



Gameone Holdings Limited

智傲控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8282

2019

Annual Report



北風燎原 陳某
— 亂世英雄 —

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This report, for which the directors (the “**Directors**”) of Gameone Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Sze Yan Ngai (Chairman)
Mr. Lam Kin Fai (Chief executive officer)

Non-executive Director

Ms. Wong Pui Yain

Independent Non-executive Directors

Mr. Yung Kai Tai
Dr. Fung Ying Him Anthony
Mr. Lu Tak Meng Teddy

BOARD COMMITTEES

Audit Committee

Mr. Lu Tak Meng Teddy (Chairman)
Mr. Yung Kai Tai
Dr. Fung Ying Him Anthony

Remuneration Committee

Mr. Yung Kai Tai (Chairman)
Dr. Fung Ying Him Anthony
Mr. Lu Tak Meng Teddy

Nomination Committee

Mr. Sze Yan Ngai (Chairman)
Mr. Yung Kai Tai
Dr. Fung Ying Him Anthony
Mr. Lu Tak Meng Teddy

AUDITORS

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

Hang Seng Bank
The Shanghai Commercial & Saving Bank, Ltd.

COMPANY SECRETARY

Ms. Ng Hoi Ying

AUTHORISED REPRESENTATIVES

Mr. Lam Kin Fai
Ms. Ng Hoi Ying

COMPLIANCE OFFICER

Mr. Sze Yan Ngai

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office Unit No.07
5/F, Workingberg Commercial Building
Nos.41-47 Marble Road
Hong Kong

CORPORATE INFORMATION

LEGAL ADVISORS AS TO HONG KONG LAWS

Bird & Bird
4/F Three Pacific Place
1 Queen's Road East
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

GEM STOCK CODE

8282

COMPANY'S WEBSITE

www.gameone.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the “**Board**”) of the Company, I am pleased to present the annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019.

OVERVIEW

In the 2019 financial year, the Group recorded a net loss of approximately HK\$2.0 million as compared to a net loss of approximately HK\$24.6 million for the same period in 2018. Such decrease in net loss of the Group during this year was mainly attributable to the continuing to exercise tight control over our cost of service, selling expenses and administrative expenses.

FUTURE PROSPECTS

In order to adapt to the fast-changing preference of game players and increase the chance of market success of our games, we will continue to seek development rights to popular literatures, comics and animations that are attractive to local game players and possess strong monetizing potentials.

We strive to introduce high-quality games and deliver superior game experience to players in order to retain their interests in our games. It is our constant endeavor to elevate the awareness of our brand-name in order to associate our brand with high-quality games and appealing game experience. This is achieved through investments in talents, expanding our game development team and hiring more staff, upgrades of software such as game engines, game-designing tools, and the acquisition of hardware to accommodate increasing technical demands for operating the games. Furthermore, our investment in technology, both in terms of hardware and software, would raise the entry barrier for future competitors as well as maintaining our competitive edge against existing competitors.

In order to increase our market share in the mobile game industry, we plan to expand our business through both organic growth and strategic partnerships. We intend to selectively invest in or enter into strategic partnerships with complementary game developers, development teams, other game operators and distributors in order to broaden the scope, spectrum and reach of our games, particularly mobile games.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to express my gratitude towards the support and advice of our shareholders and business partners, for their recognition of the Company's direction and strategies of development, as well as the devotion and enthusiasm of our staff in all scopes of tasks. They all helped us to drive the Company towards perfection. We, the Board and all the Company's staff, will continue to dedicate ourselves to refine our services to maximize the returns for our shareholders.

Sze Yan Ngai

Chairman and Executive Director

Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

We are an integrated game developer, operator and publisher focusing on the market of Hong Kong and Taiwan. We operate and publish our self/co-developed and licensed games in Hong Kong and Taiwan primarily through our game distribution platforms as well as other third-party distribution platforms. We collect payments from players either through our own game platform, third-party distribution platforms such as Apple Store and Google Play, or third-party payment vendors, which include convenience stores selling pre-paid game cards/vouchers. We consider such integration of upstream and downstream services in the value chain of the game industry has provided us with a better market position.

For the year ended 31 December 2019, the Group recorded a net loss of approximately HK\$2.0 million as compared to a net loss of approximately HK\$24.6 million for the same period in 2018. The Directors are of the view that the decrease in net loss of the Group during this year was mainly attributable to the continuing to exercise tight control over its cost of service, selling expenses and administrative expenses.

In order to increase our market share in the mobile game industry, we plan to expand our business through both organic growth and strategic partnerships. We intend to selectively invest in or enter into strategic partnerships with complementary game developers, development teams, other game operators and distributors in order to broaden the scope, spectrum and reach of our games, particularly mobile games. The Board will closely monitor the performance of the Group and the Group will continue to pursue the key business strategies to expand its gaming portfolio through introducing more high-quality licensed games with a focus on mobile games, to consolidate market position and to enhance marketing efforts.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group recognizes the importance of risk management practices. Thus, it endeavors its best to mitigate its exposure to operating and financial risks in an effective and efficient manner.

The principal risks, challenges and uncertainties faced by the Group include: (i) the mobile game industry is highly competitive; (ii) the game industry is subject to rapid technological changes which may render our games obsolete or unattractive to our users; (iii) we may not be able to extend licenses for our existing licensed games or introduce new licensed games, which will materially and adversely affect our revenue; and (iv) we rely on key personnel and our business may be severely disrupted if we lose the services of our key executives and employees.

The financial risk management objectives and policies of the Group can be found in note 34 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue was approximately HK\$80.2 million for the year ended 31 December 2019 representing a decrease of approximately 23.9% from approximately HK\$105.4 million for the corresponding period in 2018, which was primarily attributable to approximately HK\$25.2 million decrease in our game operation income, mainly from our licensed mobile games namely Demi Gods and Semi Devils (Mobile Version) (天龍八部手機版).

Revenue by game ownership and forms

The following table sets out a breakdown of our revenue by its type in absolute amounts and as percentage of our revenue for the periods indicated:

| | For the year ended 31 December | | | |
|--|--------------------------------|--------------|----------------|--------------|
| | 2019 | | 2018 | |
| | HK\$'000 | % | HK\$'000 | % |
| Game operation income | | | | |
| – Self/co-developed games | 19,195 | 23.9 | 9,670 | 9.2 |
| – Licensed games | 59,243 | 73.9 | 93,084 | 88.3 |
| Game publishing income | | | | |
| – Games for publishing | 921 | 1.2 | 1,794 | 1.7 |
| Income from game operation and publishing | 79,359 | 99.0 | 104,548 | 99.2 |
| Royalty income | 424 | 0.5 | 489 | 0.5 |
| License fee income | 397 | 0.5 | 410 | 0.3 |
| Total | 80,180 | 100.0 | 105,447 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS

We offered our games in two forms: mobile games and online PC games. The following table sets out a revenue breakdown by game forms in absolute amounts and as percentage of our revenue for the periods indicated:

| | For the year ended 31 December | | | |
|--|--------------------------------|--------------|----------------|--------------|
| | 2019 | | 2018 | |
| | HK\$'000 | % | HK\$'000 | % |
| Mobile games | 72,279 | 90.1 | 95,709 | 90.8 |
| Online PC games | 7,080 | 8.9 | 8,839 | 8.4 |
| Income from game operation and publishing | 79,359 | 99.0 | 104,548 | 99.2 |
| Royalty income | 424 | 0.5 | 489 | 0.5 |
| License fee income | 397 | 0.5 | 410 | 0.3 |
| Total | <u>80,180</u> | <u>100.0</u> | <u>105,447</u> | <u>100.0</u> |

Cost of services rendered

The Group's cost of services rendered for the year ended 31 December 2019 was approximately HK\$57.1 million, representing a decrease of approximately 31.9% from approximately HK\$83.9 million for the corresponding period in 2018, which was primarily attributable to the combined effect of (i) an approximately HK\$6.2 million decrease in channel fees; (ii) an approximately HK\$15.9 million decrease in royalty expenses; and (iii) an approximately HK\$4.4 million decrease in amortization of intangible assets during the year ended 31 December 2019.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2019 was approximately HK\$23.1 million, representing an increase of approximately 6.9% from approximately HK\$21.6 million for the year ended 31 December 2018, primarily due to a decrease in royalty expenses and channel fee of the Group's licensed mobile games. The Group's gross profit margin for the year ended 31 December 2019 was approximately 28.8%, representing an increase of approximately 8.3 percentage points compared to approximately 20.5% for the year ended 31 December 2018. The increase in the Group's gross profit margin was primarily due to the decrease in royalty expenses and channel fee of the Group's licensed mobile games.

Selling expenses

The Group's selling expenses for the year ended 31 December 2019 were approximately HK\$14.5 million, representing a decrease of approximately 23.3% from approximately HK\$18.9 million for the corresponding period in 2018, primarily attributable to a decrease in advertising and promotion expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2019 were approximately HK\$12.7 million, representing a decrease of approximately 26.2% from approximately HK\$17.2 million for the corresponding period in 2018, primarily attributable to a decrease in staff costs and legal and professional fees.

Other expenses

The Group's other expenses was approximately HK\$1.1 million for the year ended 31 December 2019, representing a decrease of approximately 89.9% from approximately HK\$10.9 million for the corresponding period in 2018, which was mainly attributable to the recognition of impairment loss on the intangible assets of certain games of the Group for the year ended 31 December 2018 due to the write-down of license fees paid for certain games of the Group which launched in third and fourth quarters of 2018 and failed to achieve the expected performance level.

Loss for the year

The Group recorded a loss for the year ended 31 December 2019 of approximately HK\$2.0 million as compared with a loss of approximately HK\$24.6 million for the corresponding period in 2018, which was primarily attributable to (i) a decrease in cost of services for the year ended 31 December 2019 due to a decrease in the royalty expenses and channel fee from the Group's licensed mobile games; (ii) a decrease in selling expenses due to the cost control on the promotion and advertising expenses; (iii) a decrease in administrative expenses as a result of a decrease in the staff cost and legal and professional fees; and (iv) a decrease of impairment loss on the intangible assets of certain games of the Group.

CAPITAL STRUCTURE

The Group's shares were successfully listed on GEM on 13 January 2016 (the "**Listing Date**"). There has been no change in the capital structure of the Group since the Listing Date and up to the date of this annual report. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2019, the Company's issued share capital was HK\$1.6 million and the number of its issued ordinary shares was 160,000,000 of HK\$0.01 each.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operations primarily through cash generated from our operating activities. During the year ended 31 December 2019, we did not have any bank borrowings. As at 31 December 2019, we had cash and cash equivalents of approximately HK\$45.0 million (31 December 2018: approximately HK\$45.7 million), which were cash at banks and on hand. No banking facility has been arranged by our Group during the year ended 31 December 2019.

Our primary uses of cash have been and are expected to continue to be operating costs and capital expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed herein, there was no material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended 31 December 2019.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

During the year ended 31 December 2019, there was no significant investment held by the Group.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any concrete plan for material investments or capital assets as at 31 December 2019.

FOREIGN EXCHANGE EXPOSURE

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Our exposures to currency risk arise mainly from its overseas income or payment on royalty and license fee, which are primarily denominated in United States dollar, Japanese Yen or Renminbi. These are not the functional currencies of our principal subsidiaries to which these transactions related. We currently do not have a foreign currency hedging policy. However, we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

BORROWING AND GEARING RATIO

During the year ended 31 December 2019, we did not have any short-term or long-term bank borrowings.

As at 31 December 2019, the gearing ratio of the Group, calculated as total liabilities, divided by total assets, was approximately 27.7% (31 December 2018: approximately 30.9%).

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. We monitor our trade receivables on an ongoing basis and only trade with creditworthy parties. We consider the credit risk on liquid funds as low because the counterparties are major banks with high credit ratings. We are subject to concentration of credit risk since majority of our trade receivables are due from a limited number of trade debtors which were primarily the third-party game distribution platforms and payment channels. To manage liquidity risk, we closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirement.

CHARGE ON GROUP ASSETS

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

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

COMMITMENTS

Our contract commitments mainly involve leases of office properties and acquisition of intangible assets. As at 31 December 2019, the Group's operating leases were approximately HK\$0.1 million (31 December 2018: approximately HK\$3.3 million) and capital commitments for acquisition of intangible assets were approximately HK\$1.0 million (31 December 2018: approximately HK\$2.4 million).

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group had 60 employees (31 December 2018: 69) working in Hong Kong, Taiwan and the People's Republic of China (the "PRC"). Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The total staff cost (including remuneration, allowances and mandatory provident funds contributions of the Directors) for the year ended 31 December 2019 amounted to approximately HK\$20.0 million (31 December 2018: approximately HK\$22.0 million). The dedication and hard work of the Group's staff during the year ended 31 December 2019 are generally appreciated and recognized.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the share option scheme (the "Share Option Scheme") conditionally approved and adopted by written resolutions of the then shareholders of the Company (the "Shareholders") on 23 December 2015.

(a) Purpose

The purpose of the Share Option Scheme is to attract and retain the best quality personnel for the development of the Group's businesses; to provide additional incentives to the employees (whether full-time or part-time employee) and the person who is an officer of any members of the Group or any affiliates, the person who is seconded to work for any member of the Group or any affiliates, the consultant, agent, representative, adviser, customer, contractor of the Group or any affiliates and other selected participants; and to promote the long term financial success of the Group by aligning the interests of option holders to Shareholders.

