THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Leyou Technologies Holdings Limited (the "**Company**"), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

LEYOU TECHNOLOGIES HOLDINGS LIMITED

樂遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1089)

(i) VERY SUBSTANTIAL ACQUISITION; AND
(ii) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

海通國際
HAITONG

A notice convening the extraordinary general meeting of the Company to be held at Conference Suite, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 9 March 2017 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Such form of proxy is also published on the website of (i) the Company at http://leyoutech.com.hk and (ii) The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you are able to attend and/or vote at the extraordinary general meeting of the Company in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the extraordinary general meeting of the Company or any adjournment thereof (as the case may be) should you so wish.

22 February 2017

* *for identification purposes only*

CONTENTS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

"2017 Accounts"	the consolidated audited accounts of the Target Group for FY2017 including an audited balance sheet and profit and loss account, prepared in accordance with IFRS
"2017 Audited Net Income"	the aggregate Net Income of the Target Group as set out in the 2017 Accounts
"2017 Payment"	as defined in the subsection headed "Letter from the Board – The Sale and Purchase Agreement – Earn-Out Consideration" in this circular
"2018 Accounts"	the consolidated audited accounts of the Target Group for FY2018 including an audited balance sheet and profit and loss account, prepared in accordance with IFRS
"2018 Audited Net Income"	the aggregate Net Income of the Target Group as set out in the 2018 Accounts
"2018 Payment"	as defined in the subsection headed "Letter from the Board – The Sale and Purchase Agreement – Earn-Out Consideration" in this circular
"2019 Accounts"	the consolidated audited accounts of the Target Group for FY2019 including an audited balance sheet and profit and loss account, prepared in accordance with IFRS
"2019 Audited Net Income"	the aggregate Net Income of the Target Group as set out in the 2019 Accounts
"2019 Payment"	as defined in the subsection headed "Letter from the Board – The Sale and Purchase Agreement – Earn-Out Consideration" in this circular
"39% Acquisition"	sale and purchase of the 39% Sale Shares, subject to the terms and conditions set forth in the New Shareholders' Agreement and the Second Acquisition Agreement
"39% Acquisition Closing Date"	no later than 13 May 2016 (or otherwise agreed by the 39% Vendors and Multi Dynamic Games), being the date on which the 39% Acquisition closing takes place
"39% Call Option"	the right to purchase the 39% Sale Shares

"39% Consideration"	the consideration for the 39% Acquisition
"39% Sale Shares"	an aggregate of 7,800,000 common shares and 3,900 class B special shares of Digital Extremes, representing 39% of the issued share capital of Digital Extremes on the date of, which are legally and beneficially owned by the 39% Vendors
"39% Vendors"	Ontario Ltd. 1, Ontario Ltd. 4, Ontario Ltd. 5 and DE Employee Trust
"58% Acquisition"	the acquisition of the Leyou Sale Shares and PW Sale Shares by Multi Dynamic Games and Perfect Online respectively pursuant to the Acquisition Agreement (as amended by the Supplemental SPA)
"Acquisition Agreement"	the conditional sale and purchase agreement dated 14 October 2014 entered into among Multi Dynamic Games, Perfect Online, the Vendors, Digital Extremes and certain other parties in respect of the Acquisition
"Acquired Group"	collectively, Digital Extremes and Digital Extremes US or any of them
"Acquisition"	the proposed acquisition of the shares in Splash Damage, Fireteam and Warchest from PW and the Optionholders pursuant to the Sale and Purchase Agreements
"Adjustment Payment"	the Completion Consideration less the Initial Consideration
"Advance Payment"	as defined in the subsection headed "Letter from the Board – The Sale and Purchase Agreement – Initial Consideration" in this circular
"Aggregated Adjustment Payment"	the sum of any positive Initial Adjustment Payment, any positive Adjustment Payment and any NIC Liabilities Shortfall Payment
"Agreed NIC Liabilities"	50% of the employer national insurance contributions payable by the Target Group in respect of the exercise of unapproved options under the Share Option Plans

"Announcements"	the announcements of the Company dated 30 May 2016, 3 July 2016 and 26 September 2016 in relation to the Acquisition, and each an "Announcement"
"associate(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong, Canada, and England and Wales
"BVI"	the British Virgin Islands
"CAD"	Canadian dollars, the lawful currency of Canada
"CAGR"	compound annual growth rate = $\left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\text{\# of years}}\right)} - 1$
"Company"	Leyou Technologies Holdings Limited 樂遊科技控股有限公司, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1089)
"Completion"	completion of the sale and purchase of the Splash Damage Shares, the Splash Damage Option Shares, the Fireteam Shares, the Fireteam Option Shares, the Warchest Shares and the Warchest Option Shares pursuant to the Sale and Purchase Agreements and as defined in the subsection headed "Letter from the Board – The Sale and Purchase Agreement – Completion" in this circular
"Completion Accounts"	the audited accounts of the Target Group as at the date of Completion

"Completion Consideration"	an amount equal to the sum of: (a) the Completion Value; plus (b) cash balance of the Target Group as at Completion; less (c) debt balance of the Target Group as at Completion; less (d) the Working Capital Adjustment (if negative) or plus the Working Capital Adjustment (if positive); plus (e) the Share Option Tax Relief Amount, all of which shall be extracted from the Completion Accounts
"Completion Date"	the date of Completion
"Completion Value"	US$35,000,000
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	being the sum of Consideration (PW) and Consideration (Optionholders), which includes the Initial Consideration, any positive Adjustment Payment, the Deferred Payment, any NIC Liabilities Shortfall Payment and any Earn-Out Consideration
"Consideration (Optionholders)"	being the total consideration payable by Radius Maxima to the Optionholders for the acquisition of the Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares pursuant to the Optionholder SPAs
"Consideration (PW)"	being the total consideration payable by Radius Maxima to PW for the acquisition of the Splash Damage Shares, the Fireteam Shares and the Warchest Shares
"controlling shareholder(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Deed of Share Charge"	the deed of share charge to be dated the date of Completion granted by Radius Maxima in favour of PW, charging all present and future shares of Radius Maxima in the Target Group and all their related rights in favour of PW, as security for payment of the Secured Consideration
"DE Employee Trust"	Digital Extremes Employee Share Trust, an inter vivos trust created in the Province of Ontario, Canada
"Deferred Payment"	US$10,000,000

"Demolition Games"	Demolition Games Limited, a company incorporated under the laws of England and Wales with limited liability and the wholly-owned subsidiary of Splash Damage
"Determination Date"	the date upon which the completion statement is agreed between Radius Maxima and PW or otherwise becomes final and binding on the parties in accordance with the Main SPA
"Digital Extremes"	Digital Extremes Ltd., a company incorporated under the laws of the Province of Ontario, Canada, which is owned as to 97% indirectly by the Company and as to 3% by Perfect Online
"Digital Extremes US"	Digital Extremes US, Inc., a company incorporated under the laws of the State of California, the United States with limited liability, which is a direct wholly-owned subsidiary of Digital Extremes
"Director(s)"	the director(s) of the Company
"Earn-Out Consideration"	the aggregate of the 2017 Payment, the 2018 Payment and the 2019 Payment, which forms part of the Consideration
"Earn-Out Period"	FY2017, FY2018 and FY2019
"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the Main SPA and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"EU"	the European Union
"Exclusivity Agreement"	an exclusivity agreement entered into by PW, the Target Group and the Company dated 30 May 2016
"Exclusivity Fee"	the fee payable by the Company under the Exclusivity Agreement

"Fireteam"	Fireteam Limited, a private company incorporated under the laws of England and Wales with limited liability, which at Completion will be a wholly-owned subsidiary of Radius Maxima
"Fireteam Completion Consideration"	an amount equivalent to 25% of the Completion Consideration
"Fireteam Deferred Payment"	an amount equivalent to 25% of the Deferred Payment
"Fireteam Initial Consideration"	an amount equivalent to 25% of the Initial Consideration
"Fireteam Option Shares"	the shares in Fireteam to be issued if the Optionholders exercise their right to convert their share options in Fireteam
"Fireteam Shares"	1,000,000 issued ordinary shares of £0.000001 each in the capital of Fireteam being the entire issued share capital of Fireteam as at the Latest Practicable Date
"First Round Optionholders"	namely, Arnout van Meer, Griff Jenkins, Ross Farrow and Richard Jolly who entered into their respective Optionholder SPAs on 1 July 2016
"FY2017"	the period of 12 months commencing on 1 January 2017 and ending on 31 December 2017
"FY2018"	the period of 12 months commencing on 1 January 2018 and ending on 31 December 2018
"FY2019"	the period of 12 months commencing on 1 January 2019 and ending on 31 December 2019
"GP Bullhound Fee Amount"	such amount notified by PW to Radius Maxima
"Group"	collectively, the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency in Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards

