/(loss) before tax from continuing operations	**8,261**		(12,946)	
Tax at the applicable tax rate	**1,405**	17.0	(2,201)	17.0
Effect in tax rates for different tax jurisdictions or enacted by local authority	**3,536**	42.8	3,548	(27.4)
Effect of tax holidays applicable to the subsidiaries and Fuzhou Tianmeng	**(1,595)**	(19.3)	(1,868)	14.4
Tax losses not recognised	**974**	11.8	892	(6.9)
Tax losses utilised	**(2,646)**	(32.0)	—	—
Effect on different rates applicable to deferred tax and current tax	**—**	—	24	(0.2)
Income not subject to tax	**(98)**	(1.2)	(98)	0.8
Expenses not deductible for tax	**167**	12.0	47	(0.4)
Super deduction for qualifying spending under Productivity and Innovation Credit and qualifying research and development costs	**(430)**	(5.2)	(181)	1.4
Tax charge at the Group's effective rate	**1,313**	15.9	163	(1.3)

12. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2013 include a loss of US$14,795,000 (2012: US$21,236,000) which has been dealt with in the financial statements of the Company (note 31 (b)).

13. DISCONTINUED OPERATION

Registered Shareholders transferred their entire equity interests in Fuzhou Online Game to Fuzhou Tianmeng on 24 April 2012. Subsequently on 8 October 2012, the Group entered into a sale and purchase agreement with two third-party individuals to dispose of its 100% equity interests in Fuzhou Online Game at a cash consideration of RMB100,000 (equivalent to US$16,096), plus a contingent consideration based on a certain percentage of future profits earned by Fuzhou Online Game. The Group immediately recognised a loss on disposal of Fuzhou Online Game of approximately US$405,000 and the contingent consideration will be recognised into the statement of profit or loss once becoming receivable. Up to the end of the reporting period, the Group has not recognised any profits in relation to the contingent consideration as Fuzhou Online Game did not make any profits.

Fuzhou Online Game was engaged in the online advertising business which was a major individual line of business, therefore the operating results of Fuzhou Online Game together with the loss on disposal were presented as a discontinued operation during the year ended 31 December 2012.

The results of Fuzhou Online Game for the year ended 31 December 2012 are presented below:

	2012 US$'000
Revenue	1,405
Expenses	(1,326)
Profit before tax	79
Loss recognised on the disposal	(405)
Income tax impact	—
Loss for the year from the discontinued operation	(326)

13. DISCONTINUED OPERATION (Continued)

The net cash flows incurred by Fuzhou Online Game for the year ended 31 December 2012 are as follows:

	2012 US$'000
Operating activities	(51)
Investing activities	6
Net cash outflow	(45)
Loss per share:	
Basic and diluted, from the discontinued operation	US$(0.0006)

The calculations of basic and diluted loss per share from the discontinued operation for the year ended 31 December 2012 are based on:

	2012 US$'000
Loss attributable to ordinary equity holders of the parent from the discontinued operation	(326)
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation (note 15)	534,807,342
Weighted average number of ordinary shares used in the diluted loss per share calculation (note 15)	534,807,342

13. DISCONTINUED OPERATION (Continued)

The assets and liabilities of Fuzhou Online Game at the date of disposal and the loss on disposal are as follows:

	2012 US$'000
Net assets disposed of:	
Property, plant and equipment (note 16)	52
Accounts receivable	593
Prepayments, deposits and other receivables	173
Cash and cash equivalents	124
Accounts payable	(237)
Other payables and accruals	(262)
Exchange realignment	(22)
	421
Loss on disposal of a discontinued operation	(405)
Satisfied by:	
Cash	6
Receivable*	10
	16

* The consideration receivable of US$10,000 was collected in April 2013.

An analysis of the net outflow of cash and cash equivalents in respect of the disposal is as follows:

	2012 US$'000
Cash consideration	6
Cash and cash equivalents disposed of	(124)
Net outflow of cash and cash equivalents in respect of the disposal of a discontinued operation	(118)

14. DIVIDEND

	2013	2012
	US$' 000	US$' 000
Proposed 2013 final dividend – HK1.6 cents (2012: Nil) per ordinary share	**2,879**	—

The proposed 2013 final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

On 29 July 2013, the Company declared a dividend in the amount of US$4,923,497 payable to the Company's then existing shareholders, amounting to US$0.19 per share not reflecting the Shares Subdivision described in note 29 of the financial statements. The dividend has been paid during the year.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

For the purpose of calculating earnings/(loss) per share, the numbers of ordinary shares outstanding during the years ended 31 December 2013 and 2012 have been adjusted retroactively as a result of the Shares Subdivision described in note 29 to the financial statements.

The calculation of the basic earnings per share amount is based on the profit for the year ended 31 December 2013 attributable to ordinary equity holders of the parent of US$6,948,000 (2012: loss of US$13,435,000), and the weighted average number of ordinary shares of 896,386,767 (2012: 534,807,342) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year ended 31 December 2013 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2013, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2012 in respect of a dilution as the impact of the share options and redeemable convertible preferred shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

15. EARNINGS/ (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

	2013	2012
	US$'000	US$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic and diluted earnings/(loss) per share calculations:		
From continuing operations	**6,948**	(13,109)
From a discontinued operation	**—**	(326)
	6,948	(13,435)

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**896,386,767**	534,807,342
Effect of dilution – weighted average number of ordinary shares:		
Share options under the Pre-IPO Share Option Scheme	**86,681,125**	—
	983,067,892	534,807,342

16. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements US$'000	Computer equipment US$'000	Office equipment and furniture US$'000	Motor vehicles US$'000	Total US$'000
2013					
At 31 December 2012 and at 1 January 2013:					
Cost	—	4,865	280	65	5,210
Accumulated depreciation	—	(3,378)	(254)	(61)	(3,693)
Net carrying amount	—	1,487	26	4	1,517
At 1 January 2013, net of accumulated depreciation	—	1,487	26	4	1,517
Additions	52	853	35	—	940
Disposals	—	(40)	(3)	—	(43)
Depreciation provided during the year	(11)	(726)	(16)	(1)	(754)
Exchange realignment	—	13	1	—	14
At 31 December 2013, net of accumulated depreciation	41	1,587	43	3	1,674
At 31 December 2013:					
Cost	52	5,510	280	67	5,909
Accumulated depreciation	(11)	(3,923)	(237)	(64)	(4,235)
Net carrying amount	41	1,587	43	3	1,674