(b) The participants of the Share Option Scheme

On and subject to the terms of the Share Option Scheme and the requirements of the GEM Listing Rules, the Board may offer to grant an option to the employees (whether full-time or part-time employee) and the person who is an officer of any members of the Group or any affiliates, the person who is seconded to work for any member of the Group or any affiliates, the consultant, agent, representative, adviser, customer, contractor of the Group or any affiliates and other selected participants.

MANAGEMENT DISCUSSION AND ANALYSIS

(c) Maximum number of shares available for issue

The limit on the number of shares of the Company (the “**Shares**”) which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the Shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded (the “**Overriding Limit**”).

In addition to the Overriding Limit and prior to the approval of a Refreshed Mandate Limit below, the total 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 Company must not in aggregate exceed 10% of the Shares in issue on the Listing Date. Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

The Company may by ordinary resolutions of the Shareholders refresh the mandate limit provided the Company shall issue a circular containing such information as required by the GEM Listing Rules to Shareholders before such approval is sought. However, the total number of Shares which may be issued upon exercise of all options to be granted under all of the schemes of the Company under the limit as refreshed (the “**Refreshed Mandate Limit**”) must not exceed 10% of the Shares in issue as at the date of approval of the Refreshed Mandate Limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with any of the schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed.

The Company has refreshed the Share Option Scheme mandate limit at the annual general meeting held on 6 May 2019, representing 20% of the total number of the issued Shares on the same date (i.e. a total of 32,000,000 Shares).

(d) Maximum entitlement of each participants

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each Qualifying Grantee must not exceed 1% of the Shares in issue. Where any further grant of options to a Qualifying Grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by Shareholders in general meeting with the relevant Qualifying Grantee and his close associates (or his associates if the participant is a connected person) abstaining from voting. Prior to seeking such approval, the Company shall issue a circular containing such information as required by the GEM Listing Rules to Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

(e) Acceptance and payment on acceptance of option offer

An offer shall remain open for acceptance by the Qualifying Grantee concerned for a period of 28 days from the date of the offer (or such period as the Board may specify in writing).

HK\$1 is payable by the grantee to the Company on acceptance of the option offer.

(f) Option period

The period as the Board may in its absolute discretion determine and specify in relation to any particular option holder in his option agreement during which the option may be exercised (subject to such restriction on exercisability specified therein), which shall be not greater than the period prescribed by the GEM Listing Rules from time to time (which is, as at the date of adoption of the Share Option Scheme, a period of 10 years from the date of the granting of the option).

(g) Subscription price

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than whichever is the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the granting of the option; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the granting of the option; and (iii) the nominal value of a Share.

For more details of the principal terms of the Share Option Scheme, please refer to the section headed "Share Option Scheme" in Appendix IV to the Prospectus.

For the year ended 31 December 2019, no share option was granted, exercised, expired or lapsed and there was no outstanding share option under the Share Option Scheme.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out as follows:

Executive Directors

Mr. Sze Yan Ngai (“Mr. Sze”), aged 53, was appointed as our Director on 14 April 2010, re-designated as an executive Director and appointed as the chairman of our Board on 30 September 2015. Mr. Sze is primarily responsible for our Group’s overall strategic planning and overseeing the general management of our Group. He joined the predecessor of our Group, Gameone Interactive.com Inc., in April 2000 and had worked as the chief executive officer from January 2003 to November 2013. Mr. Sze is also directors of certain subsidiaries of our Group. Mr. Sze has over 10 years of experience in game operation and development and game magazine publication industry. Mr. Sze is the elder brother of Ms. Sze Ling Ling, the Chief Operation Officer of our Group.

Mr. Sze is one of the founders of Hong Kong Game Industry Association, which was established in 2004. From August 2009 to July 2011, he was a member of the Vetting Committee of the Create Smart Initiative which was established by the Hong Kong Government to provide financial support to initiatives that are conducive to the development and promotion of creative industries in Hong Kong. He is also the founding member of Hong Kong Novel Association. Mr. Sze was elected as the “1st Hong Kong Digital Entertainment Industry Person of the Year” by the Hong Kong Digital Entertainment Association in 2007.

Mr. Lam Kin Fai (“Mr. Lam”), aged 35, was appointed as our executive Director on 30 September 2015. He is the Chief Technical Officer of our Group and the Chief Executive Officer of our Group. He is mainly responsible for supervision of technical matters related to game development, and the game design and operation of games. He has more than 10 years of experience in the game development industry.

Mr. Lam obtained a degree of Bachelor of Engineering in Computer Engineering from The University of Hong Kong in December 2006. He joined our Group in May 2006 and since then he served the position of Game Programmer of Gameone Online Entertainment Limited, responsible for developing MMORPG game system and client end program from May 2006 to December 2008, R&D team Manager of Gameone Online Entertainment Limited, responsible for supervising game development and programming matters from December 2008 to December 2009 and Technical Director of Gameone Online Technology Limited, responsible for leading R&D teams to develop games in different platforms, liaising with other business partners on out-sourcing projects, leading technical support team for server maintenance and developing certain mobile games from December 2009 to present.

Non-executive Director

Ms. Wong Pui Yain (“Ms. Wong”), aged 41, was appointed as our non-executive Director on 30 September 2015. She is mainly responsible for supervision of compliance, corporate governance and business development.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Ms. Wong graduated from University of Western Australia in March 2000 with degree of Bachelor of Economics. She is experienced in hotel management and is one of the founders of Irving Management Limited (now known as JIA Hong Kong Operations Limited) which operates the JIA Bontique Hotel in Hong Kong since 2004. Ms. Wong was awarded “Innovative Entrepreneur of the Year 2006” by Hong Kong’s City Junior Chamber in 2006. She was also named on the list of “Asia’s Best Young Entrepreneurs 2008” by Businessweek in 2008 and the “Women of Our Time” by South China Morning Post in 2013. Ms. Wong is currently an executive director of Jia Group Holdings Limited (Stock Code: 8519).

Independent non-executive Directors

Mr. Yung Kai Tai (“Mr. Yung”), aged 68, was appointed as our independent non-executive Director on 23 December 2015. He is responsible for supervising and providing independent judgment to our Board. Mr. Yung obtained a Bachelor of Science degree and a Master of Business Administration, both from the Chinese University of Hong Kong in October 1973 and October 1986 respectively. Mr. Yung also completed a Certificate of Delivery Information Services by Harvard University Graduate School of Business Administration in July 1997. Before his retirement in May 2011, Mr. Yung was the General Manager of Information Technology Industry Development Division of the Hong Kong Productivity Council. Mr. Yung was an immediate past chairman of the Hong Kong Game Industry Association, the Vice-President of the Hong Kong Software Industry Association and is a council member of the Hong Kong Association for the Advancement of Science and Technology. Mr. Yung was also elected as Distinguished Fellow member of the Hong Kong Computer Society in September 1998 and the representative of the Information Technology Sub-sector in the Election Committee in the year 2006. Mr. Yung is currently an independent non-executive director of Future Data Group Limited (Stock Code: 8229).

Dr. Fung Ying Him Anthony (“Dr. Fung”), aged 50, was appointed as our independent non-executive Director on 23 December 2015. He is responsible for supervising and providing independent judgment to our Board. Dr. Fung obtained a Bachelor of Social Science from The Chinese University of Hong Kong in Hong Kong in July 1992. He also obtained a Master of Art and a Doctor of Philosophy, both from University of Minnesota, the United States in May 1995 and September 1998 respectively.

Dr. Fung is the Co-Director of Hong Kong Institute of Asia-Pacific Studies of The Chinese University of Hong Kong. And he is the Director of Global Studies Program of Faculty of Social Science of The Chinese University of Hong Kong. He is also the professor of the School of Journalism and Communication of The Chinese University of Hong Kong. His research interests and teaching focus on popular culture and cultural studies, popular music, gender and youth identity, cultural industries and policy, and new media studies. He published widely in international journals, and authored and edited more than ten Chinese and English books.

Dr. Fung was a specialist of Hong Kong Council for Accreditation of Academic & Vocational Qualifications and is a co-opt member of Pneumoconiosis Compensation Fund Board. Dr. Fung was a member of Citizens Advisory Committee on Community Relations of Independent Commission Against Corruption from December 2007 to December 2013. Dr. Fung is currently a member of ICAC Citizens Advisory Committee on Community Relations from January 2017. Dr. Fung is a member of Strategic Advisory Committee on Slope Safety, Civil Engineering and Development Department, HKSAR and chair of Community Involvement Broadcasting Service, RTHK.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Lu Tak Meng Teddy (“Mr. Lu”), aged 57, was appointed as the independent non-executive Director on 23 December 2015. He is responsible for supervising and providing independent judgment to our Board. Mr. Lu obtained a Diploma in Management Studies from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in November 1990 and then obtained a Master of Science in Information Systems and a Master of Science in Accountancy from The Hong Kong Polytechnic University in October 1995 and November 2002, respectively. He received his Master of Science from the University of Hong Kong in December 2015.

Mr. Lu has been a fellow of each of the Chartered Institute of Management Accountants, the Hong Kong Society of Accountants (currently the Hong Kong Institute of Certified Public Accountants), the Hong Kong Institute of Directors, and the Geological Society of London since March 1995, June 1997, October 2012, and November 2013, respectively.

Mr. Lu was a Hong Kong divisional council member of the Chartered Institute of Management Accountants for the year term 1994 to 2003 and 2007 to 2009, and the divisional president thereof for the year term 2001 to 2002. The Chartered Institute of Management Accountants granted Mr. Lu the designation of Chartered Global Management Accountant in January 2012. He became a member of each of the Canadian Institute of Mining, Metallurgy and Petroleum in 2012, the Australasian Institute of Mining and Metallurgy in 2013, the Society of Economic Geologists in 2013, and the Institute of Electrical and Electronics Engineers, Inc. in 2017. He also became a professional member of each of the Geological Society of America and the Royal Institution of Chartered Surveyors since 2015. He was also a lay member of the Solicitors Disciplinary Tribunal Panel from July 2003 to July 2009.

Mr. Lu worked as the North Asia Financial Controller of Regional Container Lines (HK) Limited from January 1996 to April 1997. After which he has been an independent and project based consultant since 1997 and in addition to this, he worked as EDP manager for Asia Pacific Operations of Moulinex Far East Limited from April 2001 to January 2002. Besides his full time commitments, Mr. Lu also worked as a visiting lecturer (part-time) at the Department of Accountancy of the Hong Kong Polytechnic University from February 2000 to May 2001 and a part-time lecturer at the School of Continuing and Professional Education of the City University of Hong Kong from September 2001 to June 2010. He has been a part-time instructor at the School of Continuing and Professional Studies of the Chinese University of Hong Kong since September 2007. He has also been an independent non-executive director of Basetrophy Group Holdings Limited (Stock Code: 8460) since June 2017 and A&S Group (Holdings) Limited (Stock Code: 1737) since March 2018. Mr. Lu has been a part-time lecturer of Centennial College since January 2018.

SENIOR MANAGEMENT

Ms. Sze Ling Ling (“Ms. Sze”), aged 50, was appointed as the Chief Operation Officer of our Group on 23 December 2015. She is mainly responsible for the overall sales and marketing of our Group. Ms. Sze joined the predecessor company of our Group Gameone Interactive.com Inc. in November 2004. Ms. Sze had over 10 years of experience in game operation company and marketing acquired through our Group. Ms. Sze is the younger sister of Mr. Sze Yan Ngai, the chairman and executive Director of our Group.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Ms. Leung Pui Ching Connie (“Ms. Leung”), aged 35, was appointed as the System Technical Director of our Group on 23 December 2015. She is mainly responsible for assessing technical risk and mitigation plan, establishing standards and procedures to track and measure project’s progression, overseeing technical design documentation process for correctness and timeliness and evaluating development implementation on design and task thoroughness. Ms. Leung had over 10 years of experience in game development. Ms. Leung obtained the degree of Bachelor of Science in Creative Technologies from Coventry University, United Kingdom in October 2008 and the degree of Master of Science in Multimedia and Entertainment Technology from The Hong Kong Polytechnic University in November 2010.

Prior to joining our Group, Ms. Leung worked for The Hong Kong Polytechnic University as Research Assistant from September 2010 to August 2011, responsible for creating and managing E-learning platforms. She then joined Gameone Group Limited in August 2011 as Web Developer, responsible for developing and managing secure online payment system, preparing menus and documents for software and game developers, building the application platform interfaces for the game server to communicate with payment system and monitoring and optimizing the performance of databases. She was then promoted to System Technical Manager in June 2013, responsible for coordinating with management in developing business strategic plans and operating policies, managing project planning, staffing and schedule and collaborating with management on application development, enhancement and deployment activities.

Ms. Li On Lei (“Ms. Li”), aged 42, was appointed as the financial controller of our Group in June 2015. She is primarily responsible for the handling and overseeing compliance, corporate governance, financial reporting, financial planning and reviewing internal control of our Group. Ms. Li graduated from Leeds Metropolitan University with a Bachelor of Arts (Hons) Degree in Accounting and Finance in June 2003. Prior to joining our Group, Ms. Li has worked in the Audit and Assurance Department of an international accounting firm from July 2004 to May 2015 and her last position was senior manager. Ms. Li is a fellow member of the Association of Chartered Certified Accountants. Ms. Li is currently an independent non-executive director of Goal Forward Holdings Limited (Stock Code: 1854) and Fullwealth Construction Holdings Company Limited (Stock Code: 1034).