"independent third party(ies)"	party(ies) which is/are independent of and not connected (within the meaning ascribed to it in the Listing Rules) with any of the Directors, substantial shareholders or chief executive of the Company or any of the subsidiaries of the Company or any of their respective associates and is not otherwise a connected person
"Initial Adjustment Payment"	the sum of (i) PW's good faith estimate of the cash balances of the Target Group as at Completion; less (ii) PW's good faith estimate of the debt balances of the Target Group as at Completion; less (iii) PW's good faith estimate of the Working Capital Adjustment (if negative) or plus PW's good faith estimate of the Working Capital Adjustment (if positive); plus (iv) the Share Option Tax Relief Amount
"Initial Consideration"	the higher of (i) US$35,000,000 and (ii) an amount equal to the sum of the Completion Value plus the Initial Adjustment Payment (if positive)
"International Sanctions"	sanction-related laws and regulations issued by the United States, the EU, Australia or the United Nations
"Latest Practicable Date"	15 February 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Leyou Sale Shares"	11,600,000 common shares and 5,800 class B special shares of Digital Extremes, representing 58.0% of its entire issued share capital, acquired by Multi Dynamic Games pursuant to the Acquisition Agreement
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 September 2016 unless extended pursuant to the subsection headed "Letter from the Board – The Sale and Purchase Agreement – Long Stop Date" in this circular
"Main SPA"	the conditional sale and purchase agreement dated 1 July 2016 entered into between PW, Radius Maxima and the Company in respect of the sale and purchase of the Splash Damage Shares, Fireteam Shares and Warchest Shares

"Michael Schmalz Family Trust"	Michael Schmalz Family Trust (2013), an inter vivos trust created in the Province of Ontario, Canada, and Dr. Michael Schmalz is the trustee of the trust
"Mr. Farrow"	Mr. Ross Arthur William Farrow, the chief financial officer of the Target Group
"Mr. Jenkins"	Mr. Gruffydd Randal Jenkins, the chief operation officer of the Target Group
"Mr. Jolly"	Mr. Richard Amos Jolly, one of the three founders and the chief marketing officer of the Target Group
"Mr. Morris"	Mr. Mark Richard Morris, the head of production of the Target Group
"Mr. Pettypiece"	Mr. Murphy Pettypiece, the chief financial officer of Digital Extremes
"Mr. Sinclair"	Mr. Steve Sinclair, the creative director of Digital Extremes
"Mr. van Meer"	Mr. Arnout Wilhelmus Johannes van Meer, one of the three founders and the chief technology officer of the Target Group
"Mr. Wedgwood" or "PW"	Paul Wedgwood, the vendor of the Splash Damage Shares, the Fireteam Shares and the Warchest Shares
"Multi Dynamic Games"	Multi Dynamic Games Group Inc., a company incorporated under the laws of the Province of Ontario, Canada and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Net Income"	the operating profits (or losses) of the Target Group and their respective subsidiaries after interest and taxation prepared under IFRS, disregarding certain costs and charges as determined in accordance with the Main SPA

"New Shareholders' Agreement"	an unanimous shareholder agreement entered into between Multi Dynamic Games, the 39% Vendors, Perfect Online and Digital Extremes relating to Digital Extremes dated 21 July 2015. A summary of the key terms of the agreement was set out in the announcement of the Company dated 21 July 2015
"NIC Liabilities"	the employer national insurance contributions payable by the Target Group in respect of the exercise of the unapproved options under the Share Option Plans plus any interest and penalties arising in connection therewith
"NIC Liabilities Shortfall Payment"	as defined in the subsection headed "Letter from the Board – The Sale and Purchase Agreement – NIC Liabilities" in this circular
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Ontario Ltd. 1"	2375249 Ontario Ltd., a company incorporated under the laws of the Province of Ontario, Canada
"Ontario Ltd. 2"	2375250 Ontario Ltd., a company incorporated under the laws of the Province of Ontario, Canada
"Ontario Ltd. 3"	2377289 Ontario Ltd., a company incorporated under the laws of the Province of Ontario, Canada
"Ontario Ltd. 4"	2475202 Ontario Ltd., a company incorporated under the laws of the Province of Ontario, Canada
"Ontario Ltd. 5"	2475200 Ontario Ltd., a company incorporated under the laws of the Province of Ontario, Canada
"Optionholder SPAs"	the share purchase agreements in the agreed form between each of the Optionholders, Radius Maxima and Splash Damage, Fireteam or Warchest (as the case may be) in respect of the sale and purchase of the Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares, to be entered into at or prior to Completion

"Optionholders"	collectively, the First Round Optionholders and Second Round Optionholders, being the vendors of the Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares
"Optionholders' Percentage"	the Optionholders' Percentage in Fireteam, the Optionholders' Percentage in Splash Damage or the Optionholders' Percentage in Warchest, as applicable
"Optionholders' Percentage in Fireteam"	the percentage attributable to Optionholders' interests in Fireteam at Completion, to be reflected by the issue of shares in Fireteam as a result of the exercise of options granted to the Optionholders by Fireteam
"Optionholders' Percentage in Splash Damage"	the percentage attributable to Optionholders' interests in Splash Damage at Completion, to be reflected by the issue of shares in Splash Damage as a result of the exercise of options granted to the Optionholders by Splash Damage
"Optionholders' Percentage in Warchest"	the percentage attributable to Optionholders' interests in Warchest at Completion, to be reflected by the issue of shares in Warchest as a result of the exercise of options granted to the Optionholders by Warchest
"percentage ratio"	has the meaning ascribed to it under Rule 14.07 of the Listing Rules
"Perfect Online"	Perfect Online Holding Limited, a company incorporated in Hong Kong which holds 3% of share capital of the Acquired Group
"PRC"	the People's Republic of China, and for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"PW Sale Shares"	600,000 common shares and 300 class B special shares of Digital Extremes, representing 3.0% of its entire issued share capital, acquired by Perfect Online pursuant to the Acquisition Agreement

"PW's Director's Loan"	being £468,717.47 (equivalent to approximately RMB4.1 million) (including accrued interest) of directors' loans owing from PW to Splash Damage as at the date of the Main SPA, which PW will settle in full at Completion by directing such part of PW's Percentage of the Initial Consideration be paid to Splash Damage
"PW's Percentage"	89.05372%, being the weighted average of PW's equity percentage interest in each of Splash Damage, Fireteam and Warchest
"Radius Maxima"	Radius Maxima Limited, a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency in the PRC
"Sale and Purchase Agreements"	collectively, the Main SPA, the Supplemental SPA and the Optionholder SPAs
"Sanctioned Countries"	countries which are the targets of economic sanctions as administered by the United States, the EU, the United Nations and Australia
"Sanctioned Person(s)"	certain person(s) and entity(ies) listed on OFAC's Specially Designated Nationals List or other restricted parties lists maintained by the United States, EU, the United Nations or Australia
"Sanctions Legal Advisers"	Hogan Lovells, legal adviser to the Company as to sanctions law
"Second Acquisition Agreement"	a confirmation agreement dated 28 April 2016 entered into by, among other parties, Multi Dynamic Games as purchaser and the 39% Vendors as sellers (after trading hours) for the sale and purchase of the 39% Sale Shares
"Secured Consideration"	together the Earn-Out Consideration, the Deferred Payment and any Aggregated Adjustment Payment, the payment of which by Radius Maxima is secured by the Deed of Share Charge
"Second Round Optionholders"	collectively, the group of Optionholders other than the First Round Optionholders as at Completion