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Leasehold improvements US$'000	Computer equipment US$'000	Office equipment and furniture US$'000	Motor vehicles US$'000	Total US$'000
2012					
At 31 December 2011 and at 1 January 2012:					
Cost	830	4,568	286	65	5,749
Accumulated depreciation	(746)	(2,785)	(228)	(48)	(3,807)
Net carrying amount	84	1,783	58	17	1,942
At 1 January 2012, net of accumulated depreciation	84	1,783	58	17	1,942
Additions	14	637	7	—	658
Disposals	(9)	(9)	(1)	—	(19)
Disposal of assets included in a discontinued operation (note 13)	(13)	(37)	(2)	—	(52)
Depreciation provided during the year	(76)	(893)	(33)	(12)	(1,014)
Exchange realignment	—	6	(3)	(1)	2
At 31 December 2012, net of accumulated depreciation	—	1,487	26	4	1,517
At 31 December 2012:					
Cost	—	4,865	280	65	5,210
Accumulated depreciation	—	(3,378)	(254)	(61)	(3,693)
Net carrying amount	—	1,487	26	4	1,517

17. OTHER INTANGIBLE ASSETS

Group	Trademarks and domain names US$'000	Software US$'000	Copyright US$'000	Royalty fees US$'000	Total US$'000
2013					
At 1 January 2013, net of accumulated amortisation	39	105	7	1	152
Additions	29	16	1	—	46
Amortisation provided during the year	(26)	(72)	(6)	(1)	(105)
Exchange realignment	—	4	—	—	4
At 31 December 2013	42	53	2	—	97
At 31 December 2013:					
Cost	208	610	24	278	1,120
Accumulated amortisation	(166)	(557)	(22)	(278)	(1,023)
Net carrying amount	42	53	2	—	97
2012					
At 1 January 2012, net of accumulated amortisation	52	156	13	82	303
Additions	18	93	1	—	112
Amortisation provided during the year	(31)	(145)	(7)	(81)	(264)
Exchange realignment	—	1	—	—	1
At 31 December 2012	39	105	7	1	152
At 31 December 2012:					
Cost	177	578	22	278	1,055
Accumulated amortisation	(138)	(473)	(15)	(277)	(903)
Net carrying amount	39	105	7	1	152

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	US$'000	US$'000
Unlisted shares, at cost	**2,217**	2,217
Capital contribution in respect of employee share-based compensation	**1,920**	890
	4,137	3,107

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand.

18. INVESTMENTS IN SUBSIDIARIES (Continued)

As at the end of the year, the Company has direct or indirect interests in the following subsidiaries, the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operation	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Skyunion Hong Kong Holdings Limited	Hong Kong 20 February 2006	HK$1,500,000	100	—	Operation and licensing of online games in overseas market
IGG Singapore Pte. Ltd ("IGG Singapore")	Singapore 30 June 2009	SGD1,500,000	100	—	Operation and licensing of online games in overseas market
Sky Union, LLC ("IGG US")	USA 25 October 2005	US$266,236.86	100	—	As the agent of sale & marketing, as well as server hosting function for group companies including collecting fees from the players globally
Fuzhou TJ Digital Entertainment Co., Ltd (Fuzhou Tianji")*	PRC 15 November 2007	US$5,000,000	—	100	Research and development of games and provision of global customer support services
Fuzhou Skyunion Digital Co., Ltd ("Fuzhou Tianmeng")**	PRC 12 December 2006	RMB10,000,000	—	100#	Research and development of games and provision of global customer support services
Fuzhou Tianjie Information Technology Co., Ltd ("Fuzhou Tianjie")**	PRC 3 June 2008	RMB1,000,000	—	100	Research and development of games
IGG Philippines Corp. ("IGG Philippines")	Philippines 11 January 2013	PHP2,000,000/ PHP4,000,000	—	100	Provision of global customer support services

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

** Registered as limited liability companies under the law of the PRC.

\# Fuzhou Tianmeng was legally owned by the Registered Shareholders. Fuzhou Tianji entered into the Structured Contracts with Fuzhou Tianmeng and its Registered Shareholders. As a result of the contractual arrangements, Fuzhou Tianmeng was ultimately controlled by Fuzhou Tianji, which is a wholly-owned subsidiary of the Company. Please refer to note 1 to the financial statements for details.

19. ACCOUNTS RECEIVABLE

	Group	
	2013	2012
	US$'000	US$'000
Accounts receivable	**314**	496

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

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	US$'000	US$'000
Within 3 months	**314**	450
3 to 6 months	**—**	46
	314	496

No provision has been made for impairment of accounts receivable in the year ended 31 December 2013 (2012: Nil).

19. ACCOUNTS RECEIVABLE (Continued)

The aged analysis of the accounts receivable that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2013	2012
	US$'000	US$'000
Neither past due nor impaired	**314**	496

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default. There was no receivable that was past due.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2013	2012
	US$'000	US$'000
Prepayments	**470**	128
Rental deposits	**108**	63
Other receivables	**341**	285
	919	476

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. FUNDS RECEIVABLE

Funds receivable represent balances due from third-party payment service providers for the cash collected from game players that purchased virtual currency. The Company carefully considers and monitors the credit-worthiness of the third-party payment service providers.

An allowance for doubtful accounts is recorded in the year in which a loss is determined to be probable. Receivable balances are written off after all collection efforts have been exhausted. As at 31 December 2013, no allowance for doubtful accounts was provided for the funds receivable (2012: Nil).