Ms. Ng Hoi Ying (“Ms. Ng”), aged 33, was appointed as the company secretary and authorized representative of our group on 23 March 2019. Ms. Ng obtained a degree of Bachelor of Business Administration (Honours) in Accountancy from The Hong Kong Polytechnic University. She has been a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Ng has over 10 years of experience in auditing, accounting and financial reporting. She worked as senior auditor of Deloitte Touche Tohmatsu from September 2008 to November 2011. From November 2011 to October 2014, Ms. Ng worked as a senior accountant in Asia Maritime Pacific (Hong Kong) Limited, a privately-owned shipping company. From October 2014 to October 2018, Ms. Ng worked as finance manager of Ngai Shun Construction & Drilling Company Limited, a subsidiary of Boill Healthcare Holdings Limited (formerly known as Ngai Shun Holdings Limited) (stock code: 1246), a company listed on the Main Board of the Stock Exchange. She is currently a company secretarial manager at Blooming (HK) Business Limited, a company primarily engaged in corporate advisory and company secretarial services. Ms. Ng is currently the company secretary of six companies listed on the Stock Exchange.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

We are committed to achieving and maintaining high standards of corporate governance, as our Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of the shareholders of the Company and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the “**Code**”) as set out in Appendix 15 to the GEM Listing Rules. During the year ended 31 December 2019, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors (the “**Code of Conduct**”) on terms no less exacting than the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard Dealings**”). The Company had also made specific enquiry of all the Directors and each of them was in compliance with the Code of Conduct and Required Standard Dealings throughout the year under review. Further the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors throughout the year under review.

BOARD OF DIRECTORS

The Board supervises the management of the business and affairs of the Company and ensures that it is managed in the best interests of the shareholders as a whole while taking into account the interest of other stakeholders. The Board is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. The Board is regularly provided with management update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group in sufficient details.

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

The Directors have selected appropriate account policies and applied them consistently; made judgments and estimates that are prudent and reasonable. As at 31 December 2019, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Directors' responsibilities in the preparation of the consolidated financial statements and the auditors' responsibilities are set out in the Independent Auditor's Report from pages 42 to 47 of this annual report.

Composition

The composition of the Board as at this report is set out as follows:

Executive Directors

Mr. Sze Yan Ngai (Chairman)

Mr. Lam Kin Fai (Chief Executive Officer)

Non-executive Director

Ms. Wong Pui Yain

Independent non-executive Directors

Mr. Yung Kai Tai

Dr. Fung Ying Him Anthony

Mr. Lu Tak Meng Teddy

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 14 to 17 of this annual report.

In compliance with rule 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with the criteria set out in rule 5.09 of the GEM Listing Rules.

With the various experience of the executive Directors, the non-executive Director and the independent non-executive Directors and given the nature of the Group's business, the Board considered that the Directors have a balance of skills and experience for the business of the Group.

CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company respectively on 23 December 2015 and each of our non-executive Director and our independent non-executive Directors entered into a letter of appointment with our Company respectively on 23 December 2015. The service contracts with our executive Directors and the letter of appointment with our non-executive Director are commencing from 13 January 2019. The letters of appointment with our independent non-executive Directors are commencing from 13 January 2019. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

According to our articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and be subject to re-election at annual general meeting at least once every three years. Directors who are appointed to fill casual vacancies or as additions to the Board shall hold office only until the next following annual general meeting after their appointment, and are subject to re-election at that annual general meeting.

Each of Mr. Yung and Mr. Lu will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on 8 May 2020 pursuant to article 16.18 of our articles of association. Mr. Yung and Mr. Lu, being eligible, will offer themselves for re-election.

At the forthcoming annual general meeting of the Company, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of Mr. Yung and Mr. Lu as independent non-executive Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer are separate and not performed by the same individual to avoid power being concentrated in any one individual. Mr. Sze has been the chairman of the Board throughout the year. Mr. Lam is the chief executive officer of the Company.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Group acknowledges the importance of adequate and ample continuing professional development for the Directors for sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged our Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

During the year ended 31 December 2019, the Company has provided and all Directors have attended at least one training course on the updates of the GEM Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEE

The Board has established three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.gameone.com.hk. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

The Board is responsible for performing the corporate governance duties set out in the Code which include developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the code provisions in the Code and disclosures in this annual report.

Remuneration Committee

The Remuneration Committee was established on 23 December 2015. The chairman of the Remuneration Committee is Mr. Yung, our independent non-executive Director, and other members include Dr. Fung and Mr. Lu, our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the Stock Exchange website and the Company's website.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structure for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the renewed service contracts and letter of appointment of the directors and the remuneration packages and emoluments of the Directors and senior management and considered that they were fair and reasonable during the year ended 31 December 2019.

Nomination Committee

The Nomination Committee was established on 23 December 2015. The chairman of the Nomination Committee is Mr. Sze, our chairman and executive Director, and other members include Mr. Yung, Dr. Fung and Mr. Lu, our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the Stock Exchange website and on the Company's website.

CORPORATE GOVERNANCE REPORT

The primary duties of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and to make recommendations to the Board on the appointment of new Directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates based on merit against objective criteria and with due regards to the benefits of diversity on the Board.

In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

Audit Committee

The Audit Committee was established on 23 December 2015. The chairman of the Audit Committee is Mr. Lu, our independent non-executive Director, and other members include Mr. Yung and Dr. Fung, our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the Stock Exchange website and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 5.28 of the GEM Listing Rules that at least one of the members of the Audit Committee (which must comprise a minimum of three members, the majority of the members of the Audit Committee must be independent non-executive Directors and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The Group's consolidated financial statements for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2019 comply with applicable accounting standards, GEM Listing Rules and the Hong Kong Companies Ordinance and adequate disclosures have been made.

During the year, the Audit Committee held four meetings to review and comment in the Company's 2018 annual results, 2019 interim results and quarterly results as well as the Company's material control procedures and risk management system.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF MEETINGS

Our Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of our Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

Subsequent to the year ended 31 December 2019, one more Board meeting was held on 27 March 2020. The forthcoming annual general meeting will be held on 8 May 2020.

Here below are details of all Directors' attendance at the Board meeting, Board committees' meeting and general meetings held during the year ended 31 December 2019:

| | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | 2019 Annual General Meeting |
|--|---|--------------------------------|---------------------------------------|-------------------------------------|------------------------------------|
| | Number of Meetings Attended/Held | | | | |
| Executive Directors | | | | | |
| Mr. Sze Yan Ngai | 5/5 | | | 1/1 | 1/1 |
| Mr. Lam Kin Fai | 5/5 | | | | 1/1 |
| Non-executive Directors | | | | | |
| Ms. Wong Pui Yain | 4/5 | | | | 1/1 |
| Independent non-executive Directors | | | | | |
| Mr. Yung Kai Tai | 5/5 | 4/4 | 1/1 | 1/1 | 1/1 |
| Dr. Fung Ying Him Anthony | 4/5 | 3/4 | 1/1 | 1/1 | 1/1 |
| Mr. Lu Tak Meng Teddy | 5/5 | 4/4 | 1/1 | 1/1 | 1/1 |

Code Provision A.1.3 of the Code stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and Board committees' meetings, reasonable notices are generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Board Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are provided with details of agenda items for decision making with reasonable notice and are welcomed to include matters in the agenda of each Board meeting. Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the procedures are complied with and advising the Board on compliance matters.

CORPORATE GOVERNANCE REPORT

Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are opened for inspection as requested by the Directors. During the year, the Board was given sufficient time to review and approve the minutes of Board meetings and meetings of Board committees. The Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as the Directors of the Company, at the expense of the Company.

If potential conflict of interest involving a substantial shareholder or a Director arises which the Board has determined to be material, the matter will be dealt with by a physical Board meeting rather than a written resolution. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting. The Directors attend meetings in persons or through other means of electronic communication in accordance with the articles of association of the Company.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the executive Directors and senior management.

All Directors assume the responsibilities owed to the shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through quarterly, half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations.

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that procedures are followed and facilitating communications among Directors as well as with shareholders and management.

The Company engages an external service provider, which assigned Ms. Ng as the Company Secretary. Ms. Ng possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. Mr. Sze, an executive Director of the Company is the primary contact person who Ms. Ng contacts.

For the year ended 31 December 2019, Ms. Ng undertook no less than 15 hours of relevant professional training to update her skill and knowledge.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the “**Board Diversity Policy**”) on 28 December 2018. The Company embraced the benefits of having a diverse Board, as such, the Board Diversity Policy aimed to set out the approach to maintain diversity of the Board. A summary of the Board Diversity Policy, together with the measurable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In determining the Board’s composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, culture, ethnicity, educational background, professional experience, skills, knowledge and individuality. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, ethnicity, educational background, professional experience, skills, knowledge and individuality. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Monitoring and reporting

The nomination committee will report annually, in the corporate governance report, on the Board’s composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy including but is not limited to the progress towards meeting the measurable objectives of this Board Diversity Policy.

NOMINATION POLICY

The Board adopted a nomination policy (the “**Nomination Policy**”) on 28 December 2018. A summary of the Nomination Policy, together with the measurable objectives set for implementing the Nomination Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Nomination Policy

The Nomination Policy aims to set out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the directors of the Company. This also ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company’s business.

CORPORATE GOVERNANCE REPORT

Measurable Objectives

The Nomination Committee will evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to criteria including but not limited to (collectively, the “Criteria”):

- (a) The Nomination Committee will, giving due consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort;
- (b) The Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from an independent agency firm and proposals from shareholders of the Company with due consideration given to the Criteria;
- (c) The Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third-party reference checks;
- (d) Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.
- (e) The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and
- (f) The Board will have the final authority on determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the Companies Registry of Hong Kong.

Monitoring and Reporting

The Nomination Committee will assess and report annually, in the corporate governance report, on the composition of the Board, and launch a formal process to monitor the implementation of this Nomination Policy as appropriate.

Review of Nomination Policy

The Nomination Committee will launch a formal process to review this Nomination Policy periodically to ensure that it is transparent and fair, remains relevant to the Company’s needs and reflects the current regulatory requirements and good corporate governance practice. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

CORPORATE GOVERNANCE REPORT

Disclosure of this Policy

A summary of this Nomination Policy including the nomination procedures and the process and Criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year will be disclosed in the annual corporate governance report.

In the circular to shareholders for proposing a candidate as an independent non-executive director, it should also set out:

- the process used for identifying the candidate and why the Board believes the candidate should be elected and the reason why it considers the candidate to be independent;
- if the proposed independent non-executive director will be holding their seventh (or more) listed company directorship, the reason the board believes the candidate would still be able to devote sufficient time to the Board;
- the perspectives, skills and experience that the candidate can bring to the Board; and
- how the candidate can contribute to the diversity of the Board.

DIVIDEND POLICY

The Board adopted a dividend policy (the “**Dividend Policy**”) on 28 December 2018. According to the Dividend Policy, in deciding whether to propose any dividend payout, the Board shall also take into account, inter alia:

- the Group actual and expected financial performance;
- shareholders’ interests;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- the level of the Group’s debts to equity ratio, return on equity and financial covenants to which the Group is subject;
- possible effects on the Group’s creditworthiness;
- any restrictions on payment of dividends that may be imposed by the Group’s lenders;
- the Group’s expected working capital requirements and future expansion plans;
- liquidity position and future commitments at the time of declaration of dividend;

CORPORATE GOVERNANCE REPORT

- taxation considerations;
- statutory and regulatory restrictions;
- general business conditions and strategies;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems appropriate.

Such declaration and payment of dividends shall remain to be determined at the discretion of the Board and subject to all applicable requirements (including without limitation restrictions on dividend declaration and payment) under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and the Memorandum and Articles of Association of the Company. Except for interim dividend, any dividends declared by the Company must be approved by an ordinary resolution of shareholders at the general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim dividends as appear to the directors to be justified by the profits of the Company available for distribution.

The Company will continually review the Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Policy at any time, and this Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

INDEPENDENT AUDITORS' REMUNERATION

BDO Limited is appointed as the external auditor of the Company. The fee paid and payable in respect of audit services and non-audit services amounted to HK\$520,000 and HK\$80,000 respectively for the year ended 31 December 2019.

SHAREHOLDERS' RIGHT

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

CORPORATE GOVERNANCE REPORT

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the “**Requisitionists**”) (as the case may be) pursuant to Article 12.3 of the articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company’s principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such articles of association for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company’s principal place of business in Hong Kong.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2019, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the year ended 31 December 2019, the Group appointed BT Corporate Governance Limited (“**BT**”) to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and
- independently perform internal control review and assess effectiveness of the Group’s risk management and internal control systems.

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by BT to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of BT as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems as effective and adequate.

CORPORATE GOVERNANCE REPORT

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 17 of the GEM Listing Rules as well as Part XIVA of the Securities and Futures Ordinance. The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures, and staff training arrangements, etc.

To avoid uneven dissemination of inside information, the dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Hong Kong Exchanges and Clearing Limited's website and the Company's website.

OUR ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Group has established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management — Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversees risk management and internal audit functions.

OUR RISK CONTROL MECHANISM

The Group adopts a “three lines of defence” corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by BT. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk owners have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensuring that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

CORPORATE GOVERNANCE REPORT

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

There is currently no internal audit function within the Group. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Directors will continue to review at least annually the need for an internal audit function.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted shareholders communication policy with objective of ensuring that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the shareholders as follows:

- (I) corporate communications such as annual reports, quarterly reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at "www.hkexnews.hk" and the Company's website at "www.gameone.com.hk";
- (II) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (III) corporate information is made available on the Company's website;
- (IV) annual and special general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and
- (V) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

During the year ended 31 December 2019, there is no significant change in the Company's memorandum and articles of association.