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Option Plans"	the share option plans adopted by the Target Group
"Share Option Tax Relief Amount"	20% of the aggregate of the difference between the total exercise price of the options and the consideration payable for the Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares acquired on exercise of the options assuming the value of the Earn-Out Consideration to be determined in accordance with the Main SPA
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Splash Damage"	Splash Damage Limited, a private company incorporated under the laws of England and Wales with limited liability, which at Completion will be a wholly-owned subsidiary of Radius Maxima
"Splash Damage Completion Consideration"	an amount equivalent to 65% of the Completion Consideration
"Splash Damage Deferred Payment"	an amount equivalent to 65% of the Deferred Payment
"Splash Damage Initial Consideration"	an amount equivalent to 65% of the Initial Consideration
"Splash Damage Option Shares"	the shares in Splash Damage to be issued if the Optionholders exercise their right to convert their share options in Splash Damage
"Splash Damage Shares"	1,000,000 issued ordinary shares of £0.0001 each in the capital of Splash Damage being the entire issued share capital of Splash Damage as at the Latest Practicable Date
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Subject Companies"	collectively, the Acquired Group and the Target Group

"Supplemental SPA"	the supplemental agreement to the Acquisition Agreement dated 21 July 2015 entered into among Multi Dynamic Games, Perfect Online, the Vendors, Digital Extremes and certain other parties
"Tax Deed"	the deed of covenant to be executed by PW and Radius Maxima at Completion relating to taxation in the agreed form between PW and Radius Maxima
"Target Group"	collectively, Splash Damage, Fireteam and Warchest, or any of them
"Track Record Period"	in relation to the Acquired Group, the years ended 31 December 2013, 2014 and 2015 and nine months ended 30 September 2016; in relation to the Target Group, the years ended 31 March 2014, 2015 and 2016 and six months ended 30 September 2016 (as the case may be)
"Vendors' Distributable Profits Shortfall"	the shortfall of CAD2,660,828, being the vendors' distributable profits payable to the 39% Vendors but not being declared and paid by Digital Extremes, which have been included as part of the 39% Consideration and payable in US dollars
"Warchest"	Warchest Limited, a private company incorporated under the laws of England and Wales with limited liability, which at Completion will be a wholly-owned subsidiary of Radius Maxima
"Warchest Completion Consideration"	an amount equivalent to 10% of the Completion Consideration
"Warchest Deferred Payment"	an amount equivalent to 10% of the Deferred Payment
"Warchest Initial Consideration"	an amount equivalent to 10% of the Initial Consideration
"Warchest Option Shares"	the shares in Warchest to be issued if the Optionholders exercise their right to convert their share options in Warchest
"Warchest Shares"	1,000,000 issued ordinary shares of £0.000001 each in the capital of Warchest being the entire issued share capital of Warchest as at the Latest Practicable Date
"Warframe"	free-to-play game developed by the Acquired Group and launched on PlayStation 4 and PC platforms published by Digital Extremes in 2013 and launched on Xbox One platform published by Digital Extremes in 2014

"Working Capital"	being a sum equal to the aggregate combined trade/accounts receivable (excluding accrued income, royalty income receivable and value added tax credit receivable, if any, included as current assets in the Completion Accounts) of the Target Group less the aggregated combined trade/accounts payable and accruals (excluding deferred revenue/receipts in advance and rent free provisions if any, included as current liabilities in the Completion Accounts) of the Target Group, in each case immediately prior to Completion Accounts
"Working Capital Adjustment"	an amount equal to the sum of the Working Capital less the Working Capital Target
"Working Capital Target"	US$450,000
"sq. m."	square metre(s)
"US$" or "USD"	United States Dollars, the lawful currency of the United States of America
"%"	per cent.
"£ or GBP"	Pound sterling, the lawful currency of the United Kingdom

The terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" have the meanings given to such terms under the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this circular and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Solely for illustration purposes, an exchange rate of US$1.00 = HK$7.75, an exchange rate of US$1.00 = RMB6.361, an exchange rate of £1.00 = RMB8.6651 and an exchange rate of RMB1.00 = HK$1.1816 have been used in this circular. The rates should not be taken as a representation that US$, or £ could actually be converted into HK$ or RMB at that relevant rate or at all.

This glossary contains explanations of certain terms used in this circular in connection with the Subject Companies and their businesses. These terms and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"AAA"	a classification term used for games with top development resources, highest levels of promotion, and high reviewing score among players. A AAA game is usually created by one of prestigious studios with large budget and supported by its publisher with full promotional efforts, and thus it is expected to be of high quality or to be among the year's bestsellers
"Android"	an operating system developed and maintained by Google Inc. designed primarily for touchscreen technology including smartphones and tablets
"AR"	augmented reality
"beta version"	a version of a game released to certain individuals for the purpose of identifying defects through game testing by multiple players to ensure the quality, stability, security and usability of the official version
"commercial launch" or "commercialisation"	a game is considered commercially launched once licensed operator(s) have (i) designated third party payment channels to collect payment for sales of in-game tokens, and (ii) concluded the open beta testing stage
"console games"	video games that are played through a console as opposed to a personal computer
"free-to-play"	a model used in the gaming industry, under which game players can play games for free, but may need to pay for in-game tokens to enhance their gaming experience
"iOS"	a mobile operating system developed and maintained by Apple Inc. and used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads

"Metacritic"	a website that aggregates reviews of music albums, games, movies, TV shows, DVDs, and formerly, books. For each product, a numerical score from each review is obtained and the total is averaged. Its score scale is from 0 to 100
"mobile games"	online games that are downloaded to and played on mobile devices including smartphones and tablets
"paying player"	players who pay for virtual tokens to acquire in-game virtual items and premium features
"PC"	personal computer
"player(s)"	with respect to games, player(s) refers to users of the games
"premium features"	in-game features and services which enhance the in-game experience of game players, for example, enabling social interaction of their game characters
"registered players"	as at any point of time, (i) registered players of a particular game refers to player accounts that (A) were registered on either our own unified player registration system or the user registration system of a third-party distribution channel or overseas publisher of such game and (B) had at least one entry into such game prior to such time; and (ii) registered players of certain type or all of our games refers to the simple sum of the registered players of each game of such type or all of our games, as applicable, as at such time and a player account that has been used to enter two or more games is counted as two or more registered players
"server"	a computer system that provides services to other computing systems over a computer network
"virtual items"	virtual items which enhance players' gaming experience, by, for example, enhancing the powers, abilities or attractiveness
"virtual token"	virtual tokens that game players may purchase in order to acquire virtual items and/or premium features which are generally not refundable once purchased by the players in accordance to the standard terms and conditions
"VR"	virtual reality

LEYOU TECHNOLOGIES HOLDINGS LIMITED
樂遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1089)

Executive Directors:
Mr. Lin Qinglin *(Chairman of the Board)*
Mr. Law Kin Fat *(Vice Chairman)*
Mr. Wu Shiming
Mr. Wong Ka Fai Paul
Mr. Hsiao Shih-Jin

Non-executive Director:
Mr. Eric Todd

Independent non-executive Directors:
Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Yang Chia Hung

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Place of Business in Hong Kong:
Suite 1020-22, 10th Floor
Two Pacific Place
88 Queensway
Hong Kong

22 February 2017

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION RELATING TO THE ACQUISITION OF THE ENTIRE SHARE CAPITAL OF THE TARGET GROUP AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcements. As set out in the Announcements, (i) on 1 July 2016, PW, Radius Maxima (a wholly-owned subsidiary of the Company) and the Company entered into the Main SPA pursuant to which Radius Maxima conditionally agreed to acquire the Splash Damage Shares, the Fireteam Shares and the Warchest Shares from PW; (ii) on 26 September 2016, PW, Radius Maxima and the Company entered into an amendment to the Main SPA (the "**Supplemental SPA**") to reflect the conditional extension of the Long Stop Date, the amendment to the timing of payment of the Consideration and the reduction of the Purchaser Indemnification Cap (as defined in the Announcements); and (iii) Radius Maxima expects to enter into the Optionholder SPAs with the Optionholders at or prior to the Completion. Upon the Completion, the Target Group will become the wholly-owned subsidiaries of Radius Maxima.