As at the end of the reporting period, the funds receivable were aged within 3 months.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Cash and bank balances	**31,374**	12,786	**369**	121
Time deposits	**104,114**	2,349	**93,108**	—
	135,488	15,135	**93,477**	121

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately US$4,116,000 (2012: US$2,049,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2013	2012
	US$'000	US$'000
Within 3 months	**2,998**	1,742
3 to 6 months	**72**	44
6 months to 1 year	**99**	17
Over 1 year	**59**	38
	3,228	1,841

The accounts payable are non-interest-bearing and are mainly settled within three months.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Other tax payables	**472**	356	**—**	—
Other payables	**339**	78	**3**	35
Provision for chargebacks	**184**	277	**—**	—
Salary and welfare payables	**1,929**	2,150	**—**	—
Other accruals	**82**	263	**11**	228
	3,006	3,124	**14**	263

Other payables are non-interest-bearing and are mainly settled within three months. The salary and welfare payables are non-interest-bearing and payable on demand.

As at 31 December 2012, an underpaid social security contribution of US$650,000 in relation to the past two years was recorded in salary and welfare payables. The balance was fully settled with the government in 2013.

25. DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by game players or licensees for online game and mobile game services to which related services have not been rendered as at the end of the reporting period.

26. REDEEMABLE CONVERTIBLE PREFERRED SHARES

On 30 November 2007, the Company issued an aggregate of 5,375,000 Series A convertible contingently redeemable preferred shares ("Series A shares") at an aggregate purchase price of US$3,000,001. On 30 November 2007, the Company issued the warrants which shall be exercisable at an aggregate price of US$1,500,000 for 1,343,750 Series A1 convertible contingently redeemable preferred shares ("Series A1 shares") with an exercise period expired upon (i) the expiry of eighteen (18) months from the closing date, (ii) a qualified initial public offering (the "IPO"), or (iii) in the event of any liquidation, dissolution or winding up of the Company, whichever is the earlier. On 1 June 2009, the expiry date of the warrant exercise period, the warrant holders exercised the warrants for 1,209,375 Series A1 shares at the consideration of US$1,350,000. The warrants exercisable for 134,375 Series A1 shares lapsed on that day. On 12 November 2008, the Company issued an aggregate of 49,675 Series B convertible contingently redeemable preferred shares ("Series B shares") to the shareholders and investors of IGG US which has become a wholly-owned subsidiary of the Company ever since. On 12 November 2008, the Company issued an aggregate of 5,216,091 Series B shares at an aggregate purchase price of US$10,499,991.

26. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)

Series A, B and A1 shares (collectively the "Series Shares") shall automatically be converted into ordinary shares ("Automatic Conversion"), at the applicable Series Shares conversion price (i) upon the closing of an underwritten public offering of the ordinary shares of the Company in the United States, with an implied market capitalisation of at least two hundred and fifty million US dollars (US$250,000,000) and the aggregate net proceeds of the Company in excess of fifty million US dollars (US$50,000,000), or in a similar public offering of the ordinary shares of the Company in Hong Kong or another jurisdiction which results in the ordinary shares trading publicly on a recognised international securities exchange; provided that (a) the implied market capitalisation of the Company after such offering shall be at least one hundred million US dollars (US$100,000,000) and the aggregate net proceeds of the Company in excess of twenty million US dollars (US$20,000,000); and (b) the board of directors has decided to have the Company listed on the Stock Exchange or other recognised international securities exchanges (a "Qualified Public Offering"), or (ii) upon the prior written approval of the holders of at least a majority of the Series Shares, which holders in each case shall include certain investors. In addition to the Automatic Conversion, each holder of the Series Shares shall have the right, at such holder's sole discretion, to convert all or any portion of the Series Shares into ordinary shares at any time. The initial conversion price will be the Series Share issue price (i.e., a 1-to-1 initial conversion ratio), which will be subject to adjustments to reflect stock dividends, stock splits and other events.

The preferred shares have no expiry date. However, at any time commencing on 1 December 2011 (inclusive), then subject to the applicable laws of the Cayman Islands and, if so requested by the holders of more than seventy-five percent (75%) of the Series Shares, the Company shall redeem all of the outstanding Series Shares out of funds legally available therefore. At 31 December 2012, the Series Shares were presented as current liability as they were subject to redemption at any time on the request of the holders of the Series Shares.

The Series Shares contain the financial liability and embedded derivatives and the entire instrument was designated as financial liability at fair value through profit or loss on initial recognition. The initial carrying values of the Series A and B Shares are their issuance prices at their respective issuance dates. The initial carrying value of the Series A1 Shares is the fair value of the warrants on the exercise date plus the cash proceeds from the exercise. They are measured subsequently at fair value at each period end with changes in fair value recognised in the statement of profit or loss. The Company determined the fair value of the Series Shares based on valuations performed by Jones Lang LaSalle.

On 31 May 2013, a written approval was signed by all holders of the Series Shares regarding the Automatic Conversion of the Series Shares, As a result, the Company issued 11,850,141 ordinary shares of the Company upon the Automatic Conversion of the Series Shares on 31 May 2013 (the "Conversion"). Upon the Conversion, the balance of the Series Shares was transferred to equity, at the fair value of the date of the Conversion.