CORPORATE GOVERNANCE REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. Green initiatives and measures including recycling of resources, energy saving and eco-friendly management practice, have been adopted in the daily operation of the Group. As a responsible corporation, to the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2019.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognizes the importance of compliance with legal and regulatory requirements and the risk of non-compliance with such requirements. The Group conducts on-going reviews of newly enacted/revised laws and regulations affecting its operations. The Company is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2019.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands that the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in the Cayman Island. The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries are engaged in development, operation and publishing of mobile games and online PC games in Hong Kong and Taiwan. Details of the principal activities of its subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution from operations by principal activities and geographical area of operations for the year ended 31 December 2019 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 48 to 109. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: HK\$ nil per share).

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Friday, 8 May 2020 (the "**AGM**"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 5 May 2020 to Friday, 8 May 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 4 May 2020.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the past five financial years are set out on page 41. This summary does not form part of the audited consolidated financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

DIRECTORS' REPORT

SHARE CAPITAL AND SHARE OPTIONS SCHEMES

Details of the Company's share capital and share option schemes are set out in notes 25 and 27 to the financial statements respectively.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 28 to the financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under the GEM Listing Rules.

DISTRIBUTABLE RESERVES

At 31 December 2019, the aggregate amount of reserves available for distribution to owners of the Company was approximately HK\$34,050,000 (2018: approximately HK\$35,102,000).

MAJOR CUSTOMERS AND SUPPLIERS

Customer is defined as paying user who purchases in-game currency, in-game virtual items or premium features. If a paying user made a payment in our games on two publishing platforms or two different games, the paying user would be counted as two unique paying users and so on and so forth. Furthermore, the Company only has access to the total sum of the payments made by paying user through third-party distribution platform, such as Apple Store and Google Play, without further breakdown. Customer also includes (a) third-party game operators whom we licensed our games for them to publish in other geographic regions in consideration for license fees and royalties; (b) game developers/operators whom we provided payment collection and/or publishing services in return for service fees.

During the year ended 31 December 2019, so far as the Company is aware, the revenue attributable to our five largest customers accounted for less than 30% of our revenue for the year. Purchases from the Group's five largest suppliers accounted for approximately 70.4% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 17.7%.

None of the Directors of the Company, or any of his/her close associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company who held office during the year and up to the date of this annual report were as follows:

Executive Directors

Mr. Sze Yan Ngai (Chairman)

Mr. Lam Kin Fai (Chief Executive Officer)

Non-executive Director

Ms. Wong Pui Yain

Independent non-executive Directors

Mr. Yung Kai Tai

Dr. Fung Ying Him Anthony

Mr. Lu Tak Meng Teddy

In accordance with our articles of association, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

PERMITTED INDEMNITY PROVISION

Every Director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 14 to 17 of the annual report.

DIRECTORS' REPORT

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group and the emoluments band of the senior management of the Group for the year ended 31 December 2019 are set out in note 12 to the financial statements.

EMOLUMENT POLICY

The Company's remuneration policy comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes discretionary bonus and other merit payments), taking into account other factors such as their experience, level of responsibility, individual performance, the profit performance of our Group and general market conditions.

Our remuneration committee will meet once for each year to discuss remuneration related matters (including the remuneration of Directors and Senior Management) and review the remuneration policy of the Group. It has been decided that remuneration committee would determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management.

RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 December 2019 are set out in note 4.13 to the financial statement.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in note 28 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Neither the Company nor any of its subsidiaries had entered into any contract of significance with the Company's controlling shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Company's controlling Shareholders or their subsidiaries during the year.

MANAGEMENT CONTRACTS

As at 31 December 2019, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' REPORT

DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company" below and the share option scheme disclosures in note 27 to the financial statements, at no time during the year there were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or any such rights exercised by them; or the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company was a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares and underlying Shares

| Name of Director/ chief executive | Capacity/Nature of interest | Total number of Shares | Approximate percentage of shareholding |
|---|---|---------------------------|--|
| Ms. Wong Pui Yain (<i>Note 1</i>) | Interest of controlled corporation | 66,787,235 | 41.74% |
| Mr. Sze Yan Ngai (<i>Chairman</i>) (<i>Note 2</i>) | Interest of controlled corporation/ Interest of spouse | 29,004,337 | 18.13% |

Notes:

- (1) Ms. Wong Pui Yain ("**Ms. Wong**") holds 50% of the issued share capital of PC Asia Limited ("**PC Asia**"), which directly holds 99% and indirectly holds 1%, through PC Asia Nominees Limited ("**PC Asia Nominees**"), of the issued share capital of PC Investment Limited ("**PCIL**"). By virtue of the SFO, Ms. Wong is deemed to be interested in the 66,787,235 Shares in which PCIL is interested.
- (2) Mr. Sze Yan Ngai ("**Mr. Sze**") and Ms. Chan Lai Chu ("**Mrs. Sze**") hold 50% of the issued share capital of Right One Global Limited ("**Right One**") respectively, which holds 29,004,337 Shares. Mrs. Sze is the spouse of Mr. Sze. By virtue of the SFO, Mr. Sze is deemed to be interested in the Shares in which Right One and Mrs. Sze are interested.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors or chief executives of the Company, as at 31 December 2019, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company

| Name of shareholders | Nature of interest | Number of Shares or securities held | Approximate percentage of interest in our Company |
|---|---|-------------------------------------|---|
| Mr. Wong Kiam Seng (Note 1) | Interest of controlled corporation | 66,787,235 | 41.74% |
| PCIL (Note 2) | Beneficial owner | 66,787,235 | 41.74% |
| PC Asia (Note 2) | Interest of controlled corporation | 66,787,235 | 41.74% |
| Mrs. Sze (Note 3) | Interest of controlled corporation/ Interest of spouse | 29,004,337 | 18.13% |
| Right One (Note 4) | Beneficial owner | 29,004,337 | 18.13% |
| Nineyou International Limited (Note 5) | Beneficial owner | 18,367,182 | 11.48% |
| New Horizon Capital, L.P. (Note 5) | Interest of controlled corporation | 18,367,182 | 11.48% |
| Heartland Investment Limited (Note 5) | Interest of controlled corporation | 18,367,182 | 11.48% |

Notes:

- (1) PC Asia is beneficially owned by Ms. Wong as to 50% and Mr. Wong Kiam Seng ("Mr. Wong") as to 50%. Mr. Wong is the father of Ms. Wong.

DIRECTORS' REPORT

- (2) PCIL is beneficially owned by PC Asia as to 99% and PC Asia Nominees as to 1%. PC Asia Nominees is beneficially owned by PC Asia.
- (3) Mr. Sze and Mrs. Sze hold 50% of the issued share capital of Right One respectively, which holds 29,004,337 Shares. Mrs. Sze is the spouse of Mr. Sze. By virtue of the SFO, Mrs. Sze is deemed to be interested in the Shares in which Right One and Mr. Sze are interested.
- (4) Right One is beneficially owned by Mr. Sze as to 50% and Mrs. Sze as to 50%.
- (5) Based on the information provided by Nineyou International Limited (“**NYIL**”), NYIL is beneficially owned by Heartland Investment Limited as to approximately 44.44%, Wollerton Investments Pte. Ltd. as to approximately 18.96%, Fair Gold International Limited as to approximately 15.61%, Everstar Overseas Holding Ltd. as to approximately 10.04%, Star Fortune Overseas Holding Limited as to approximately 8.0% and Hongxin International Holdings Limited as to approximately 2.95%, all of whom being independent third parties. Wollerton Investments Pte. Ltd. is owned as to approximately 82.36% by Heartland Investment Limited. Heartland Investment Limited is wholly owned by New Horizon Capital, L.P. which is also an independent third party.

Save as disclosed above, as at 31 December 2019, there was no person or corporation, other than the Directors and chief executive of the Company whose interests are set out in the section “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debenture of the Company” above, had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

NON-COMPETITION UNDERTAKINGS

Each of Ms. Wong, Mr. Wong and Mr. Sze (together called, the “**Covenanting Shareholders**”) have confirmed to the Company of their respective due compliance with the terms of the Deed of Non-Competition since the Listing Date and up to the date of this annual report.

Our independent non-executive Directors have reviewed compliance of the Deed of Non-Competition and were satisfied that the terms of the Deed of Non-Competition had been duly complied with and enforced since the Listing Date and up to the date of this annual report.

During the year ended 31 December 2019, the Board had not received any written confirmation from any of our Directors in respect of interest in any business (other than our Group) which is or is likely to be directly or indirectly in competition with our business.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 18 to 32 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the public float as required under the GEM Listing Rules.

EQUITY LINKED AGREEMENTS

Save as disclosed in the note 27 to the financial statement, no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2019 or subsisted at the end of the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors annual writing confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

INDEPENDENT AUDITOR

The financial statements of the Company for the years ended 31 December 2017, 2018 and 2019 were audited by BDO Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2019 and up to the date of this report.

ON BEHALF OF THE BOARD

Mr. Sze Yan Ngai

Chairman and Executive Director

Hong Kong, 27 March 2020

SUMMARY OF FINANCIAL INFORMATION

| | For the year ended 31 December | | | | |
|--|--------------------------------|------------------|------------------|------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 |
| Total revenue | 80,180 | 105,447 | 79,634 | 79,612 | 118,181 |
| (Loss)/Profit before income tax | (1,963) | (24,634) | (17,947) | (9,912) | 7,416 |
| (Loss)/Profit for the year | (1,963) | (24,634) | (17,705) | (8,812) | 3,098 |
| Total comprehensive income for the year | (2,219) | (24,221) | (19,097) | (9,018) | 3,721 |
| Total assets | 62,461 | 68,488 | 96,730 | 111,101 | 90,245 |
| Total liabilities | 17,324 | 21,132 | 25,153 | 20,427 | 33,597 |
| Total equity and liabilities | 62,461 | 68,488 | 96,730 | 111,101 | 90,245 |
| Net current assets | 38,332 | 37,537 | 48,086 | 72,309 | 34,004 |
| Total assets less current liabilities | 45,137 | 47,356 | 71,577 | 90,916 | 56,920 |

INDEPENDENT AUDITOR'S REPORT



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To the members of Gameone Holdings Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Gameone Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on pages 48 to 109, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Impairment assessment of intangible Assets

Refer to note 5 and 14 to the consolidated financial statements

The carrying amount of the Group's intangible assets was HK\$4,850,000 as at 31 December 2019. An impairment loss of HK\$1,032,000 was recognised for the year ended 31 December 2019. In performing the impairment assessment of intangible assets, the management determined the recoverable amounts with reference to the value-in-use calculations based on cash flow forecasts. Estimations of the recoverable amounts are dependent on certain key assumptions that require significant management judgment for the underlying cash flow forecasts. Favorable or unfavorable changes to these assumptions would result in change in the recoverable amounts of the intangible assets and hence the amount of the impairment loss recognized for the year and the carrying amount of the intangible assets as at 31 December 2019.

We have identified impairment assessment of intangible assets as a key audit matter as it requires the management to exercise significant judgment and make estimation, and was assessed by us to be a significant risk of material misstatement.

Our response:

Our procedures in relation to the management's impairment assessment of intangible assets included:

- assessing the factors considered by the management for determining whether an impairment event had occurred and thus impairment assessment is required;
- challenging the reasonableness of management's key assumptions adopted in the impairment assessment based on our knowledge of the Group's business and gaming industry;
- assessing whether there is evidence of management bias on impairment assessment by considering the consistency of judgment and estimation made by the management on a year-by-year basis through discussion with the management to understand their rationale; and
- assessing management's estimation on the recoverable amounts of the intangible assets.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Estimates of the Player Relationship Period

Refer to note 4.10 and 22 to the consolidated financial statements

As described in note 4.10 and 22, the Group recognises revenue from durable in-game virtual items ratably over the Player Relationship Period. If the Group does not possess relevant data and information to differentiate revenue attributable to durable in-game virtual items from consumable in-game virtual items for a specific game, the Group recognises revenue for that game ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment.

We have identified estimation of the Player Relationship Period as a key audit matter as it requires the management to exercise significant judgment and make estimation and was assessed by us to be a significant risk of material misstatement.