Certain of the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 25% but less than 100%.

In addition, on 25 August 2016, the Listing Committee resolved that the Acquisition, together with the acquisitions of Digital Extremes and 惠州智彬科技有限公司 (Huizhou Zhibin Technology Ltd.) as announced by the Company on 14 October 2014, 10 March 2016 and 29 April 2016, constitute an extreme very substantial acquisition. Accordingly, the Acquisition is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules and the enhanced disclosure and due diligence requirement applicable to an extreme very substantial acquisition. On 9 November 2016, the Company and 惠州智彬科技有限公司 (Huizhou Zhibin Technology Ltd.) entered into a cancellation agreement to terminate the acquisition of 惠州智彬科技有限公司 (Huizhou Zhibin Technology Ltd.). Please refer to the announcement of the Company on 9 November 2016 for further details of the cancellation agreement.

The purpose of this circular is to provide the Shareholders with information in respect of, among other things, (i) details of the Acquisition with enhanced disclosure comparable to prospectus standard on the Acquisition and the acquisition of Digital Extremes; (ii) the financial information on the Group and the Subject Companies; (iii) the pro forma financial information of the Enlarged Group assuming Completion; (iv) other information required under the Listing Rules and/or by the Stock Exchange in relation to enhanced disclosure; and (v) the notice to convene the EGM.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreements are set out below:

Date of Main SPA

1 July 2016

Parties to and targets of the Main SPA

Purchaser:	Radius Maxima
Purchaser's guarantor:	Company
Vendor:	PW
Targets:	Splash Damage, Fireteam and Warchest

Date of the Supplemental SPA

26 September 2016

Parties to the Supplemental SPA

Purchaser:	Radius Maxima
Purchaser's guarantor:	Company
Vendor:	PW

Date of Optionholder SPAs for First Round Optionholders

Signed on 1 July 2016 and expected to become effective at or prior to Completion

Date of Optionholder SPAs for Second Round Optionholders

Expected to be entered into at or prior to Completion

Parties to and targets of the Optionholder SPAs

Purchaser:	Radius Maxima
Vendors:	Optionholders
Targets:	Splash Damage, Fireteam or Warchest (as the case may be)

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, PW and the Optionholders are independent third parties to the Company and its connected persons (as defined in the Listing Rules) as at the Latest Practicable Date.

Assets to be acquired

As at the Latest Practicable Date, (i) the Splash Damage Shares, the Fireteam Shares and the Warchest Shares represent the entire issued share capital of Splash Damage, Fireteam and Warchest, respectively; (ii) all the Splash Damage Option Shares represent approximately 11.35% of the fully diluted share capital of Splash Damage, where approximately 6.03% is held by the First Round Optionholders and approximately 5.32% is held by the Second Round Optionholders; (iii) all the Fireteam Option Shares represent approximately 9.59% of the fully diluted share capital of Fireteam, where approximately 7.09% is held by the First Round Optionholders and approximately 2.50% is held by the Second Round Optionholders; and (iv) all the Warchest Option Shares represent approximately 7.85% of the fully diluted share capital of Warchest, where approximately 6.30% is held by the First Round Optionholders and approximately 1.55% is held by the Second Round Optionholders.

The Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares shall lapse if they are not exercised at or prior to Completion. Pursuant to the Main SPA, PW agreed to use all reasonable endeavours to procure the delivery to Radius Maxima of the Optionholder SPAs duly executed by each of the Optionholders (or their respective duly authorised attorney) at Completion. PW also agreed to exercise any and all rights available to him as a shareholder of the Target Group to procure the sale of all the Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares in issue at Completion to Radius Maxima, including without limitation exercising his "drag along" rights pursuant to the articles of association of the Target Group. Hence all the Optionholder SPAs are expected to be entered into at or prior to Completion.

Radius Maxima shall (i) acquire the Splash Damage Shares, the Fireteam Shares and the Warchest Shares from PW pursuant to the Main SPA; and (ii) acquire the Splash Damage Option Shares, the Fireteam Option Shares and the Warchest Option Shares from the Optionholders pursuant to the Optionholder SPAs, in each case at Completion. At Completion, the Target Group will become wholly-owned subsidiaries of Radius Maxima.

In the event that PW does not deliver at Completion the Optionholder SPAs duly executed by all the Optionholders and Radius Maxima elects to proceed to Completion notwithstanding that it will not acquire all of the Splash Damage Option Shares, all of the Fireteam Option Shares and all of the Warchest Option Shares at Completion, then PW shall fully indemnify and keep indemnified Radius Maxima in cash on demand for all costs, expenses, losses and liabilities whatsoever suffered or incurred by Radius Maxima in acquiring any and all Splash Damage Option Shares, Fireteam Option Shares and Warchest Option Shares in respect of which Optionholder SPAs were not delivered at Completion in order to enable Radius Maxima to acquire the entire share capital of the Target Group.

Consideration

The Consideration comprises the following:

Item		**Amount** *(US$)*
(i)	the Advance Payment	4,000,000
(ii)	the remaining Completion Value after payment of the Advance Payment	31,000,000
(iii)	the Deferred Payment	10,000,000
(iv)	any Initial Adjustment Payment[(2)]	
(v)	any positive Adjustment Payment[(2)]	10,000,000[(1)(i)]
(vi)	any NIC Liabilities Shortfall Payment[(3)]	
(vii)	any Earn-Out Consideration	105,000,000[(1)(ii)]
Total:		**160,000,000**[(1)]

Notes:

1. The above breakdown of the Consideration is for illustrative purposes only and is based on the following assumptions:

   (i) the sum of the Initial Adjustment Payment, any positive Adjustment Payment and the NIC Liabilities Shortfall Payment is assumed to be US$10,000,000, being the maximum amount of these items which can be included in the Consideration pursuant to the Main SPA;

   (ii) the Earn-Out Consideration is assumed to be US$105 million, being the maximum amount as inferred by the maximum amount of Consideration (excluding the Aggregated Adjustment Payment) under the Sale and Purchase Agreements of US$150 million, taking into account the Completion Value and the Deferred Payment.

2. The Initial Adjustment Payment primarily reflects the estimated cash, debt and working capital positions of the Target Group as at Completion; and the Adjustment Payment primarily reflects the difference between the Initial Adjustment Payment and the actual cash, debt and working capital positions of the Target Group as at Completion. Please refer to the section headed "Definitions" of this circular for details.

3. Please refer to the section headed "NIC Liabilities" in this circular for details of the NIC Liabilities Shortfall Payment.

The Consideration shall be allocated in the following proportions:

(a) 65% of the Consideration for the Splash Damage Shares and the Splash Damage Option Shares;

(b) 25% of the Consideration for the Fireteam Shares and the Fireteam Option Shares; and

(c) 10% of the Consideration for the Warchest Shares and the Warchest Option Shares.

The Consideration was arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreements and was determined after having taken into account, among other things, (i) the historical improvements in the financial performance of the Target Group; (ii) the expected business development and future financial performance of the Target Group; (iii) the prospects of the video game industry; and (iv) the valuation report of the Target Group prepared by an independent valuer (based on historical earning and using a market approach).

The Consideration (excluding the Aggregated Adjustment Payment) payable by Radius Maxima to PW and the Optionholders under the Sale and Purchase Agreements shall not in any event exceed US$150 million. The sum of the Aggregated Adjustment Payment payable by Radius Maxima to PW and the Optionholders under the Sale and Purchase Agreements shall not in any event exceed US$10 million. The sum of the amount payable by Radius Maxima to the Target Group under the Main SPA (including but not limited to any payment obligations under the sub-section headed "Additional project funding" below), shall not in any event exceed US$10 million.

For illustrative purpose, based on the cash balances, debt balances and the Working Capital Adjustment of the Target Group as at 30 September 2016 (i.e. had the Completion taken place on 30 September 2016), the Consideration would be approximately US$115.7 million (equivalent to approximately RMB773.2 million) which comprises the following:

Item		**Amount** *(US$)*
(i)	the Advance Payment	4,000,000
(ii)	the remaining Completion Value after payment of the Advance Payment	31,000,000
(iii)	the Deferred Payment	10,000,000
(iv)	any Initial Adjustment Payment	6,136,027
(v)	any positive Adjustment Payment	
(vi)	any NIC Liabilities Shortfall Payment	
(vii)	any Earn-Out Consideration[(1)]	64,610,000
Total:		**115,746,027**

Note:

1. Represents the fair value of the Earn-Out Consideration as set out in note 3(b) to the Unaudited Pro Forma Financial Information of the Enlarged Group as disclosed on page III-10 of this circular.