26. REDEEMABLE CONVERTIBLE PREFERRED SHARES (Continued)

The movements in the carrying value of the Series Shares are as follows:

	Group	
	2013	2012
	US$'000	US$'000
At 1 January	**66,596**	45,984
Fair value changes in the Series Shares recognised in the statement of profit or loss	**14,167**	20,612
Conversion of the Series Shares	**(80,763)**	—
At 31 December	**—**	66,596

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group	Deferred revenue US$'000	Intangible assets US$'000	Loss available for offsetting against future taxable profits US$'000	Others US$'000	Total US$'000
Deferred tax assets at 1 January 2012	215	21	139	97	472
Deferred tax (charged)/credited to the statement of profit or loss during the year	29	9	(139)	(6)	(107)
Deferred tax assets at 31 December 2012 and 1 January 2013	244	30	—	91	365
Deferred tax (charged)/ credited to the statement of profit or loss during the year	180	(30)	—	(82)	68
Exchange realignment	1	—	—	1	2
Deferred tax assets at 31 December 2013	425	—	—	10	435

27. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

The Group had tax losses arising in the PRC of approximately US$3,851,000 (2012: US$10,891,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

Deferred tax liabilities

Group	Property, plant and equipment US$'000
At 1 January 2012	205
Deferred tax charged to the statement of profit or loss during the year	45
Deferred tax liabilities at 31 December 2012 and 1 January 2013	250
Deferred tax charged to the statement of profit or loss during the year	67
Deferred tax liabilities at 31 December 2013	317

28. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

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

At 31 December 2013, there were no undistributed earnings of Fuzhou Tianmeng (2012: US$1,686,589). At 31 December 2012, no deferred tax has been recognised for income taxes that would be payable on the Fuzhou Tianmeng's unremitted earnings that are subject to income taxes if being distributed. In the opinion of the directors, it is not probable that Fuzhou Tianmeng would distribute such earnings in the foreseeable future. There was not any aggregate amount of temporary differences associated with investments in Fuzhou Tianmeng in Mainland China for which deferred tax liabilities have not been recognised at 31 December 2013 (2012: US$1,686,589).

At 31 December 2013, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of Fuzhou Tianji. In the opinion of the directors, it is not probable that Fuzhou Tianji will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in Fuzhou Tianji for which deferred tax liabilities have not been recognised totalled approximately US$1,529,000 at 31 December 2013 (2012: Nil).

There were no undistributed earnings of Fuzhou Tianjie as at 31 December 2013 (2012: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares

	2013 US$'000	2012 US$'000
Authorised:		
2,000,000,000 (2012: 29,300,450) ordinary shares of US$0.0000025 (2012: US$0.0001) each	5	3
Issued and fully paid or credited as fully paid:		
1,358,852,099 (2012: 13,463,000) ordinary shares of US$0.0000025 (2012: US$0.0001) each	3	1

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

	Notes	Number of shares in issue	Issued capital US$'000	Share premium account US$'000
At 1 January 2012		13,200,000	1	3,453
Share options exercised		263,000	—	127
At 31 December 2012 and 1 January 2013		13,463,000	1	3,580
Share options exercised (note 30)		864,000	—	584
Conversion of redeemable convertible preferred shares (note 26)		11,850,141	1	80,762
Shares Subdivision	(a)	1,020,908,499	—	—
Issuance of shares for the IPO	(b)	262,651,459	1	94,844
Issuance of shares under the Over-allotment Option	(c)	49,115,000	—	17,741
		1,358,852,099	3	197,511
Share issuance expenses		—	—	(5,109)
Dividends declared and paid to then existing shareholders (note 14)		—	—	(4,923)
Proposed 2013 final dividend		—	—	(2,879)
At 31 December 2013		1,358,852,099	3	184,600

29. SHARE CAPITAL (Continued)

Notes:

(a) Pursuant to the written resolutions of the shareholders passed on 16 September 2013 (the "Resolutions"), the Company's shareholders approved the subdivision ("Shares Subdivision") of each issued and unissued ordinary share of US$0.0001 in the capital of the Company to 40 shares of US$0.0000025 each.

(b) In connection with the Company's initial public offering ("IPO"), 262,651,459 shares of US$0.0000025 each were issued at a price of HK$2.80 per share for a total cash consideration, before listing expenses, of HK$735,424,085 (equivalent to approximately US$94,844,000). Dealings of these shares on the Stock Exchange commenced on 18 October 2013.

(c) On 15 November 2013, the sole lead manager, China Everbright Securities (HK) Limited, fully exercised the over-allotment option (the "Over-allotment Option") requiring the Company to allot and issue 49,115,000 additional shares of US$0.0000025 each (the "Over-allotment Shares"). The Over-allotment Shares, representing approximately 15% of the total ordinary shares initially available under the IPO before any exercise of the over-allotment option, have been issued and allotted by the Company at HK$2.80 per share, being the offer price under the IPO. Listing of and dealing in the Over-allotment Shares commenced on the Stock Exchange on 21 November 2013. In this regard, the net proceeds from the Over-allotment Shares approximated HK$132,340,171 (equivalent to US$17,072,000).

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

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

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted by the Company on 12 November 2008 and amended on 16 September 2013 by the Resolution. The purpose of the Pre-IPO Share Option Scheme is to offer eligible persons an opportunity to acquire a proprietary interest in the success of the Group's operations, or to increase such interest by purchasing ordinary shares of the Company. Eligible participants of the Pre-IPO Share Option Scheme include employees, the Company's outside directors and consultants. Only employees, the Company's outside directors and consultants are eligible for the grant of non-statutory options or the direct award or sale of shares. Only employees are eligible for the grant of incentive share options. The Pre-IPO Share Option Scheme became effective on 31 October 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

30. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

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

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

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

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

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

	2013		2012	
	Weighted average exercise price per share (Note) US$	**Number of options (Note)**	Weighted average exercise price per share (Note) US$	Number of options (Note)
At 1 January	**0.0345**	**110,624,000**	0.0255	121,040,000
Granted during the year	**0.0865**	**13,200,000**	0.0865	13,720,000
Forfeited during the year	**0.0668**	**(3,206,000)**	0.0283	(10,816,000)
Lapsed during the year	**—**	**—**	0.0038	(2,800,000)
Exercised during the year	**0.0086**	**(34,560,000)**	0.0040	(10,520,000)
At 31 December	**0.0516**	**86,058,000**	0.0345	110,624,000

Note: The weighted average exercise price per share and number of options have been adjusted retroactively as a result of the Shares Subdivision as if the Shares Subdivision had taken place on 1 January 2012.

Nil consideration was payable by each grantee to the Company for grant of the options under the Pre-IPO Share Option Scheme. Save for the options which have been granted, no further option will be granted under the Pre-IPO Share Option Scheme.

30. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding, adjusted retroactively as a result of the Shares Subdivision as if the Share Subdivision had taken place on 1 January 2012, as at the end of the reporting period are as follows:

2013

Number of options	Exercise price* per share US$	Exercise period
1,200,000	0.0038	Since IPO to 19-01-2017
11,640,000	0.0038	01-07-2008 to 30-06-2017
5,608,000	0.0078	Since IPO to 30-06-2018
4,000,000	0.0378	05-12-2009 to 04-12-2018
6,000,000	0.0378	19-03-2010 to 18-03-2019
7,140,000	0.0500	Since IPO to 31-07-2019
800,000	0.0500	Since IPO to 02-08-2019
200,000	0.0500	Since IPO to 31-10-2019
60,000	0.0525	Since IPO to 17-04-2021
19,232,000	0.0525	Since IPO to 20-04-2021
120,000	0.0525	Since IPO to 24-04-2021
160,000	0.0525	Since IPO to 02-05-2021
240,000	0.0525	Since IPO to 15-05-2021
800,000	0.0525	Since IPO to 12-06-2021
400,000	0.0525	Since IPO to 02-07-2021
3,540,000	0.0865	Since IPO to 13-08-2021
3,584,000	0.0865	Since IPO to 14-01-2022
8,410,000	0.0865	Since IPO to 21-05-2022
12,924,000	0.0865	Since IPO to 31-03-2023
86,058,000		

30. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

2012

Number of options	Exercise price* per share US$	Exercise period
20,000,000	0.0018	Since IPO to 19-12-2016
2,200,000	0.0038	Since IPO to 19-01-2017
2,000,000	0.0038	01-07-2008 to 30-06-2017
17,840,000	0.0038	Since IPO to 30-06-2017
6,568,000	0.0078	Since IPO to 30-06-2018
4,000,000	0.0378	05-12-2009 to 04-12-2018
6,000,000	0.0378	19-03-2010 to 18-03-2019
3,720,000	0.0500	01-08-2010 to 01-08-2013
4,020,000	0.0500	Since IPO to 31-07-2019
1,200,000	0.0378	01-08-2009 to 31-07-2014
800,000	0.0500	Since IPO to 02-08-2019
200,000	0.0500	Since IPO to 31-10-2019
60,000	0.0525	Since IPO to 17-04-2021
20,332,000	0.0525	Since IPO to 20-04-2021
3,200,000	0.0525	21-04-2012 to 20-04-2015
120,000	0.0525	Since IPO to 24-04-2021
160,000	0.0525	Since IPO to 02-05-2021
240,000	0.0525	Since IPO to 15-05-2021
800,000	0.0525	Since IPO to 12-06-2021
400,000	0.0525	Since IPO to 02-07-2021
3,720,000	0.0865	Since IPO to 13-08-2021
212,000	0.0865	15-01-2013 to 14-01-2016
3,512,000	0.0865	Since IPO to 14-01-2022
4,480,000	0.0865	21-05-2013 to 21-05-2016
4,840,000	0.0865	Since IPO to 21-05-2022
110,624,000		

* The exercise price of the share options is subject to adjustment in the case of stock split or a reverse of stock split, or other similar changes in the Company's share capital.

30. SHARE OPTION SCHEME (Continued)

Pre-IPO Share Option Scheme (Continued)

The fair value of the share options granted during the year was US$1,016,000 (2012: US$495,000), of which the Group recognised a share option expense US$390,000 (2012: US$83,000) during the year ended 31 December 2013.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, by Jones Lang LaSalle, using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for equity-settled share options granted during the year:

	2013	2012
Dividend yield (%)	**0**	0
Expected volatility (%)	**54.77**	56.94
Risk-free interest rate (%)	**1.93**	1.64
Forfeiture rate (%)	**8**	8
Weighted average share price (US$ per share)	**5.48**	3.38

The expected forfeiture rate is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

After adjustment as a result of the Share Subdivision as if the Share Subdivision had taken place on 1 January 2012, the 34,560,000 (2012: 10,520,000) share options exercised during the year resulted in the issuance of 34,560,000 (2012: 10,520,000) ordinary shares of the Company and new share capital of US$86 (2012: US$26) and share premium of US$584,000 (2012: US$127,000) (before share issuance expenses), as further detailed in note 29 to the financial statements.

At the end of the reporting period, the Company had 86,058,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issuance of 86,058,000 additional ordinary shares of the Company and additional share capital of US$215 and share premium of US$4,440,378 (before issuance expenses).

30. SHARE OPTION SCHEME (CONTINUED)

Post-IPO Share Option Scheme I

The Company operates a share option scheme (the "Post-IPO Share Option Scheme I") for the purpose of giving eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (defined as below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

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

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

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

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

30. SHARE OPTION SCHEME (Continued)

Post-IPO Share Option Scheme I (Continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors in its absolute discretion, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

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

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

As at 31 December 2013, no share option was granted and outstanding under the Post-IPO Share Option Scheme I.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 64 and 65 of the financial statements.

Certain subsidiaries including Fuzhou Tianmeng incorporated in Mainland China are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to their respective statutory reserve funds until the reserve funds reach 50% of their respective registered capital, upon which any further appropriation is at the directors' recommendation. Such reserve refunds are restricted from distribution to the Company in form of dividend and may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

31. RESERVES (Continued)

(b) Company

	Share premium US$'000	Share option reserve US$'000	Accumulated deficits US$'000	Total US$'000
At 1 January 2012	3,453	787	(35,284)	(31,044)
Total comprehensive loss for the year	—	—	(21,236)	(21,236)
Exercise of share options	127	(85)	—	42
Equity-settled share option arrangement	—	126	—	126
Transfer of share option reserve upon the expiry of share options	—	(23)	—	(23)
At 31 December 2012 and 1 January 2013	3,580	805	(56,520)	(52,135)
Total comprehensive loss for the year	—	—	(14,795)	(14,795)
Exercise of share options	584	(282)	—	302
Conversion of redeemable convertible preferred shares	80,762	—	—	80,762
Equity-settled share option arrangement	—	1,030	—	1,030
Issuance of shares for the IPO	94,844	—	—	94,844
Issuance of shares under the Over-allotment Option	17,741	—	—	17,741
Share issuance expenses	(5,109)	—	—	(5,109)
Dividend declared and paid to then existing shareholders	(4,923)	—	—	(4,923)
Proposed 2013 final dividend	(2,879)	—	—	(2,879)
At 31 December 2013	184,600	1,553	(71,315)	114,838

Pursuant to the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire.