Our response:

Our procedures in relation to management's estimation of the Player Relationship Period included:

- understanding the method of calculation of the Player Relationship Period;
- challenging the reasonableness of management's key assumptions adopted in the calculation of the Player Relationship Period based on our knowledge of the Group's business and the gaming industry;
- verifying the data input used by the management in the calculation of the Player Relationship Period; and
- checking the calculation of game operation income based on the Player Relationship Period.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

BDO Limited

Certified Public Accountants

Lo Ngai Hang

Practising Certificate number P04743

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Revenue | 7 | 80,180 | 105,447 |
| Cost of services rendered | | (57,113) | (83,883) |
| Gross profit | | 23,067 | 21,564 |
| Other income | 7 | 3,430 | 777 |
| Selling expenses | | (14,525) | (18,920) |
| Administrative expenses | | (12,722) | (17,176) |
| Other expenses | | (1,092) | (10,879) |
| Finance cost | 8 | (121) | – |
| Loss before income tax | 8 | (1,963) | (24,634) |
| Income tax credit | 9 | – | – |
| Loss for the year | | (1,963) | (24,634) |
| Other comprehensive income | | | |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange difference on translation of financial statements of foreign operations | | (256) | 413 |
| Other comprehensive income for the year | | (256) | 413 |
| Total comprehensive income for the year | | (2,219) | (24,221) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | (1,863) | (24,340) |
| Non-controlling interests | | (100) | (294) |
| | | (1,963) | (24,634) |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | (2,119) | (23,927) |
| Non-controlling interests | | (100) | (294) |
| | | (2,219) | (24,221) |
| | | 2019 | 2018 |
| | | HK\$ | HK\$ |
| Losses per share | 11 | | |
| – Basic and Diluted | | (0.01) | (0.15) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 653 | 1,739 |
| Intangible assets | 14 | 4,850 | 8,080 |
| Right of use assets | 15 | 1,302 | – |
| | | <u>6,805</u> | <u>9,819</u> |
| Current assets | | | |
| Inventories | 18 | – | 23 |
| Trade receivables | 19 | 3,127 | 5,137 |
| Prepayments, deposits and other receivables | 20 | 7,548 | 7,727 |
| Tax recoverable | | – | 98 |
| Cash at banks and on hand | | 44,981 | 45,684 |
| | | <u>55,656</u> | <u>58,669</u> |
| Current liabilities | | | |
| Trade payables | 21 | 2,038 | 3,744 |
| Accrued expenses and other payables | 22 | 5,346 | 5,671 |
| Contract liabilities | 22 | 8,535 | 11,674 |
| Amount due to a related company | 23 | – | 43 |
| Tax payable | | 77 | – |
| Lease liabilities | 15 | 1,328 | – |
| | | <u>17,324</u> | <u>21,132</u> |
| Net current assets | | <u>38,332</u> | <u>37,537</u> |
| Total assets less current liabilities | | <u>45,137</u> | <u>47,356</u> |
| Non-current liabilities | | | |
| Deferred taxation | 24 | – | – |
| Net assets | | <u>45,137</u> | <u>47,356</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| EQUITY | | | |
| Share capital | 25 | 1,600 | 1,600 |
| Reserves | 26 | 43,537 | 45,656 |
| Equity attributable to the Company's owners | | 45,137 | 47,256 |
| Non-controlling interests | | – | 100 |
| Total equity | | 45,137 | 47,356 |

On behalf of the Directors

Sze Yan Ngai
Director

Lam Kin Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Share capital HK\$'000 | Share premium* HK\$'000 (Note 26) | Other reserve* HK\$'000 (Note 26) | Translation reserve* HK\$'000 | Accumulated losses* HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
|---|------------------------------|--|--|-------------------------------------|------------------------------------|--|-----------------------------|
| At 1 January 2018 | 1,600 | 41,129 | 71,458 | 110 | (43,114) | 394 | 71,577 |
| Loss for the year | - | - | - | - | (24,340) | (294) | (24,634) |
| Exchange difference on translation of financial statements of foreign operations | - | - | - | 413 | - | - | 413 |
| Other comprehensive income for the year | - | - | - | 413 | - | - | 413 |
| Total comprehensive income for the year | - | - | - | 413 | (24,340) | (294) | (24,221) |
| At 31 December 2018 and 1 January 2019 | 1,600 | 41,129 | 71,458 | 523 | (67,454) | 100 | 47,356 |
| Loss for the year | - | - | - | - | (1,863) | (100) | (1,963) |
| Exchange difference on translation of financial statements of foreign operations | - | - | - | (256) | - | - | (256) |
| Other comprehensive income for the year | - | - | - | (256) | - | - | (256) |
| Total comprehensive income for the year | - | - | - | (256) | (1,863) | (100) | (2,219) |
| At 31 December 2019 | 1,600 | 41,129 | 71,458 | 267 | (69,317) | - | 45,137 |

* The total of these balances represents "Reserves" in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Loss before income tax | | (1,963) | (24,634) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 8 | 1,263 | 2,156 |
| Depreciation of right of use assets | 15 | 1,850 | – |
| Amortisation of intangible assets | 8 | 4,558 | 9,050 |
| Written off of prepayments and receivables | 8 | – | 5,575 |
| Written off of amount due from non-controlling shareholders of a subsidiary | | – | 400 |
| Written off inventories | | 23 | – |
| Interest expenses of leases liabilities | 8 | 121 | – |
| Bank interest income | 7 | (384) | (116) |
| Loss on disposal of property, plant and equipment | 8 | – | 149 |
| Impairment on intangible assets | 8 | 1,032 | 4,754 |
| | | <hr/> | <hr/> |
| <i>Operating profit/(loss) before working capital changes</i> | | 6,500 | (2,666) |
| Decrease in inventories | | – | 3 |
| Decrease in trade receivables | | 2,010 | 8,957 |
| Decrease in prepayments, deposits and other receivables | | 179 | 2,860 |
| (Decrease)/increase in trade payables | | (1,706) | 1,223 |
| Decrease in accrued expenses and other payables | | (325) | (105) |
| Decrease in contract liabilities | | (3,139) | (5,085) |
| Decrease in amount due to a related company | | (43) | (54) |
| | | <hr/> | <hr/> |
| <i>Cash generated from operations</i> | | 3,476 | 5,133 |
| Income tax refund | | 175 | – |
| | | <hr/> | <hr/> |
| <i>Net cash generated from operating activities</i> | | 3,651 | 5,133 |
| Cash flows from investing activities | | | |
| Payments for acquisition of intangible assets | | (2,360) | (1,768) |
| Purchase of property, plant and equipment | | (178) | (697) |
| Interest received | | 384 | 116 |
| | | <hr/> | <hr/> |
| <i>Net cash used in investing activities</i> | | (2,154) | (2,349) |
| Cash flows from financing activity | | | |
| Repayment of lease liabilities | 15 | (1,945) | – |
| | | <hr/> | <hr/> |
| Net cash used in financing activity | | (1,945) | – |
| | | <hr/> | <hr/> |
| Net (decrease)/increase in cash and cash equivalents | | (448) | 2,784 |
| Cash and cash equivalents at beginning of year | | 45,684 | 42,459 |
| Effect of foreign exchange rates changes | | (255) | 441 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at end of year | | 44,981 | 45,684 |
| | | <hr/> | <hr/> |
| Analysis of balances of cash and cash equivalents | | | |
| Cash at banks and on hand | | 44,981 | 45,684 |
| | | <hr/> | <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. CORPORATE INFORMATION

Gameone Holdings Limited was incorporated in Cayman Islands with limited liability under the Companies Law of Cayman Islands on 14 April 2010. The Company's registered office is located at PO Box 309, Uglan House, Grand Cayman, KY1-1104 Cayman Islands. The Company's principal place of business is located at Unit No.07, 5/F, Workingberg Commercial Building, Nos.41-47 Marble Road, Hong Kong.

The Company's shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 January 2016.

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries are engaged in development, operation, publishing and distribution of online and mobile games (the "**Core Business**") in Hong Kong, People's Republic of China (the "**PRC**") and Taiwan.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs-effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

| | |
|---|--|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 3, Business Combinations |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKFRS 11, Joint Arrangements |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 12, Income Taxes |
| Annual Improvements to HKFRSs 2015-2017 Cycle | Amendments to HKAS 23, Borrowing Costs |

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“**HKAS 17**”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the modified retrospective approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

Statement of financial position as at 1 January 2019

Right-of-use assets

Lease liabilities (non-current)

Lease liabilities (current)

HK\$'000

3,084

1,302

1,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

| | HK\$'000 |
|---|--------------|
| <i>Reconciliation of operating lease commitment to lease liabilities</i> | |
| Operating lease commitment as of 31 December 2018 | 3,346 |
| Less: short term leases for which lease terms end within 31 December 2019 | (105) |
| Less: leases of low-value assets | (17) |
| | <u>3,224</u> |

The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 is 5.12%.

| | |
|--|--------------|
| Total lease liabilities as of 1 January 2019 | <u>3,084</u> |
|--|--------------|

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 *(continued)*

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (the Group has leased photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 *(continued)*

(iii) Accounting as a lessee (continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group’s incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 *(continued)*

(v) *Transition*

As mentioned above, the Group has applied HKFRS 16 using the modified retrospective approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at 1 January 2019.

The Group has elected to recognise the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17, an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group’s lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 (continued)

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9-Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKAS 19 – Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to HKAS 28-Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests (“LTI”) in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

(a) Adoption of new/revised HKFRSs-effective 1 January 2019 *(continued)*

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

| | |
|--|--|
| Amendments to HKFRS 3 | Definition of a business ¹ |
| Amendments to HKAS 1 and HKAS 8 | Definition of material ¹ |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform ¹ |
| HKFRS 17 | Insurance Contracts ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”.

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

Amendments to HKFRS 9, HKAS 39 and HKFRS 7-Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

Amendments to HKFRS 10 and HKAS 28-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRS”) and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

(b) Basis of measurements

The financial statements have been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. BASIS OF PREPARATION *(continued)*

(c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars (“**HK\$**”), which is the same as the functional currency of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (see note 4.2 below). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest’s share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure, or rights, to variable returns from the investee; and
- the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company’s statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and any costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|--|--|
| Leasehold improvements | 5 years, or over the term of leases, whichever is shorter |
| Furniture, fixtures and office equipment | 5 years |
| Computers | 3-5 years |
| Motor vehicle | 3 years |

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal or retirement of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4.4 Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.4 Intangible assets *(continued)*

(i) Acquired intangible assets (continued)

Amortisation is provided on a straight-line basis over their estimated useful lives as follows. The amortisation expense is recognised in profit or loss and included in cost of service rendered.

| | |
|---------------|---|
| Game licenses | 2-4 years, or over the term of licenses |
|---------------|---|

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be used or sold;
- adequate resources are available to complete the development;
- there is an intention to complete and use or sell the product;
- the Group is able to use or sell the product;
- use or sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of service rendered.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment of intangible assets

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for non-financial assets in note 4.5).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.5 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets; and
- Right of use assets

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset, 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.

4.6.1 Leases (accounting policies applied from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, it is classified as a lease.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6.1 Leases (accounting policies applied from 1 January 2019) *(continued)*

Group as a lessee (continued)

Right-of-use asset

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are also subject to impairment. Right-of-use assets are depreciated on a straight-line basis, over the term of leases:

Lease liabilities

The lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (i.e. a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6.1 Lease (accounting policies applied from 1 January 2019) *(continued)*

Group as a lessee (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4.6.2 Lease (accounting policies applied until 31 December 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

As lessee

Assets held under finance leases are initially recognised as assets at fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4.7 Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (“**FVTPL**”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.7 Financial instruments *(continued)*

(i) Financial assets (continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.7 Financial instruments *(continued)*

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss (“**ECL**”) on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.7 Financial instruments *(continued)*

(ii) Impairment loss on financial assets (continued)

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, accrued expenses and amount due to a related company are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.7 Financial instruments *(continued)*

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4.8 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4.9 Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand, demand deposits with banks and as short-term highly liquid investments with original maturities of three months or less which are readily convertible into known amounts of cash and which are subject to an insignificant risks of changes in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

4.10 Revenue recognition

The Group is principally engaged in the development, operation, publishing and distribution of online and mobile games.

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

(i) *Revenue generated from operations of online and mobile games*

The Group operates both self-developed games and games licensed from third party game developers. The Group's games are free to play. Players can purchase game credits which are virtual currency for acquisition of in-game virtual items or purchase those in-game virtual items directly for better in-game experience. The Group sells prepaid game credits and in-game virtual items through its own game platform (the "**GO Platform**") and cooperation with various third party game distribution platforms and payment channels. These game distribution platforms include major online application stores (such as Apple Inc.'s App Store and Google Play installed in mobile telecommunications devices).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Revenue recognition *(continued)*

(i) Revenue generated from operations of online and mobile games (continued)

Principal agent consideration

The Group has evaluated the respective roles and responsibilities of the Group, third-party game developers, third-party distribution platforms, third-party payment channels and third-party prepaid game credit distributors in the delivery of game experiences to the Paying Players (“**Paying Players**”) in determining if the Group is acting as principal or as an agent in the arrangement, and therefore if the Group’s revenue from such arrangement should be reported on a gross or net basis, by assessing various factors, including but not limited to whether the Group (i) has the primary responsibility in the arrangement; (ii) changes the product or performs part of the services; (iii) has latitude in establishing the selling prices and (iv) has involvement in the determination of product and services specification.

The Group takes primary responsibilities in the delivery of game experiences to the Paying Players, including the marketing and promotion, determining distribution and payment channels, hosting game servers and providing customer services. In addition, the Group also controls game and service specifications and pricing of the in-game virtual items. Therefore, the Group considers itself the principal in the delivery of game experience to the Paying Players as the Group has the primary responsibility in the arrangement and latitude in establishing the selling price and thus records revenues on a gross basis. Payment to third-party game developers and service charges by third-party distribution platforms and third-party payment channels are recorded as cost of services rendered.

As the Group has determined that it is the principal in the delivery of game experience to the Paying Players, the Paying Players are identified by the Group to be its customers. Accordingly the Group considers the actual price paid by the Paying Players to be the gross amount of revenue. In determining the gross amount of revenue generated from operations of the Group’s games, the Group makes estimates of the discounts given to the Paying Players by the third-party distribution platforms and third-party prepaid game credit distributors (the discounts are borne by these third-party distribution platforms and third-party prepaid game credit distributors) based on available information and recorded such discounts as a deduction of revenue.