The Consideration is expected to be funded by the internal resources of the Group and/or by way of debt or equity financing.

Initial Consideration

The Initial Consideration shall be the higher of (i) US$35,000,000; and (ii) an amount equal to the sum of the Completion Value plus the Initial Adjustment Payment (if positive).

Pursuant to the Supplemental SPA, the Company has paid on behalf of Radius Maxima a non-refundable payment of US$4,000,000 as payment in advance of part of the Initial Consideration for the sale of the Splash Damage Shares, Fireteam Shares and Warchest Shares (the "**Advance Payment**") to PW. The Advance Payment will not be refundable by PW in the event that the conditions precedent set out in the section headed "Conditions precedent to the Sale and Purchase Agreements" below are not fulfilled or waived on or before the Extended Long Stop Date and therefore the Main SPA lapses. The amount of the Advance Payment was agreed after arm's length negotiations between the Company and PW.

PW shall, on or before the date falling five Business Days prior to Completion, notify Radius Maxima of the estimated cash balances and debt balances of the Target Group as at Completion and the estimated Working Capital Adjustment.

Upon Completion, Radius Maxima shall pay (i) PW's Percentage of Initial Consideration (less PW's Percentage of any positive Initial Adjustment Payment, less PW's Director's Loan, less the GP Bullhound Fee Amount and less the Advance Payment) in cash to PW; (ii) PW's Director's Loan in cash to Splash Damage; (iii) the GP Bullhound Fee Amount in cash to GP Bullhound; (iv) the Optionholders' Percentage in Splash Damage of the Splash Damage Initial Consideration in cash to the relevant Optionholder; (v) the Optionholders' Percentage in Fireteam of the Fireteam Initial Consideration in cash to the relevant Optionholder; and (vi) the Optionholders' Percentage in Warchest of the Warchest Initial Consideration in cash to the relevant Optionholder.

Within 10 Business Days after the date of Completion, Radius Maxima shall pay an amount equal to any positive Initial Adjustment Payment in cash to PW and the Optionholders.

Adjustment Payment

The Adjustment Payment equals the Completion Consideration less the Initial Consideration. Where the Adjustment Payment is:

(a) positive,

(1) a payment shall be made within ten Business Days of the Determination Date from Radius Maxima to PW of the difference between PW's Percentage of the Completion Consideration and PW's Percentage of the Initial Consideration; and

(2) a payment shall be made within ten Business Days of the Determination Date from Radius Maxima to the Optionholders of the aggregate of (i) the Optionholders' Percentage in Splash Damage of the difference between the Splash Damage Completion Consideration and the Splash Damage Initial Consideration; (ii) the Optionholders' Percentage in Fireteam of the difference between the Fireteam Completion Consideration and the Fireteam Initial Consideration, and (iii) the Optionholders' Percentage in Warchest of the difference between the Warchest Completion Consideration and the Warchest Initial Consideration;

(b) negative, an amount equal to any amount of the Adjustment Payment due to Radius Maxima shall be deducted from the Earn-Out Consideration due before any Earn-Out Consideration is paid to PW or the Optionholders provided that the Earn-Out Consideration shall not in any event be a negative amount.

Deferred Payment

Radius Maxima shall pay PW's Percentage of the Deferred Payment in cash to PW on the later of 28 February 2017 and the Completion, and on the same date Radius Maxima shall pay (i) the Optionholders' Percentage in Splash Damage of the Splash Damage Deferred Payment in cash to the relevant Optionholders; (ii) the Optionholders' Percentage in Fireteam of the Fireteam Deferred Payment in cash the relevant Optionholders; and (iii) the Optionholders' Percentage in Warchest of the Warchest Deferred Payment in cash to the relevant Optionholders.

NIC Liabilities

If the actual NIC Liabilities exceeds the Agreed NIC Liabilities, Radius Maxima shall be entitled to deduct 50% of such excess from the Earn-Out Consideration. If the actual NIC Liabilities is less than the Agreed NIC Liabilities, Radius Maxima shall pay 50% of the difference to PW and the Optionholders ("**NIC Liabilities Shortfall Payment**").

Earn-Out Consideration

The Earn-Out Consideration consists of the 2017 Payment, the 2018 Payment and the 2019 Payment, and shall not exceed US$105 million (being US$150 million less the Completion Value and the Deferred Payment). PW shall be entitled to receive PW's Percentage of the Earn-Out Consideration. The Optionholders shall be entitled to receive their respective Optionholders' Percentage of the Earn-Out Consideration.

2017 Payment

The 2017 Payment shall be a sum equal to:

(i) five times the 2017 Audited Net Income; less

(ii) the Completion Value and the Deferred Payment,

as adjusted under paragraph (b) of the section headed "Adjustment Payment" above, if applicable.

If the calculation of the 2017 Payment produces a negative figure, then the 2017 Payment shall be deemed to be zero.

The sum of the Completion Value, the Deferred Payment and the 2017 Payment shall not exceed a sum equal to US$150 million nor be less than US$45 million.

2018 Payment

The 2018 Payment shall be a sum equal to:

(i) four and a half times the 2018 Audited Net Income; less

(ii) the sum of the 2017 Payment, the Completion Value and the Deferred Payment.

If the calculation of the 2018 Payment produces a negative figure, then the 2018 Payment shall be deemed to be zero.

The sum of the Completion Value, the Deferred Payment, the 2017 Payment and the 2018 Payment shall not exceed a sum equal to US$150 million nor be less than US$45 million.

2019 Payment

The 2019 Payment shall be a sum equal to:

(i) four times the 2019 Audited Net Income; less

(ii) the sum of the 2017 Payment, the 2018 Payment, the Completion Value and the Deferred Payment.

If the calculation of the 2019 Payment produces a negative figure, then the 2019 Payment shall be deemed to be zero.

The sum of the Completion Value, the Deferred Payment, the 2017 Payment, the 2018 Payment and the 2019 Payment shall not exceed a sum equal to US$150 million nor be less than US$45 million.

PW and the Optionholders shall not be entitled to receive any amount of the Earn-Out Consideration until the 2017 Accounts, the 2018 Accounts and the 2019 Accounts (as the case may be) for the respective Earn-Out Periods are determined in accordance with the provisions of the Sale and Purchase Agreements. In relation to each Earn-Out Period, Radius Maxima shall procure that the 2017 Accounts, the 2018 Accounts and the 2019 Accounts are prepared and audited as soon as practicable and in any event within 60 Business Days of the last day of the relevant Earn-Out Period.

The Earn-Out Consideration shall be payable by Radius Maxima in cash by electronic transfer to the bank accounts nominated by PW and the Optionholders within five Business Days of the determination of the Earn-Out Consideration for the relevant Earn-Out Period pursuant to the Sale and Purchase Agreements.

Earn-out protections

The Earn-Out Consideration is subject to, among others, the following protections:

(a) the Target Group shall carry on their business in the ordinary course for the benefit of the Target Group;

(b) Radius Maxima shall allow PW in his capacity as the chief executive officer to exercise day-to-day operational management control of the Target Group in accordance with the terms of PW's employment agreement and certain guiding principles of the Target Group in accordance with the Main SPA;

(c) none of the Target Group will be wound up unless it is insolvent; and

(d) save in the ordinary course of business or with the consent of PW (not to be unreasonably withheld if in the best interests of the Target Group), none of the Target Group shall sell, transfer or otherwise dispose of all or a material part of its business, assets or undertaking (or enter into an agreement to do so).

Security

The Secured Consideration is to be secured by the Deed of Share Charge entered into at Completion, pursuant to which Radius Maxima will undertake to pay the Earn-Out Consideration when due in accordance with the terms of the Main SPA and the Optionholder SPAs and will charge all present and future shares of Radius Maxima in the Target Group and all their related rights in favour of PW by way of first fixed charge. The Deed of Share Charge shall be dated the date of Completion.