32. CONTINGENT LIABILITIES

As at 31 December 2013 and 2012, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

As lessee

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

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	US$'000	US$'000
Within one year	**1,526**	2,000
In the second to fifth years, inclusive	**696**	1,692
	2,222	3,692

34. CAPITAL COMMITMENTS

Except the operating lease commitments detailed in note 33 above, the Group and the Company had no other capital commitments as at 31 December 2013 and 2012.

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	Group 2013 US$'000	Group 2012 US$'000
Consulting services fee paid to Hongbin You	(i)	**45**	45
Research and development services fee paid to GameCoreTech	(ii)	**150**	—
		195	45

The abovementioned related party transactions constitute continuing connected transactions as defined under Chapter 20 of the Listing Rules.

Notes:

(i) Hongbin You is a company wholly owned by Ms. Hongbin You, who is a sister-in-law of Mr. Hong Zhang, a member of the Controlling Shareholders.

The consulting services fee is determined based on the amounts agreed by the mutual parties.

(ii) GameCoreTech Software Corporation ("GameCoreTech") is a company wholly owned by Mr. Neng Xu, who is Mr. Yuan Xu's brother. Mr. Yuan Xu is a member of the Controlling Shareholders.

The research and development services fee is determined based on the amounts agreed by the mutual parties.

(b) Outstanding balance with a related party

The balance with a related party is unsecured, interest-free and has no fixed terms of repayment.

35. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 9 above, is as follows:

	Group	
	2013	2012
	US$'000	US$'000
Short term employee benefits	**935**	1,271
Equity-settled share option expense	**56**	74
	991	1,345

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Group	
Financial assets	**Loans and receivables**	
	2013	**2012**
	US$'000	**US$'000**
Non-current rental deposits	**157**	152
Funds receivable (note 21)	**12,248**	3,233
Accounts receivable (note 19)	**314**	496
Financial assets included in prepayments, deposits and other receivables (note 20)	**449**	348
Cash and cash equivalents (note 22)	**135,488**	15,135
	148,656	19,364

36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Group					
	2013			2012		
Financial liabilities	**Financial liabilities at amortised cost US$'000**	**Designated as financial liabilities at fair value through profit or loss US$'000**	**Total US$'000**	Financial liabilities at amortised cost US$'000	Designated as financial liabilities at fair value through profit or loss US$'000	Total US$'000
Accounts payable (note 23)	**3,228**	**—**	**3,228**	1,841	—	1,841
Financial liabilities included in other payables and accruals (note 24)	**2,392**	**—**	**2,392**	2,491	—	2,491
Redeemable convertible preferred shares (note 26)	**—**	**—**	**—**	—	66,596	66,596
	5,620	**—**	**5,620**	4,332	66,596	70,928

36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets	Company Loans and receivables 2013 US$'000	Company Loans and receivables 2012 US$'000
Due from subsidiaries	**20,382**	11,732
Cash and cash equivalents (note 22)	**93,477**	121
	113,859	11,853

Company

Financial liabilities	2013 Financial liabilities at amortised cost US$'000	2013 Designated as financial liabilities at fair value through profit or loss US$'000	2013 Total US$'000	2012 Financial liabilities at amortised cost US$'000	2012 Designated as financial liabilities at fair value through profit or loss US$'000	2012 Total US$'000
Due to subsidiaries	**262**	**—**	**262**	235	—	235
Financial liabilities included in other payables and accruals (note 24)	**14**	**—**	**14**	263	—	263
Redeemable convertible preferred shares (note 26)	**—**	**—**	**—**	—	66,596	66,596
	276	**—**	**276**	498	66,596	67,094

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

Group	**Carrying amounts**		**Fair values**	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Financial assets				
Non-current rental deposits	**157**	152	**156**	151
Financial liabilities				
Redeemable convertible preferred shares (note 26)	**—**	66,596	**—**	66,596

Company	**Carrying amounts**		**Fair values**	
	2013	2012	**2013**	2012
	US$'000	US$'000	**US$'000**	US$'000
Financial liabilities				
Redeemable convertible preferred shares(note 26)	**—**	66,596	**—**	66,596

Management has assessed that the fair values of cash and cash equivalents, accounts receivable, funds receivable, accounts payable, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current rental deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of redeemable convertible preferred shares have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares, which are discounted at the current rate of 18%. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in the consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the financial periods presented and at the date of the Conversion.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value

Group

As at 31 December 2012	Fair value measurement using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Redeemable convertible preferred shares (note 26)	—	—	66,596	66,596

The Group did not have any financial liabilities measured at fair value as at 31 December 2013.The movements in fair value measurements in Level 3 during the year are presented in note 26 to the financial statements.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 (2012: Nil).

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Assets for which fair values are disclosed

Group

As at 31 December 2013	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Non-current rental deposits	**—**	**156**	**—**	**156**

Assets for which fair values are disclosed

Group

As at 31 December 2012	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputsinputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
Non-current rental deposits	—	151	—	151

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Valuation techniques

The following table shows the valuation technique used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation models.

Redeemable convertible preferred shares (note 26)	Fair Value US$'000	Valuation technique	Unobservable input	Input data
As at 31 May 2013 immediately prior to the Conversion	80,763	Equity value allocation model	Equity value	*
			Discount rate for lack of marketability	6.00%
			Risk free rate	0.23%
			Volatility	45.86%
			Probability of liquidation	50%
			Probability of redemption/IPO	50%
As at 31 December 2012	66,596	Equity value allocation model	Equity value	*
			Discount rate for lack of marketability	9.33%
			Risk free rate	0.14%
			Volatility	39.53%
			Probability of liquidation	50%
			Probability of redemption/IPO	50%

* The equity value has been determined using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below. An increase in the discount rate used to discount the forecast cash flows and decrease in the average revenue growth rate and terminal growth rate would lead to a decrease in the equity value. The significant unobservable inputs are not interrelated.