Paying Players purchase the game credits through the GO Platform and third-party distribution platforms’ charging systems or through the Paying Players’ accounts maintained with third party payment channels, or charging from the prepaid game credits they purchased. Third-party distribution platforms and third party payment channels collect the payment from the Paying Players and remit the cash net of commission charges which are pre-determined according to the relevant terms entered into between the Group and the third-party distribution platforms or third party payment channels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Revenue recognition *(continued)*

(i) Revenue generated from operations of online and mobile games (continued)

Recognition of revenue generated from operations of online and mobile games

Upon the sales of game credits or in-game virtual items, the Group typically has an implied obligation to provide the services which enable the game credits or in-game virtual items to be displayed, used or converted into other in-game virtual currencies/items in the games. As a result, the proceeds received from sales of game credits or in-game virtual items are initially recorded as contract liabilities in current liabilities. The attributable portion of the contract liabilities relating to values of the game credits consumed and in-game virtual items converted are immediately or ratably recognised as revenue only when the services are rendered to the respective Paying Players.

For the purposes of determining when services have been provided to the respective Paying Players, the Group has determined the following:

Consumable in-game virtual items represent items that are extinguished after consumption by a specific game player action. The Paying Players will not continue to benefit from the in-game virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered.

Durable in-game virtual items represent items that are accessible and beneficial to Paying Players over an extended period of time. Revenue is recognised ratably over the average life of durable in-game virtual items for the applicable game, which the Group makes best estimates to be average playing period of Paying Players ("**Player Relationship Period**").

The Group estimates the Player Relationship Period on a game-by-game basis and re-assesses such periods semi-annually. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, the Group estimates the Player Relationship Period based on other similar types of games developed by the Group or by third-party developers until the new game establishes its own patterns and history. The Group mainly considers the Paying Players' spending and consumption behavior in estimating the Player Relationship Period.

If the Group does not possess relevant data and information to differentiate revenue attributable to durable in-game virtual items from consumable in-game virtual items for a specific game, the Group recognises revenue for that game ratably over the Player Relationship Period (i.e. recognizes revenue over time).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Revenue recognition *(continued)*

(ii) Revenue generated from game publishing services

The Group provides publishing services through cooperation with other third party game developers or operators. The Group publishes these games on its own GO Platform.

The Group's game publishing revenue is pre-determined according to the relevant terms of the agreements entered into between the Group and the third party game developers or operators. The games published on the GO Platform are hosted, maintained, operated and updated independently by the third party game developers or operators. The Group mainly provides the Paying Players with access to the GO Platform.

The Group has evaluated and determined that it is not the primary obligor in the services rendered and is therefore, acting as an agent in publishing these games. Accordingly, the Group recognises its revenue, net of the portion of sharing of revenue with the third party game developers or operators when the Paying Players purchase the game credits for the relevant games (i.e. recognizes revenue at a point in time).

(iii) Licensing and royalty income

The Group licenses online and mobile games and other intellectual rights to third parties. Any fixed upfront licensing fee is recognised on a straight-line basis over the period of the license agreement. Royalty income from the licensing arrangements is recognised in accordance with the terms of agreements. The sales-based royalty is recognized based on the revenue from the license game.

(iv) Interest income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(v) Contract assets and contract liabilities

A contract assets is a vendor's right to consideration in exchange goods or services that the vendor has transferred to a customer, when that right is conditional on the vendor's future performance. A receivable is a vendor's unconditional right to consideration, and is accounted for in accordance with HKFRS 15. As at 31 December 2019, the Group did not have contract assets.

Contract liabilities primarily consist of the unamortised revenue from sales of in-game virtual items in online and mobile games, where there is still an implied obligation to be provided by the Group and will be recognized as revenue when all of the revenue recognition criteria are met. Advances disclosed in other payables and deferred revenue were previously presented separately in the statement of financial position, but are now presented together in contract liabilities to reflect their similar nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

4.11 Accounting for income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.12 Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the “**functional currency**”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.12 Foreign currency *(continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

4.13 Employee benefits

(i) Bonus

The expected cost of bonus payment is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Defined contribution retirement plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions are made based on a percentage of the employees' basic salaries to the maximum mandatory contributions as required by the MPF Scheme. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets, respectively, as they are normally of a short-term nature. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.13 Employee benefits *(continued)*

(ii) Defined contribution retirement plan (continued)

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Employees of the Group's subsidiary companies in China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal government. The Group's subsidiary companies contribute funds which are calculated on certain percentage of the payroll to the schemes to fund the retirement benefits of the employees. Contributions to the schemes vest immediately.

A branch of a subsidiary company of the Group in Taiwan has a defined contribution scheme governed by the Taiwan Labor Pension Act. Under the scheme, a branch of a subsidiary company of the Group in Taiwan contributes monthly to the Bureau of Labour Insurance on certain percentage of the payroll of the employees who choose to participate in the scheme. Contributions to the scheme vest immediately.

(iii) Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.14 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15 Related parties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15 Related parties *(continued)*

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4.16 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's line of business.

The measurement policies the Group uses for reporting segment results under HKFRS "8 Operating Segments" are the same as those used in its financial statements prepared under HKFRSs.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the Directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Estimates of the Player Relationship Period

As described in Note 4.10, the Group recognises revenue from durable in-game virtual items ratably over the Player Relationship Period. If the Group does not possess relevant data and information to differentiate revenue attributable to durable in-game virtual items from consumable in-game virtual items for a specific game, the Group recognises revenue for that game ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for prospectively as a change in accounting estimate.

Recognition of contract liabilities

Revenue from game operation income is recognised based on the usage of the relevant game credits. Income received in respect of unutilised game credits are recognised as contract liabilities. Game operation income received is net of discounts given to certain distribution channels. In respect of the amount of contract liabilities arising from unutilised game credits, management's estimation is required in determining the average sales value of these unutilised game credits as discounts given are different for different sales channels.

Impairment of receivables

Management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and debtors, past default experience and the current market conditions. Management reassesses the impairment at the reporting date.

Impairment of non-financial assets

The Group assesses whether there are indicators of impairment for 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. Impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of fair value less costs to sell 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 estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“**IBR**”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. The Group has the option, under some of its leases, to lease the assets for additional terms of two to three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is beyond its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

6. SEGMENT INFORMATION

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is defined on the basis of the internal management reporting information that is provided to and regularly reviewed by the executive directors in order to allocate resources and assess performance of the segment. During the year, executive directors regularly review revenue and operating results derived from development, operation, publishing and distribution of online and mobile games and consider as one single operating segment. The game operation income and license fee income are recognized over time while the game publishing income is recognized at a point in time.

The Company is an investment holding company and the principal place of the Group’s operation is in Hong Kong. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its country of domicile.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(continued)*

Geographical information

The Group's revenue and information about its non-current assets by geographical location are detailed below.

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-------------------------------|------------------|------------------|
| By country/region | | |
| Hong Kong (place of domicile) | 70,187 | 96,231 |
| Taiwan | 9,920 | 9,025 |
| Others | 73 | 191 |
| | <u>80,180</u> | <u>105,447</u> |

Non-current assets

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-------------------------------|------------------|------------------|
| By country/region | | |
| Hong Kong (place of domicile) | 6,710 | 9,450 |
| Taiwan | 95 | 366 |
| PRC | - | 3 |
| | <u>6,805</u> | <u>9,819</u> |

Information about major customers

There is no single customer contributed to 10% or more revenue to the Group's revenue for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. REVENUE AND OTHER INCOME

Disaggregation of revenue from contracts with the customers by type categories and other income are as follows:

| | 2019 | 2018 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Revenue from contracts with customer within the scope of HKFRS 15: | | |
| Game operation income | 78,438 | 102,754 |
| Game publishing income | 921 | 1,794 |
| Royalty income | 424 | 489 |
| License fee income | 397 | 410 |
| | 80,180 | 105,447 |
| Other income | | |
| Interest income | 384 | 116 |
| Other income | 3,046 | 661 |
| | 3,430 | 777 |
| | 83,610 | 106,224 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8. LOSS BEFORE INCOME TAX

Loss before income tax expense is arrived at after charging/(crediting):

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| <i>Under Cost of services rendered:</i> | | |
| Amortisation of intangible assets (note 14) | 4,558 | 9,050 |
| Royalty expenses | 17,210 | 33,079 |
| Services charged by game distribution channels | 19,670 | 25,912 |
| <i>Under administrative expenses:</i> | | |
| Auditor's remuneration | 606 | 607 |
| Exchange (gain)/losses, net | (3) | 297 |
| Operating lease charges | – | 2,556 |
| Lease payments not included in the measurement of lease liabilities (note 15) | 161 | – |
| Depreciation of right of use assets (note 15) | 1,850 | – |
| <i>Under other expenses:</i> | | |
| Impairment on intangible assets (note 14) | 1,032 | 4,754 |
| Loss on disposal of property, plant and equipment | – | 149 |
| Written off of prepayments | – | 5,575 |
| <i>Under finance cost:</i> | | |
| Interest expense on lease liabilities (note 15) | 121 | – |
| Depreciation of property, plant and equipment (note 13): | | |
| – Under cost of services rendered | 746 | 1,188 |
| – Under administrative expenses | 517 | 968 |
| | <u>1,263</u> | <u>2,156</u> |
| Staff costs excluding directors' remuneration (note 12): | | |
| – Salaries and allowances | 16,031 | 15,608 |
| – Contributions on defined contribution retirement plan | 931 | 1,331 |
| – Discretionary bonuses | – | 835 |
| | <u>16,962</u> | <u>17,774</u> |

No depreciation was included in the cost of research and development for the year ended 31 December 2019 (2018:Nil). The salaries included in the cost of research and development for the year ended 31 December 2019 amounted to approximately HK\$6,943,000 (2018: approximately HK\$6,722,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX CREDIT

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Current tax – Hong Kong Profits Tax | | |
| – Tax for the year | – | – |
| – Over provision in prior years | – | – |
| | <hr/> | <hr/> |
| Current tax – PRC Tax | | |
| – Tax for the year | – | – |
| | <hr/> | <hr/> |
| Deferred tax (note 24) | – | – |
| | <hr/> | <hr/> |
| Income tax credit | – | – |
| | <hr/> <hr/> | <hr/> <hr/> |

No provision for PRC Enterprise Income Tax (the “EIT”) was made as the Group has not generated any tax assessable profits in the PRC for both years. A provision for the EIT in the PRC is calculated at the applicable rate of 25% in accordance with the relevant laws and regulation in PRC.

No Profits Tax for the Taiwan branch has been provided as the Taiwan branch has not generated any tax assessable profits in Taiwan for both years. A provision for the EIT in the Taiwan is calculated at the applicable rate of 17% in accordance with the relevant laws and regulation in Taiwan.

No provision for Hong Kong Profits Tax was made as the Group has not generated any tax assessable profits in Hong Kong for both years. A provision for Hong Kong Profits Tax is calculated at the applicable rate of 16.5% for the Group’s estimated assessable profits derived in Hong Kong.

Reconciliation between income tax credit and accounting loss at applicable tax rate is as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Loss before income tax | <u>(1,963)</u> | <u>(24,634)</u> |
| Tax on loss before income tax, calculated at rates applicable to profits in the tax jurisdictions concerned | (230) | (3,937) |
| Tax effect of non-deductible expenses | 326 | 85 |
| Tax effect of non-taxable revenue | (17) | (2) |
| Tax effect of tax losses not recognised | (79) | 3,803 |
| Other | – | 51 |
| | <hr/> | <hr/> |
| Income tax credit | – | – |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. DIVIDENDS

No dividends have been paid or declared by the Company or any of the subsidiaries during the year (2018: Nil).

11. LOSSES PER SHARE

The calculation of basic losses per share is based on the loss attributable to the owners of the Company and on the basis of the weighted average number of 160,000,000 ordinary shares (2018: 160,000,000 ordinary shares) in issue.

The calculation of basic loss per share is based on the loss attributable to the owners of the Company on the basis of weighted average number of 160,000,000 ordinary shares in issue, being the number of shares of the Company after the completion of the Group reorganisation, capitalisation issue, and placing of shares upon the listing of the Company's shares on GEM of the Stock Exchange on 13 January 2016.

No diluted earnings per share is calculated for the year ended 31 December 2019 (2018: Nil) as there was no potential dilutive ordinary share in existence.