Conditions precedent to the Sale and Purchase Agreements

Completion of the Optionholder SPAs shall be conditional upon and shall take place at the same time as completion of the Main SPA. Completion shall be subject to and conditional upon the fulfillment of, the following conditions:

(a) the issuance of the circular to be issued by the Company in relation to the Acquisition and the transactions contemplated thereunder pursuant to the Listing Rules; and

(b) resolutions approving the Sale and Purchase Agreements and the transactions contemplated thereunder to be passed by the Shareholders at the EGM.

In the event the conditions precedent set out above are not fulfilled or waived on or before the Long Stop Date, the Sale and Purchase Agreements shall then lapse and no party to the Sale and Purchase Agreements shall have any liability to any other party under the Sale and Purchase Agreements or in respect of the subject matter of the Sale and Purchase Agreements save in respect of any liabilities which have accrued prior to the Sale and Purchase Agreements lapsing or in relation to the relevant clauses of the Sale and Purchase Agreements which remain in force.

Long Stop Date

Pursuant to the Supplemental SPA and upon payment of the Advance Payment on 12 October 2016, the Long Stop Date was extended from 30 September 2016 to 28 February 2017 (the "**Extended Long Stop Date**"). The Extended Long Stop Date shall be further extended to 31 March 2017, if on or prior to the end of the Extended Long Stop Date, Radius Maxima notifies PW that the conditions set out in the section headed "Conditions precedent to the Sale and Purchase Agreements" above will not be satisfied on or prior to the end of the Extended Long Stop Date as a result of the Company's circular in relation to the Acquisition not being approved by the Stock Exchange pursuant to then applicable Listing Rules or as a result of any other legal, regulatory or compliance obligations or requirements applicable to the Company at the relevant times.

Buyer guarantee

Pursuant to the Main SPA, the Company has agreed to guarantee to PW the discharge by Radius Maxima of all its obligations and liabilities (including payment obligations) under the Main SPA, the Optionholder SPAs or the Tax Deed.

Completion

Completion shall take place on the accounting month-end date of the month in which the last remaining condition precedent is satisfied or waived (or such other date agreed upon by PW and Radius Maxima) provided that at least three Business Days have passed since the date on which PW has been notified by Radius Maxima in writing that the last remaining condition precedent has been satisfied or waived, and if there are less than three such Business Days between the notification date and the accounting month-end date, then PW and Radius Maxima acting in good faith, shall agree the Completion Date. Radius Maxima shall be entitled in its absolute discretion to waive any or all of the conditions precedent (to the extent permitted by law and the Listing Rules) either in whole or in part.

Other terms related to the Sale and Purchase Agreements

Additional project funding

Pursuant to the Main SPA, Radius Maxima shall provide funding of up to a maximum of US$10 million to the Target Group for an unannounced video game development project designed by Splash Damage, subject to agreement in writing to the detailed terms of the project funding being reached between Radius Maxima and PW after Completion.

PW's liability

The aggregate liability of PW in respect of all and any claims under the Main SPA, except for certain claims as set forth therein, shall not exceed an amount equal to the total consideration actually received by PW, less an amount equal to PW's proper and reasonable costs incurred in connection with the Acquisition. PW shall not be liable in respect of any claims under the Main SPA unless the aggregate liability for all claims exceeds US$480,000, in which case PW shall be liable for the entire amount and not merely the excess.

Tax Deed

Upon Completion, PW and Radius Maxima are expected to enter into the Tax Deed, pursuant to which (i) PW as the covenantor will indemnify, subject to certain negotiated exclusions, Radius Maxima generally in respect of any pre-Completion taxation liabilities of the Targets that may arise and additionally in respect of certain specific post-Completion taxation liabilities that may arise; and (ii) any such payment to Radius Maxima shall be treated as a reduction in the Consideration to the extent permitted by law.

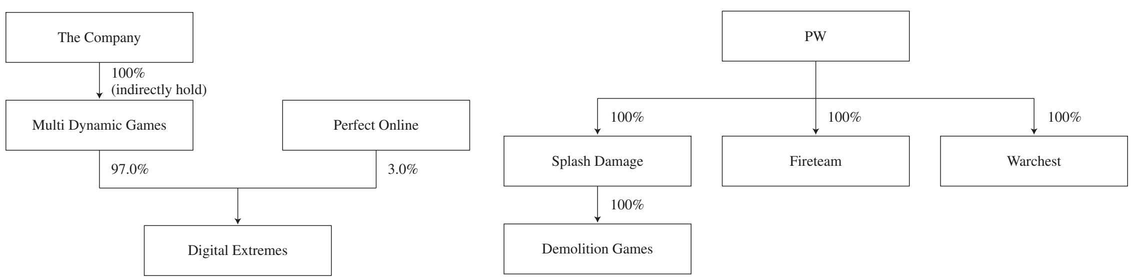
Termination of Exclusivity Agreement

The Exclusivity Agreement shall terminate with immediate effect on the date of the Main SPA and each of the relevant parties irrevocably waives all of its rights under or in respect of the Exclusivity Agreement (other than in respect of any due but unpaid Exclusivity Fee).

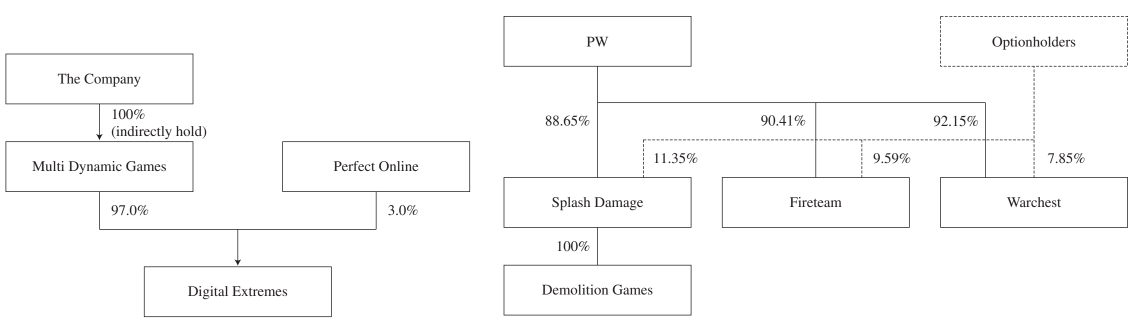
SHAREHOLDING STRUCTURE OF THE GROUP AND THE TARGET GROUP

The following are the shareholding structures of the Group and the Target Group (i) as at the Latest Practicable Date; (ii) upon the exercise of all the options granted to the Optionholders by the Target Group immediately prior to Completion; and (iii) immediately after Completion:

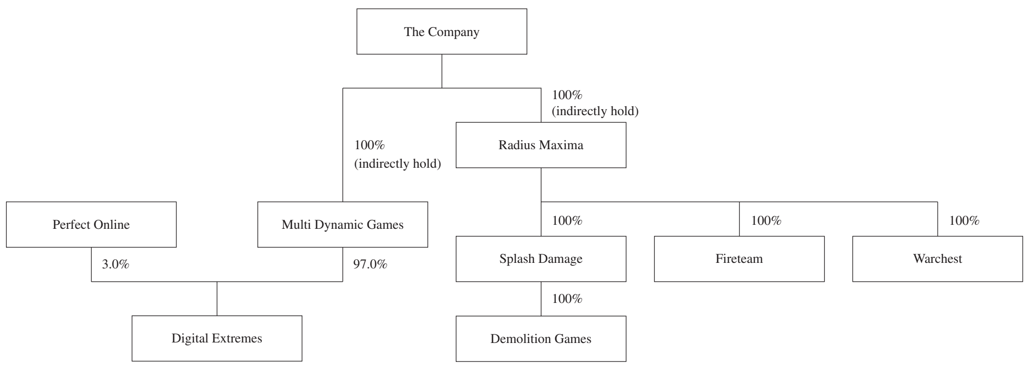
(i) As at the Latest Practicable Date



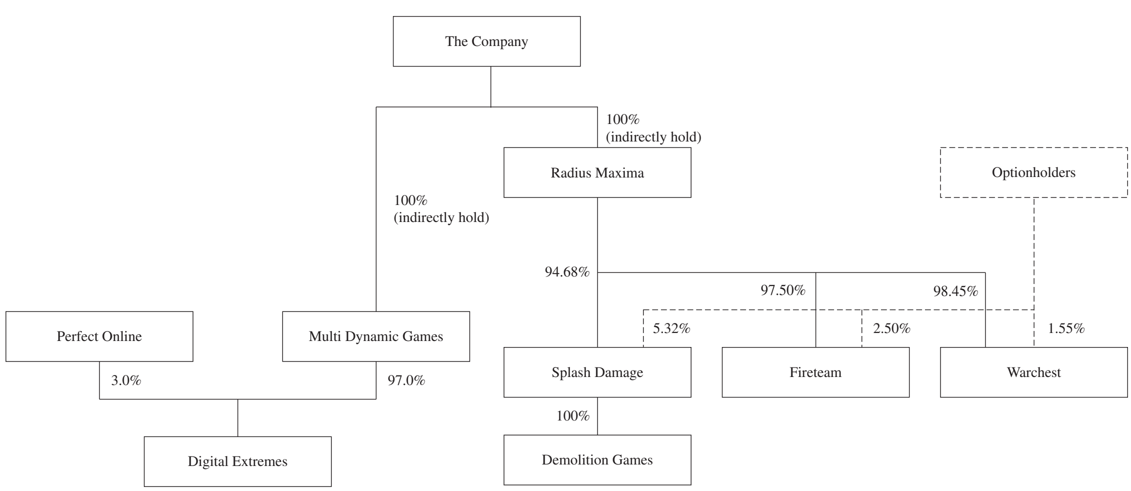
(ii) Upon the issue of Splash Damage Option Shares, Fireteam Option Shares and Warchest Option Shares to Optionholders pursuant to the exercise of all of the options granted to the Optionholders by the Target Group immediately prior to Completion *(assuming (1) no new options to acquire shares in any of the Target Group are granted under the Share Option Plans or any other similar arrangements after the Latest Practicable Date; and (2) none of the share options granted under the Share Option Plans that subsist as at the date of this announcement lapse after the Latest Practicable Date)*



(iii) Immediately after Completion ***(as expected by Radius Maxima, assuming (1) all Optionholders that exercise will sell their respective Splash Damage Option Shares, Fireteam Option Shares and Warchest Option Shares; and (2) no new options to acquire shares in any of the Target Group are granted under the Share Option Plans or any other similar arrangements after the Latest Practicable Date)***



(iv) Immediately after Completion ***(assuming that (1) all Optionholders will exercise and, except for the Second Round Optionholders, sell their respective Splash Damage Option Shares, Fireteam Option Shares and Warchest Option Shares; (2) no new options to acquire shares in any of the Target Group are granted under the Share Option Plans or any other similar arrangements after the Latest Practicable Date; and (3) none of the share options granted under the Share Option Plans that subsist as at the Latest Practicable Date lapse after the Latest Practicable Date)***



INFORMATION ON THE TARGET GROUP

Splash Damage

Splash Damage, together with its subsidiary, is a high-end computer and video games development studio that develops video games across multiple platforms including next generation consoles, personal computers and mobile devices. As at the Latest Practicable Date, Splash Damage is wholly-owned by PW.

Founded in London in 2001 and incorporated under the laws of England and Wales, Splash Damage has contributed to several number one hits and won many awards and nominations. Over the past decade Splash Damage has partnered on development projects with market leading publishers and platforms. With these partners, Splash Damage has developed or co-developed "blockbuster" sequels to several of the world's most successful videogame franchises including *Wolfenstein Enemy Territory*, *Doom 3 (multiplayer)*, *Enemy Territory Quake Wars*, *Batman: Arkham Origins*, *Gears of War: Ultimate Edition* and *Gears of War 4*. Splash Damage is currently working on some un-announced titles.

Fireteam

Fireteam is principally engaged in the provision of online services, consultancy and back-end technologies for online games. As at the Latest Practicable Date, Fireteam is wholly-owned by PW.

Founded in London in 2011 and incorporated under the laws of England and Wales, Fireteam exists to improve the online experience of players worldwide. Formed around a "Mission Control Mindset" it strives to satisfy players with best-in-class online services. Fireteam is credited for its contributions to online services for some of the biggest game IP's including *Halo: The Master Chief Collection*.

Warchest

Warchest is principally engaged in owning, publishing and operating competitive multiplayer games with high production values for leading platforms. As at the Latest Practicable Date, Warchest is wholly-owned by PW.

Founded in London in 2011 and incorporated under the laws of England and Wales, Warchest retains full creative control over the titles which it develops and publishes independently, exhibiting a profound commitment to "Put the Player First". Pioneering the use of Net Promoter Score in the game industry, it tracks and actions player feedback daily to ensure a healthy growing gaming community. It created, owns and operates original IP titles on mobile and PC including *RAD Soldiers and Dirty Bomb*, serving a growing community of players.

Please refer to the sections headed "Group Structure, History and Development of the Subject Companies", "Business of the Target Group" and "Business of the Acquired Group" for information on the Target Group and Acquired Group.

FINANCIAL INFORMATION OF THE TARGET GROUP

Please refer to the section headed "Appendix I – Accountants' Report on the Target Group" for further details on the financial information of the Target Group and the Enlarged Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the development and publishing of video games (the "**Video Gaming Business**").

The Group entered into the Video Gaming Business in July 2015 upon the completion of the acquisition of 58% equity interests in Digital Extremes, which is a leading Canadian-based video game developer. In May 2016, the Group completed the acquisition of a further 39% equity interests in Digital Extremes. The entrance into the Video Gaming Business enabled the Group (i) to diversify its business; and (ii) to enhance its profitability.

Going forward, the Group intends to focus on building a diversified portfolio of profitable video gaming studios with strong IPs and franchises, further developing its innovative business model and world class production capacity in developing high-end video games. The Target Group exhibits qualities consistent with the aforementioned attributes and is selected after undergoing extensive investment analysis and criteria.

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Company and the consolidated profit or loss and assets of the Target Group will be accounted for in the consolidated financial statements of the Company. The Target Group recorded audited net profit of approximately GBP6.5 million (equivalent to approximately RMB56.3 million) for the year ended 31 March 2016, whereas the Group recorded net loss attributable to shareholders of approximately RMB81.6 million for the year ended 31 December 2015. Given (i) the improvements in the revenue and profitability of the Target Group over the past few years; (ii) the prospects of the announced and unannounced projects developed or being developed by the Target Group; and (iii) the possible synergies generated within the Group, the Directors believe the business of the Target Group has growth potential after Completion. The Directors also believe the Acquisition will allow the Group to further diversify its video gaming portfolio and enhance its profitability by improving cost efficiency through synergy within the Group. The Directors have no present intention to change the Group's business strategy in focusing on the Video Gaming Business upon Completion, or to enter into any agreement, arrangement, understanding or negotiation to dispose of, discontinue or effect any significant changes to the existing business of the Group.

Since the acquisition of a controlling stake in Digital Extremes in 2014, the Company has entered into the video gaming business and in the course of managing Digital Extremes for the past two years, the Board has gained experience in managing video gaming businesses, which is reflected by the performance of the Group's video gaming business in terms of financial results and growth. Hence the Board possesses the knowledge and experience necessary to manage the Target Group from the parent company's level. In addition, the Board is connected in the technology community in the greater China region and possesses the market knowledge necessary to operate and further develop the Group's video gaming business in this market. For example, such connection and market knowledge have enabled the Group to enter into two exclusive distribution channel agreements with two distribution channel providers for *Warframe*. Please refer to the section headed "Business of the Acquired Group – Game Development and Publishing – Game Publishing – Third-Party PRC Distributors" for details. Similarly, the Board will be able to synergistically present business opportunities in the greater China region to the Target Group after the Completion. Upon Completion, the senior management of the Target Group, who are expected to remain in their respective positions in the Target Group after Completion, will continue to be responsible for the daily business operations of the Target Group, while the Board will provide the strategic direction for the Target Group's development and any major decisions to be made at the Company's level. The Directors have no present plan to change the composition of the Board upon the Completion. The aggregate of the remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of Acquisition.