	31 May 2013 immediately prior to the Conversion	31 December 2012
Weighted average cost of capital	**17.16%**	17.49%
Average revenue growth rate	**5%**	16%
Terminal growth rate	**3%**	3%

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Valuation techniques (Continued)

The significant unobservable inputs used in the fair value measurement of the redeemable convertible preferred shares are equity value, discount rate for lack of marketability, risk free rate, volatility, probability of liquidation and probability of redemption/IPO. Significant increases (decreases) in equity value, risk free rate, and probability of liquidation in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in discount rate for lack of marketability, volatility and probability of redemption/IPO in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the volatility is accompanied by a directionally similar change in the discount rate for lack of marketability and a change in the assumption used for the risk free rate is accompanied by a directionally opposite change in the discount rate for lack of marketability. A change in the probability of liquidation would result in the same opposite change in the probability of redemption/IPO.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and redeemable convertible preferred shares. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 11.7% (2012: 24.5%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales.

To date, the Group has not entered into any hedging transactions in an effort to reduce the Group's exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of US$ against RMB, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities):

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit/ (loss) before tax US$000
2013		
If US$ weakens against RMB	**(5%)**	**(817)**
If US$ strengthens against RMB	**5%**	**817**
If US$ weakens against Hong Kong Dollar ("HKD")	**(5%)**	**4,662**
If US$ strengthens against HKD	**5%**	**(4,662)**
2012		
If US$ weakens against RMB	(5%)	(283)
If US$ strengthens against RMB	5%	283
If US$ weakens against HKD	(5%)	(7)
If US$ strengthens against HKD	5%	7

Liquidity risk

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	**2013**	
	Within 1 year	**Total**
	US$'000	**US$'000**
Accounts payable (note 23)	**3,228**	**3,228**
Financial liabilities included in other payables and accruals	**2,392**	**2,392**
	5,620	**5,620**

	2012	
	Within 1 year	Total
	US$'000	US$'000
Accounts payable (note 23)	1,841	1,841
Financial liabilities included in other payables and accruals	2,491	2,491
Redeemable convertible preferred shares*	20,563	20,563
	24,895	24,895

* The carrying value represents the redemption value of the redeemable convertible preferred shares.

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company	**2013**	
	Within 1 year	**Total**
	US$'000	**US$'000**
Due to subsidiaries (note 18)	**262**	**262**
	262	**262**

	2012	
	Within 1 year	Total
	US$'000	US$'000
Due to subsidiaries (note 18)	235	235
	235	235

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

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

The Group monitors capital by regularly reviewing the gearing ratio, which is total liabilities, excluding the redeemable convertible preferred shares, divided by total assets. Capital represents total equity/(deficits) as shown in the consolidated statement of financial position.

	Group	
	2013	2012
	US$'000	US$'000
Total current liabilities	**15,356**	77,117
Total non-current liabilities	**317**	250
Redeemable convertible preferred shares	**—**	(66,596)
	15,673	10,771
Total current assets	**149,083**	19,340
Total non-current assets	**2,363**	2,186
	151,446	21,526
Gearing ratio	**10.3%**	50.0%

39. EVENTS AFTER THE REPORTING PERIOD

On 7 January 2014, the Group and Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司) ("Tencent"), a subsidiary of Tencent Holdings Limited with its shares listed on the Stock Exchange, entered into a mobile platform game developer and mobile game cooperation agreement (the "Cooperation Agreement"). For a term of three years commencing from the signing of the Cooperation Agreement, Tencent agrees to provide Tencent mobile game platforms, including but not limited to Mobile QQ Game Hall, Mobile QQ, Wechat, Tencent Weibo, to the Group for the Group to release and operate such mobile game products as Castle Clash (simplified Chinese version) on the Tencent mobile game platforms on an exclusive basis.

On 30 January 2014, IGG.com Canada Inc. ("IGG Canada") was established under the laws of Canada as a wholly-owned subsidiary of the Group. Upon establishment, the authorised and paid-in capital of IGG Canada was unlimited and US$3,000,000, respectively. IGG Canada will mainly engage in the research and development of games.

On 5 March 2014, IGG Singapore, a wholly-owned subsidiary of the Group entered into a shareholders' agreement (the "Shareholders' Agreement"), with several individual shareholders (the "Individual Shareholders"). The Individual Shareholders comprise of the followings: Mr. Guo Wu, Mr. Dian Chi, Ms. Kai Chen, Mr. Yuan Xu, Mr. Hong Zhang, Ms. Meijia Chen, Mr. Neng Xu, Mr. Hanling Fang, Ms. Jessie Shen and eight other individuals who are third parties independent from the Company and connected persons of the Company. Pursuant to the Shareholders' Agreement, IGG Singapore agreed to establish an entity, Tapcash Inc., established in Canada with limited liability, with the Individual Shareholders to engage in advertising, marketing and distribution services of mobile applications. Tapcash Inc. will be owned as to 60% by IGG Singapore and 40% by the Individual Shareholders, respectively. The capital contributions by IGG Singapore and the Individual Shareholders are US$720,000 and US$480,000, respectively. Tapcash Inc. will not solely provide services for the Group in terms of the advertising and distribution of mobile applications but will also provide these services to other third-party online game companies to strengthen the Group's global reputation and presence.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2014.