12. REMUNERATION OF DIRECTORS AND EMOLUMENTS OF EMPLOYEES

Directors' remuneration

The aggregate amounts of remuneration paid and payable to directors of the Company for the year are as follows:

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonus HK\$'000 | Contributions to retirement plans HK\$'000 | Total HK\$'000 |
|---|------------------|---|------------------------------------|---|-------------------|
| Year ended 31 December 2019 | | | | | |
| <i>Executive Directors:</i> | | | | | |
| Sze Yan Ngai | - | 754 | 1,000 | 18 | 1,772 |
| Lam Kin Fai | - | 624 | - | 18 | 642 |
| <i>Non-executive Director:</i> | | | | | |
| Wong Pui Yain | - | 150 | - | - | 150 |
| <i>Independent Non-executive Directors:</i> | | | | | |
| Yung Kai Tai | - | 150 | - | - | 150 |
| Fung Ying Him Anthony | - | 150 | - | - | 150 |
| Lu Tak Meng Teddy | - | 150 | - | - | 150 |
| | - | 1,978 | 1,000 | 36 | 3,014 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. REMUNERATION OF DIRECTORS AND EMOLUMENTS OF EMPLOYEES (continued)

Directors' remuneration (continued)

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonus HK\$'000 | Contributions to retirement plans HK\$'000 | Total HK\$'000 |
|---|------------------|---|------------------------------------|---|-------------------|
| Year ended 31 December 2018 | | | | | |
| <i>Executive Directors:</i> | | | | | |
| Sze Yan Ngai | - | 946 | 2,000 | 18 | 2,964 |
| Lam Kin Fai | - | 615 | 39 | 18 | 672 |
| <i>Non-executive Directors:</i> | | | | | |
| Wong Pui Yain | - | 150 | - | - | 150 |
| <i>Independent Non-executive Directors:</i> | | | | | |
| Yung Kai Tai | - | 150 | - | - | 150 |
| Fung Ying Him Anthony | - | 150 | - | - | 150 |
| Iu Tak Meng Teddy | - | 150 | - | - | 150 |
| | - | 2,161 | 2,039 | 36 | 4,236 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2019 (2018: Nil).

Five highest paid individuals

Of the five highest paid individuals with the highest emoluments in the Group, two were directors of the Company, Mr. Sze and Mr. Lam Kin Fai (2018: Mr. Sze and Mr. Lam Kin Fai), whose remuneration is reflected in the analysis presented above for the year. Details of remuneration of the remaining three individuals for the year are as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Salaries, allowances and benefits in kind | 1,450 | 1,374 |
| Discretionary bonus | - | 62 |
| Retirement benefits – defined contribution plans | 54 | 54 |
| Total | 1,504 | 1,490 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. REMUNERATION OF DIRECTORS AND EMOLUMENTS OF EMPLOYEES *(continued)*

Five highest paid individuals *(continued)*

The remuneration paid to each of the above individuals for the year fell within the following bands:

| | Number of the individuals | |
|-------------------------------|---------------------------|----------|
| | 2019 | 2018 |
| Nil – HK\$1,000,000 | 3 | 3 |
| HK\$1,000,001 – HK\$1,500,000 | – | – |
| | <u>3</u> | <u>3</u> |

No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or compensation for loss of office.

Senior management's emoluments

The emoluments paid or payable to members of senior management for the year fell within the following bands:

| | Number of the individuals | |
|---------------------|---------------------------|----------|
| | 2019 | 2018 |
| Nil – HK\$1,000,000 | <u>1</u> | <u>2</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK\$'000 | Furniture, fixtures and office equipment HK\$'000 | Computers HK\$'000 | Motor vehicle HK\$'000 | Total HK\$'000 |
|------------------------------------|---------------------------------------|---|-----------------------|------------------------------|-------------------|
| Year ended 31 December 2019 | | | | | |
| Opening net carrying amount | 479 | 164 | 950 | 146 | 1,739 |
| Additions | – | 38 | 140 | – | 178 |
| Depreciation | (280) | (92) | (745) | (146) | (1,263) |
| Exchange adjustment | (8) | 9 | (2) | – | (1) |
| Closing net carrying amount | <u>191</u> | <u>119</u> | <u>343</u> | <u>–</u> | <u>653</u> |
| As at 31 December 2019 | | | | | |
| Cost | 1,254 | 337 | 14,761 | 1,151 | 17,503 |
| Accumulated depreciation | <u>(1,063)</u> | <u>(218)</u> | <u>(14,418)</u> | <u>(1,151)</u> | <u>(16,850)</u> |
| Net carrying amount | <u>191</u> | <u>119</u> | <u>343</u> | <u>–</u> | <u>653</u> |
| Year ended 31 December 2018 | | | | | |
| Opening net carrying amount | 680 | 216 | 2,084 | 395 | 3,375 |
| Additions | 541 | 85 | 71 | – | 697 |
| Depreciation | (629) | (90) | (1,188) | (249) | (2,156) |
| Disposal | (113) | (36) | – | – | (149) |
| Exchange adjustment | – | (11) | (17) | – | (28) |
| Closing net carrying amount | <u>479</u> | <u>164</u> | <u>950</u> | <u>146</u> | <u>1,739</u> |
| As at 31 December 2018 | | | | | |
| Cost | 1,254 | 299 | 14,551 | 1,151 | 17,255 |
| Accumulated depreciation | <u>(775)</u> | <u>(135)</u> | <u>(13,601)</u> | <u>(1,005)</u> | <u>(15,516)</u> |
| Net carrying amount | <u>479</u> | <u>164</u> | <u>950</u> | <u>146</u> | <u>1,739</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. INTANGIBLE ASSETS

| | HK\$'000 |
|---|-----------------|
| Year ended 31 December 2019 | |
| Opening net carrying amount | 8,080 |
| Additions | 2,360 |
| Amortisation | (4,558) |
| Impairment | (1,032) |
| Exchange adjustment | – |
| Closing net carrying amount | <u>4,850</u> |
| As at 31 December 2019 | |
| Cost | 50,171 |
| Accumulated amortisation and impairment | <u>(45,321)</u> |
| Closing net carrying amount | <u>4,850</u> |
| Year ended 31 December 2018 | |
| Opening net carrying amount | 20,116 |
| Additions | 1,768 |
| Amortisation | (9,050) |
| Impairment | (4,754) |
| Exchange adjustment | – |
| Closing net carrying amount | <u>8,080</u> |
| As at 31 December 2018 | |
| Cost | 51,289 |
| Accumulated amortisation and impairment | <u>(43,209)</u> |
| Closing net carrying amount | <u>8,080</u> |

The intangible assets represented licenses with finite useful life.

For the year ended 31 December 2019, an impairment loss of approximately HK\$1,032,000 (2018: HK\$4,754,000) (note 8) was recognised, which represented the write-down of license fee paid for certain games operated by the Group to the recoverable amounts as a result of number of paying players of these games not achieving expected level. The impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income as other expenses. The recoverable amounts have been determined with reference to the value-in-use calculations based on cash flow projections from approved budgets covering a period of one to three years which is the expected useful life of these games estimated by the management. Budgeted gross margin is determined based on the past performance on similar games and management's expectations for market development. The discount rate used is pre-tax rate of approximately 10% (2018: 11%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. RIGHT OF USE ASSETS AND LEASE LIABILITIES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 4.6.1.

Right of use assets

Set out below are the carrying amounts of right of use assets recognised and the movements during the year:

| | HK\$'000 |
|---|--------------|
| Cost: | |
| – Opening balance under HKFRS 16 as at 1 January 2019 | 3,084 |
| – Addition | 274 |
| – Modification | (206) |
| | <u>3,152</u> |
| As at 31 December 2019 | <u>3,152</u> |
| Accumulated depreciation and impairment: | |
| – Depreciation provided during the year | 1,850 |
| – Modification | – |
| | <u>1,850</u> |
| As at 31 December 2019 | <u>1,850</u> |
| Net carrying amount: | |
| – As at 31 December 2019 | <u>1,302</u> |

Lease liabilities:

Set out below are the carrying amounts of lease liabilities and the movements during the year:

| | HK\$'000 |
|---|--------------|
| – Opening balance under HKFRS 16 as at 1 January 2019 | 3,084 |
| – Addition | 274 |
| – Interest expenses | 121 |
| – Modification | (206) |
| – Payments | (1,945) |
| | <u>1,328</u> |
| As at 31 December 2019 | <u>1,328</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. RIGHT OF USE ASSETS AND LEASE LIABILITIES *(Continued)*

Lease liabilities: *(Continued)*

Future lease payments are due as follows:

| | 31 December 2019 | | |
|-----------------|---|---|---|
| | Total minimum lease payments HK\$'000 | Interest of the minimum lease payments HK\$'000 | Present value of the minimum lease payments HK\$'000 |
| Within one year | <u>1,351</u> | <u>23</u> | <u>1,328</u> |

| | 1 January 2019 | | |
|--|---|---|---|
| | Total minimum lease payments HK\$'000 | Interest of the minimum lease payments HK\$'000 | Present value of the minimum lease payments HK\$'000 |
| Within one year | 1,873 | 117 | 1,756 |
| More than one year but not exceeding two years | <u>1,351</u> | <u>23</u> | <u>1,328</u> |
| Total | <u>3,224</u> | <u>140</u> | <u>3,084</u> |

| | 2019 HK\$'000 |
|---|------------------|
| – Depreciation expense of right of use assets | 1,850 |
| – Interest expense on lease liabilities | 121 |
| – Expense related to short-term lease (included in administrative expenses) | 152 |
| – Expense related to lease of low value assets that are not shown above as short-term lease (included in administrative expenses) | 9 |

The Group had total cash outflows for leases of HK\$1,945,000 in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|---|-------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Interests in subsidiaries | 17 | <u>5,362</u> | <u>5,362</u> |
| Current assets | | | |
| Prepayments, deposits and other receivables | | 119 | 117 |
| Cash at banks and on hand | | 18,784 | 20,170 |
| Amount due from a subsidiary | | <u>16,890</u> | <u>16,730</u> |
| | | <u>35,793</u> | <u>37,017</u> |
| Current liabilities | | | |
| Accrual and other payables | | 210 | 382 |
| Amount due to a subsidiary | | <u>19</u> | <u>19</u> |
| | | <u>229</u> | <u>401</u> |
| Net current assets | | <u>35,564</u> | <u>36,616</u> |
| Net assets | | <u>40,926</u> | <u>41,978</u> |
| EQUITY | | | |
| Share capital | 25 | 1,600 | 1,600 |
| Reserves | 26 | <u>39,326</u> | <u>40,378</u> |
| Total equity | | <u>40,926</u> | <u>41,978</u> |

On behalf of the Directors

Sze Yan Ngai
Director

Lam Kin Fai
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2019 are as follows:

| Name | Place of incorporation/ operation and principal activity | Description of shares held | Effective interest held by the Company | Principal activities |
|-----------------------------------|--|-------------------------------|---|--|
| <i>Interests held directly</i> | | | | |
| Gameone Inc. | The British Virgin Islands ("BVI") | Ordinary Shares | 100% | Investment holding |
| <i>Interests held indirectly</i> | | | | |
| Gameone.com Inc. | BVI | Ordinary Shares | 100% | Investment holding |
| Gameone Agency Limited | BVI | Ordinary Shares | 100% | Investment holding |
| G9 Entertainment Limited | BVI | Ordinary Shares | 100% | Investment holding |
| Gameone Online Technology Limited | Hong Kong | Ordinary Shares | 100% | Development of online and mobile games |
| Gameone Group Limited | Hong Kong | Ordinary Shares | 100% | Investment holding, development, operation, publishing and distribution of online and mobile games |
| 漫遊移動科技(深圳)有限公司 ^(note) | PRC | Paid-up Capital | 100% | Development of mobile games |
| GO Studio Limited | Hong Kong | Ordinary Shares | 60% | Dormant |

Note: wholly-foreign owned enterprise for a term of 10 years commencing 13 August 2013.

18. INVENTORIES

The inventories were carried at lower of cost and net realisable value and represent principally game credits cards and game packs which are to be utilised in the ordinary course of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. TRADE RECEIVABLES

| | 2019 | 2018 |
|-------------------|---------------------|--------------|
| | HK\$'000 | HK\$'000 |
| Trade receivables | <u>3,127</u> | <u>5,137</u> |

The Group normally allows credit period within 60 days to its trade debtors. At each reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. Further detail on the Group's credit policy and credit risk arising from trade receivable are set out in note 34.3.

The ageing analysis of trade receivables (net of impairment losses), based on the invoice date, as of the end of the reporting period is as follows:

| | 2019 | 2018 |
|-----------------------|---------------------|--------------|
| | HK\$'000 | HK\$'000 |
| Not more than 30 days | 2,950 | 4,478 |
| 30-60 days | 153 | 577 |
| Over 60 days | 24 | 82 |
| | <u>3,127</u> | <u>5,137</u> |

At each reporting date, the Group reviews receivables for evidence of impairment on both individual and collective basis. During the year ended 31 December 2019, the Group has no written off trade receivables (2018: Nil) directly to the profit or loss for the year. The expected credit loss rate on trade receivables was assessed to be minimal and no provision was made for the year.

The directors consider that the carrying amounts of trade receivables approximate their fair value.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2019 | 2018 |
|-------------------|---------------------|--------------|
| | HK\$'000 | HK\$'000 |
| Prepayments | 6,545 | 6,337 |
| Deposits | 564 | 561 |
| Other receivables | 439 | 829 |
| | <u>7,548</u> | <u>7,727</u> |

Further detail on the Group's credit policy and credit risk arising from other receivables excluding prepayments are set out in note 34.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. TRADE PAYABLES

The Group's trade payables mainly due to its suppliers which are aged within 30 days, based on invoice date.

22. ACCRUED EXPENSES, OTHER PAYABLES AND CONTRACT LIABILITIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|------------------|------------------|------------------|
| Accrued expenses | 3,736 | 4,114 |
| Other payables | 1,610 | 1,557 |
| | <u>5,346</u> | <u>5,671</u> |

CONTRACT LIABILITIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------|------------------|------------------|
| Receipt in advance | 320 | 3,860 |
| Deferred income | 8,215 | 7,814 |
| | <u>8,535</u> | <u>11,674</u> |

Typical payment terms which impact on the amount of contract liabilities are as follows:

Contract liabilities mainly represents the unamortised portion of income received in respect of in-game virtual items paid by Paying Players.