FINANCIAL SUMMARY

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

	Year ended 31 December		
	2013	2012	2011
	US$'000	US$'000	US$'000
Results			
CONTINUING OPERATIONS			
REVENUE	**87,986**	43,154	31,080
Cost of sales	**(22,264)**	(10,358)	(7,745)
Gross profit	**65,722**	32,796	23,335
Other income and gains	**592**	422	448
Selling and distribution expenses	**(23,246)**	(12,071)	(9,721)
Administrative expenses	**(10,855)**	(7,093)	(5,218)
Research and development costs	**(9,333)**	(6,331)	(5,312)
Fair value loss of redeemable convertible preferred shares	**(14,167)**	(20,612)	(11,571)
Other expenses	**(452)**	(57)	(304)
PROFIT/(LOSS) BEFORE TAX	**8,261**	(12,946)	(8,343)
Income tax expense	**(1,313)**	(163)	(346)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**6,948**	(13,109)	(8,689)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	**—**	(326)	(12)
PROFIT/(LOSS) FOR THE YEAR	**6,948**	(13,435)	(8,701)
Attributable to:			
Owners of the parent	**6,948**	(13,435)	(8,690)
Non-controlling interests	**—**	—	(11)

	As at 31 December		
	2013	2012	2011
	US$'000	US$'000	US$'000
Assets, Liabilities and Equity			
TOTAL ASSETS	**151,446**	21,526	12,085
TOTAL LIABILITIES	**15,673**	77,367	54,604
TOTAL EQUITY	**135,773**	(55,841)	(42,519)

DEFINITIONS

In this annual report, the following expressions shall have the following meanings unless the context requires otherwise:

"Articles of Association" or "Articles"	the articles of association of the Company adopted by the written resolution of the Shareholders on 16 September 2013 and as amended, supplemented and otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Board"	the board of directors of the Company
"Business Day" or "business day"	a day on which banks in Hong Kong and Cayman Islands are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or Cayman Islands
"BVI"	British Virgin Islands
"China" or "PRC"	the People's Republic of China, excluding for the purpose of the Prospectus, Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company", "we", "us", "our Company" or "IGG"	IGG Inc, an exempted company incorporated in the Cayman Islands whose shares are listed on the GEM
"connected person(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Controlling Shareholders"	has the meaning ascribed thereto in the GEM Listing Rules and unless the context requires otherwise, refers to Mr. Zongjian Cai, Mr. Yuan Chi, Duke Online, Edmond Online, Ms. Kai Chen (spouse of Mr. Zongjian Cai), Mr. Zhixiang Chen, Mr. Yuan Xu and Mr. Hong Zhang
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 15 to the GEM Listing Rules
"Deed of Non-competition"	the deed of non-competition dated 16 September 2013 given by the Controlling Shareholders in favour of the Company (for itself and as trustee for each of its subsidiaries from time to time) regarding the non-competition undertaking

"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, one of the Controlling Shareholders
"Edmond Online"	Edmond Online Holdings Limited, an exempted company incorporated under the laws of the BVI on 10 September 2007 with limited liability, the entire issued share capital of which is owned by Mr. Yuan Chi, one of the Controlling Shareholders
"Founders"	Mr. Zongjian Cai (蔡宗建) and Mr. Yuan Chi (池元)
"Fuzhou Tianji"	Fuzhou TJ Digital Entertainment Co., Ltd* (福州天極數碼有限公司), a limited liability company established under the laws of the PRC on 15 November 2007, a wholly-owned subsidiary of the Group
"Fuzhou Tianmeng"	Fuzhou Skyunion Digital Co., Ltd* (福州天盟數碼有限公司), a limited liability company established under the laws of the PRC on 12 December 2006, which is owned as to 50% by Mr. Zongjian Cai and 50% by Mr. Yuan Chi, respectively
"Group"	the Company and its subsidiaries
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
"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
"IDG Group"	collectively, IDG-Accel China Growth Fund II L.P. and IDG-Accel China Investors II L.P., two exempted limited partnerships formed under the laws of Cayman Island on 8 June 2007 and 3 July 2007, respectively, both of which are managed by their respective general partners

DEFINITIONS

"IGG Singapore"	IGG Singapore Pte. Ltd. (formerly known as Skyunion Pte. Ltd.), a company incorporated under the laws of Singapore on 30 June 2009, a wholly-owned subsidiary of the Group
"IGG USA"	Sky Union, LLC, a limited liability company formed in the State of Nevada, the United States, on 21 October 2005, a wholly-owned subsidiary of the Group
"Independent Third Party(ies)"	individual(s) or company(ies) who is/are not connected with (within the meaning of the GEM Listing Rules) any of the Company, Directors, chief executive or substantial shareholders of the Company, our subsidiaries or any of their respective associates
"Listing" or "Placing"	the listing of the Shares on the GEM
"Listing Date"	18 October 2013, on which dealings in Shares first commence on the Stock Exchange
"Model Code"	the model code for securities transactions by directors of listed issuers as set out in Rules 5.48 to 5.67 of the GEM Listing Rules adopted by the Company on 16 September 2013
"Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on 12 November 2008 and amended by written resolutions of all Shareholders passed on 16 September 2013, certain principal terms of which are summarised in the paragraph headed "Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus
"Prospectus"	the prospectus of the Company dated 11 October 2013
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time

"Share(s)"	means share(s) of US\$0.0001 each in the share capital of the Company prior to the Subdivision or US\$0.0000025 each in the share capital of the Company after the Subdivision becoming effective
"Share Award Scheme"	the share award scheme adopted by the Company on 24 December 2013, the principal terms of which are summarised in the announcement of the Company dated 24 December 2013
"Shareholder(s)"	the shareholder(s) of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 16 September 2013, the principal terms of which are summarised under the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subdivision"	each issued and unissued share of a par value of US\$0.0001 in the share capital of the Company was sub-divided into 40 Shares of a par value of US\$0.0000025 each pursuant to the Shareholders' resolution passed on 16 September 2013
"subsidiary(ies)"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"U.S. dollar(s)", "US\$", "USD" and "US cents"	United States dollars and cents, respectively, the lawful currency of the United States of America

DEFINITIONS

"Vertex"	Vertex Asia Investments Pte. Ltd. (or its affiliates or successors), a company incorporated under the law of Singapore on 20 April 2011 which is ultimately wholly owned by Temasek Holdings (Private) Limited
"%"	per cent.

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