Movements in contract liabilities

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Balance as at 1 January | 11,674 | 16,759 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (11,674) | (16,759) |
| Increase in contract liabilities as a result of receipts unamortised portion of income received in respect of in-game virtual items paid by Paying Players and prepaid royalty by licensee | 8,535 | 11,674 |
| Balance at 31 December | <u>8,535</u> | <u>11,674</u> |

The directors consider that the carrying amounts of accrued expenses, other payables and contract liabilities approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. AMOUNT DUE TO A RELATED COMPANY

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Suzhou Snail Digital Technology Company Limited | — | 43 |

Its subsidiary, Snail Digital (HK) Limited, is a shareholder of the Company. The amount related to game operation of the Group. It was trade in nature, unsecured, interest-free and has no fixed terms of repayment.

24. DEFERRED TAXATION

Details of deferred tax liabilities recognised and movements thereon during the year are as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| <u>Accelerated tax depreciation</u> | | |
| At beginning of year | — | — |
| Credit for the year (note 9) | — | — |
| At ending of year | — | — |

As at 31 December 2019, the Taiwan branch has unused tax losses of approximately HK\$13,949,000 (2018: HK\$15,139,000) available for offset against future taxable profits in Taiwan. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profit streams. These tax losses can be carried forward for a period of 10 years.

As at 31 December 2019, 漫遊移動科技(深圳)有限公司 has unused tax losses of approximately HK\$9,108,000 (2018: HK\$6,509,000) available for offset against future taxable profits in PRC. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profit streams. These tax losses can be carried forward for a period of 5 years.

As at 31 December 2019, the Group excluding Taiwan branch and 漫遊移動科技(深圳)有限公司 has unused tax losses of approximately HK\$42,691,000 (2018: \$45,915,000) available for offset against future taxable profits. No deferred tax assets have been recognised in respect of these tax losses due to unpredictability of future profit streams. These tax losses can be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. SHARE CAPITAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 14 April 2010. At the date of incorporation, the authorised share capital of the Company was HK\$30,000 divided into 3,000,000 ordinary shares of HK\$0.01 each. One share of HK\$0.01 in the share capital was issued and allotted fully paid to the initial subscribing shareholder and such fully paid subscriber share was transferred to Mr. Sze on 14 April 2010. On 30 September 2015, Mr. Sze transferred one share, which represented entire issued share capital of the Company, to PC Investment Limited, a company incorporated in Hong Kong and the controlling shareholder of the Group.

Authorised share capital

On 23 December 2015, the authorised share capital of the Company was increased from HK\$30,000 to HK\$10,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.01 each by the creation of an additional 997,000,000 ordinary shares.

Issued and fully paid

| | 2019 Number | 2019 HK\$'000 | 2018 Number | 2018 HK\$'000 |
|-----------------|--------------------|------------------|--------------------|------------------|
| Ordinary shares | <u>160,000,000</u> | <u>1,600</u> | <u>160,000,000</u> | <u>1,600</u> |

26. RESERVES

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity in these consolidated financial statements.

Details of the movements on the Company's reserves are as follow:

| | Share premium HK\$'000 | Other reserve HK\$'000 | Accumulated losses HK\$'000 | Total reserve HK\$'000 |
|---|------------------------------|------------------------------|-----------------------------------|------------------------------|
| At 1 January 2018 | 41,129 | 5,276 | (4,465) | 41,940 |
| Loss for the year | — | — | (1,562) | (1,562) |
| At 31 December 2018 and 1 January 2019 | <u>41,129</u> | <u>5,276</u> | <u>(6,027)</u> | <u>40,378</u> |
| Loss for the year | — | — | (1,052) | (1,052) |
| At 31 December 2019 | <u>41,129</u> | <u>5,276</u> | <u>(7,079)</u> | <u>39,326</u> |

Share premium

Share premium is the excess of the proceeds received over the nominal value of the Company's shares issued, net of share issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. RESERVES (continued)

Other reserve

Other reserve of the Group mainly represented the differences between

- a. the investment cost and the carrying amounts of net assets of a former subsidiary acquired by the Group during a reorganisation in 2010 and consideration paid in respect of share repurchase by Gameone Inc. in April 2012; and
- b. the nominal value of the share capital and share premium of Gameone Inc. and the nominal value of the shares issued by the Company in acquiring Gameone Inc. in December 2015 upon the completion of the Reorganisation on 23 December 2015.

Other reserve of the Company represented the differences between the carrying amounts of the net assets of Gameone Inc. and the nominal value of the shares issued by the Company in acquiring Gameone Inc. upon the completion of the Reorganisation on 23 December 2015.

27. SHARE OPTION SCHEME

A share option scheme (the “**Scheme**”) conditionally adopted by the Company was approved by the shareholders on 23 December 2015.

The Scheme became effective for a period of 10 years commencing on the listing date of the Company. Under the Scheme, the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than whichever is the highest of: (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of the granting of the option; (ii) the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of the granting of the option; and (iii) the nominal value of a share. An offer shall remain open for acceptance by the Qualifying Grantee concerned for a period of 28 days from the date of the offer (or such period as Board may specify in writing). HK\$1 is payable by the grantee to Company on acceptance of the option offer.

The period as the Board may in its absolute discretion determine and specify in relation to any particular option holder in his option agreement during which the option may be exercised (subject to such restriction on exercisability specified therein), which shall be not greater than the period prescribed by the GEM Listing Rules from time to time (which is, as at the date of adoption of the Scheme, a period of 10 years from the date of the granting of the option).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. SHARE OPTION SCHEME (continued)

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue immediately following the completion of the Capitalization Issue and the Placing. Options lapsed in accordance with the terms of the Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

No share options were granted under the Scheme during the year. At 31 December 2019, there were no outstanding options granted under the Scheme. Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

28. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Royalty expenses paid to: | | |
| Suzhou Snail Digital Technology Company Limited | <u>116</u> | <u>319</u> |

Note:

Royalty was paid to Suzhou Snail Digital Technology Company Limited of which its subsidiary, Snail Digital (HK) Limited, is a shareholder of the Company, for profit sharing of the licensed games during the year. The royalty paid was determined and agreed by both parties.

(b) Compensation of key management personnel

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|---------------------|---------------------|
| Total remuneration of directors and other members of key management during the year was as follows: | | |
| Fees, salaries and staff welfare benefits | 3,877 | 4,173 |
| Discretionary bonus | <u>1,000</u> | <u>2,111</u> |
| Total short-term employee benefits | <u>4,877</u> | <u>6,284</u> |
| Defined contribution plans (post employment benefits) | <u>108</u> | <u>121</u> |
| | <u><u>4,985</u></u> | <u><u>6,405</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. MATERIAL INTERESTS OF DIRECTORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in note 28, no transactions, arrangements or contracts of significance to which the holding company or any of the subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

30. LEASES

The Group leased certain premises under operating leases. The leases run for an initial period of two to three years.

The Group also has certain leases of storage room with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the “short-term lease” and “lease of low-value assets” recognition exemptions for these leases.

As at 31 December 2018 and 2019, the Group had total future minimum lease rental payables under non-cancellable operating lease falling due as follows:

| | 2019 | 2018 |
|------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Within one year | 61 | 1,987 |
| In the second to fifth years | – | 1,359 |
| | 61 | 3,346 |

31. CAPITAL COMMITMENTS

| | 2019 | 2018 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Contracted but not provided for – Acquisition of intangible assets | 1,022 | 2,355 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

32. NOTE TO SUPPORTING CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities:

| | Lease liabilities HK\$'000 |
|---|---------------------------------------|
| Balance at 31 December 2018 as originally presented | – |
| Initial application of HKFRS 16 | 3,084 |
| Restated balance at 1 January 2019 | 3,084 |
| Changes from cash flow | |
| Repayment of principal portion of leases | (1,945) |
| Other changes: | |
| Capitalisation of new leases | 274 |
| Modification | (206) |
| Interest expense | 121 |
| As at 31 December 2019 | <u>1,328</u> |

33. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

The following shows the carrying amounts of financial assets and liabilities:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------------------|--------------------------|----------------------|
| Financial assets | | |
| Loans and receivables: | | |
| Trade receivables | 3,127 | 5,137 |
| Deposits | 564 | 561 |
| Cash at banks and on hand | 44,981 | 45,684 |
| | <u>48,672</u> | <u>51,382</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES *(continued)*

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Financial liabilities | | |
| Financial liabilities at amortised cost: | | |
| Trade payables | 2,038 | 3,744 |
| Accrued expenses and other payables | 5,346 | 5,671 |
| Lease liabilities | 1,328 | – |
| Amount due to a related company | – | 43 |
| | <u>8,712</u> | <u>9,458</u> |

Due to their short term nature, the carrying amount of the above items approximates fair value.

34. FINANCIAL RISK MANAGEMENT

Exposures to interest rate, credit, liquidity and foreign currency risks arise in the normal course of the Group's business. The management meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. Generally, the Group employs conservative strategies regarding its risk management. As the Group's exposure to market risk is kept to minimum level, the Group has not used any derivatives or other financial instruments for hedging purposes.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

34.1 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise mainly from its overseas income or payment on royalty and license fee, which are primarily denominated in US dollar, Japanese Yen or Renminbi. These are not the functional currencies of the Group's major entities to which these transactions related. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

As the Group does not have significant exposure to foreign currency risk, the Group's income and operating cash flows are substantially independent of changes in foreign currency exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. FINANCIAL RISK MANAGEMENT *(continued)*

34.2 Interest rate risk

The Group does not have any interest-bearing borrowings. The Group's exposure to changes in interest rates primarily arises from bank deposits. The Group currently does not have any interest rate hedging policy. However, the directors monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The directors are of the opinion that the sensitivity of the Group's loss for the year to the reasonably possible change in interest rates in the next twelve months is low.

34.3 Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. The Group is exposed to credit risk in respect of its trade receivables, other receivables, amount due from a related company, amounts due from non-controlling shareholders of a subsidiary and bank balances.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019.

The Group monitors the trade receivables on an ongoing basis and only trades with creditworthy parties. The credit risk on liquid funds is low because the counterparties are major banks with high credit-ratings. The Group has no significant concentrations of credit risk with respect to its customers, except for the trade receivables due from game distribution platforms and payment channels as discussed below.

The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information. The Directors consider that there are no significant credit risk on trade receivables due to the past payment history and taking into account of the sound financial performance and position of the debtors to meet contractual cash flow obligations in the near term. Accordingly, the ECL rate on trade receivables was assessed to be minimal and no provision was made for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. FINANCIAL RISK MANAGEMENT *(continued)*

34.3 Credit risk *(continued)*

The credit quality of the amounts due from related parties and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2019.

There is no single customer contributed to 10% or more revenue to the Group's revenue for the years ended 31 December 2019 and 2018.

Revenue generated from game operation income through game distribution platforms and payment channels representing over 10% of the total revenues of the Group for the years ended 31 December 2019 and 2018 are as follows:

The trade receivables from game distribution platforms and payment channels represented over 10% of trade receivables balances of the Group as of 31 December 2019 and 2018 were as follows:

| | 2019 | 2018 |
|------------------------------|---------------------|--------------|
| Game Distribution Platform A | 38.7% | 35.9% |
| Game Distribution Platform B | 49.2% | 45.0% |
| Game Distribution Platform C | 10.2% | 11.7% |
| | <u>98.1%</u> | <u>92.6%</u> |

34.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of accrued expenses and other payables, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The liquidity policies have been followed by the Group during the year and are considered by the directors to have been effective in managing liquidity risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. FINANCIAL RISK MANAGEMENT (continued)

34.4 Liquidity risk (continued)

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at the reporting date. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in installments, each installment is allocated to the earliest period in which the Group is committed to pay.

As at 31 December 2019

| | Within 3 months or on demand HK\$'000 | More than 3 months but less than 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|-------------------------------------|--|--|----------------------------|---|--------------------------------|
| Trade payables | 2,038 | - | - | 2,038 | 2,038 |
| Accrued expenses and other payables | 5,346 | - | - | 5,346 | 5,346 |
| Amount due to a related company | - | - | - | - | - |
| | <u>7,384</u> | <u>-</u> | <u>-</u> | <u>7,384</u> | <u>7,384</u> |

As at 31 December 2018

| | Within 3 months or on demand HK\$'000 | More than 3 months but less than 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|-------------------------------------|--|--|----------------------------|---|--------------------------------|
| Trade payables | 3,502 | 27 | 215 | 3,744 | 3,744 |
| Accrued expenses and other payables | 5,671 | - | - | 5,671 | 5,671 |
| Amount due to a related company | 43 | - | - | 43 | 43 |
| | <u>9,216</u> | <u>27</u> | <u>215</u> | <u>9,458</u> | <u>9,458</u> |

The Group's policy is to monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and long term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. CAPITAL MANAGEMENT

The Group's capital management objectives include:

- (i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;
- (ii) to support the Group's stability and growth; and
- (iii) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder's returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

Management regards total equity as capital. The amount of capital as at 31 December 2019 amounted to approximately HK\$45,137,000 (2018: HK\$47,356,000), which the management considers as optimal having consider the projected capital expenditures and the projected strategic investment opportunities.

36. SUBSEQUENT EVENTS

The outbreak of the novel Coronavirus since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. Based on the latest available financial performance of the Group, the impact of Coronavirus outbreak is not significantly affected the Group. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.