The Directors are of the view that the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Company and the Shareholders are concerned and the entering into of the Sale and Purchase Agreements and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Group and the financials results of the Target Group will be consolidated into the Group. The unaudited pro forma financial information of the Enlarged Group is prepared as if the Acquisition had been completed and all share capital of the Target Group was acquired on 30 June 2016 for the unaudited pro forma consolidated statement of financial position.

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the financial effect of the Acquisition. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular.

Net asset value

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group, as at 30 June 2016, the total assets of the Enlarged Group will increase from approximately RMB1,531.9 million to RMB2,322.3 million, the total liabilities of the Enlarged Group will increase from approximately RMB495.6 million to RMB1,308.7 million. Based on the above, the net assets of the Enlarged Group will decrease from approximately RMB1,036.3 million to approximately RMB1,013.6 million as a result of the Acquisition.

Earnings

The Group (excluding the chicken business, of which its disposal had been completed in September 2016) recorded a profit attributable to owners of the Company of approximately RMB99.5 million for the six months ended 30 June 2016. Such profit was mainly attributable to the results of the Acquired Group. According to the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, had the Acquisition been completed on 1 January 2016, the financial results of the Target Group will be consolidated with the Company and the earnings of the Enlarged Group would have been improved as a result of the Acquisition, which recorded profit attributable to owners of the Company of approximately RMB135.0 million.

LISTING RULE IMPLICATIONS

Certain of the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 25% but less than 100%.

In addition, on 25 August 2016, the Listing Committee resolved that (a) the Acquisition, together with the acquisitions of Digital Extremes and 惠州智彬科技有限公司 (Huizhou Zhibin Technology Ltd.) ("**Huizhou Zhibin**") as announced by the Company on 14 October 2014, 10 March 2016 and 29 April 2016 (together the "**Other Acquisitions**"), constitute an extreme very substantial acquisition, and the reverse takeover rules under the Listing Rules should not apply; and (b) the Company is required to prepare a transaction circular with enhanced disclosure comparable to prospectus standard and to appoint a financial adviser to conduct due diligence on the Target Group under the Acquisition and the Other Acquisitions.

Subsequently on 9 November 2016, the Company and the original owners of Huizhou Zhibin entered into a cancellation agreement ("**Cancellation Agreement**") to cancel the relevant agreements for the acquisition of Huizhou Zhibin (which acquisition constituted a discloseable transaction under the Listing Rules and was completed on 5 September 2016). Please also refer to the announcement of the Company dated 16 December 2016 for further details.

After completion of the disposal of the chicken business of the Company in September 2016, the Board started to discuss and evaluate the integration strategies and policies of the remaining business of the Group, namely Digital Extremes, Huizhou Zhibin and the Target Group in early October 2016. As disclosed in the announcement of the Company dated 10 March 2016, Huizhou Zhibin, through Xunhong Technologies Development Company Limited ("**Xunhong**"), is in the businesses of mobile application design, technology development, technical services, mobile commerce, mobile internet and business consultancy in the PRC. Specifically, it is currently focusing on the development and operation of internet payment services (in particular mobile payment service) targeting solely the PRC market and has not recorded any revenue sourced from outside the PRC since its commencement of operations. In contrast, the primary business focus and target customers of Digital Extremes and the Target Group are both primarily located outside of the PRC. In connection with the internal assessment of Huizhou Zhibin, the Board noted that, according to the management account of Xunhong, for the period from March 2016 to September 2016, it has suffered loss of approximately RMB2.9 million. The Board also noted that, on one hand, if the business of Xunhong improves, the Group may have to pay an additional amount of RMB32,000,000 according to the payment schedule as set out in the announcement of the Company dated 10 March 2016; on the other hand, if the business performance of Xunhong does not improve, the Group's ability to recover the investment cost in Huizhou Zhibin of RMB48,000,000 already made would be doubtful. After completion of such internal discussion and evaluation by the Board, the Board believes that, in order to realize the potential strategic benefits of Huizhou Zhibin to the Group, significant financial and management resources would be required to be deployed to further develop the business of Huizhou Zhibin.

In addition, in view of the existing business focus and activities of Huizhou Zhibin, the Board concluded that, in at least the short to medium term, relatively little synergy can be achieved between the businesses of Huizhou Zhibin and that of Digital Extremes and the Target Group.

In contrast, as both Digital Extremes and the Target Group are both focusing on games development and games publishing targeting the global market, the Board considers that they would be better strategic fit and would be able to achieve greater synergies.

As such, instead of continuing to make further investment into Huizhou Zhibin, the Board considers it is in the best interest of the Company to focus its financial and management resources on further developing its overseas business, including growing the business of Digital Extremes and preparing for the Acquisition, and started to explore the possibility of stop making further investments into Huizhou Zhibin and disposing it instead by mid-October 2016.

After reaching out to the original owners of Huizhou Zhibin and upon receipt of positive initial feedbacks from them, the Group commenced negotiations regarding the terms of and finally entered into the Cancellation Agreement on 9 November 2016.

The Board considers in view of the circumstances explained above, transferring Huizhou Zhibin back to the original owners at the initial costs paid by the Company pursuant to the Cancellation Agreement is in the best interest to the Company and its shareholders.

In addition, the Company would also like to confirm that the Board never had any intention to re-acquire Huizhou Zhibin for at least 12 months after (a) the completion of its disposal pursuant to the Cancellation Agreement; or (b) completion of the Acquisition (whichever is the later). The Company further confirms that there has been no understanding, arrangement or agreement between the Company and each of the original owners of Huizhou Zhibin for any future acquisition of Huizhou Zhibin by the Group. Please also refer to the announcement of the Company dated 9 November 2016 for further details of the Cancellation Agreement. Following completion of the Cancellation Agreement, the Group will cease to have any interest in Huizhou Zhibin and the results of Huizhou Zhibin will cease to be consolidated into the results of the Group. Accordingly, only the Target Group under the Acquisition and the acquisition of Digital Extremes are subject to the enhanced disclosure and due diligence requirements applicable to an extreme very substantial acquisition and the information relating to Huizhou Zhibin will not be included in this transaction circular.

In this connection, the Company has prepared this transaction circular with enhanced disclosure comparable to standard for listing documents for new listing applicants and appointed Haitong International Capital Limited as the financial adviser to conduct the due diligence in accordance with Practice Note 21 of the Listing Rules on the Target Group under the Acquisition and the acquisition of Digital Extremes.

EGM

A notice convening the EGM to be held at Conference Suite, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 9 March 2017 at 10:00 a.m. to consider and, if thought fit, to approve, the Sale and Purchase Agreements and the transactions contemplated thereunder is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same to the Company's share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The EGM will be convened for the purpose of considering and, if thought fit, approving, among other things, the Sale and Purchase Agreements and all other documents referred to therein (including the Deed of Share Charge and the Tax Deed) and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the transactions contemplated under the Sale and Purchase Agreements. Therefore, no Shareholder is required to abstain from voting at the EGM.

Pursuant to Rules 13.39(4) and 13.39(5) of the Listing Rules, the resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company on the results of the EGM.

RECOMMENDATION

The Directors consider that the terms of the Sale and Purchase Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned and the entering into of the Sale and Purchase Agreements and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions to approve the Sale and Purchase Agreements, all other documents referred to therein (including the Deed of Share Charge and the Tax Deed) and the transactions contemplated thereunder at the EGM.

By order of the board of
Leyou Technologies Holdings Limited
Law Kin Fat
Vice Chairman

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lin Qinglin *(Chairman)*
Mr. Law Kin Fat *(Vice Chairman)*
Mr. Wu Shiming
Mr. Wong Ka Fai Paul
Mr. Hsiao Shih-Jin

Non-Executive Director

Mr. Eric Todd

Independent Non-Executive Directors

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Yang Chia Hung

AUDIT COMMITTEE

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Yang Chia Hung
Mr. Chan Chi Yuen

REMUNERATION COMMITTEE

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Chan Chi Yuen
Mr. Lin Qinglin

NOMINATION COMMITTEE

Mr. Lin Qinglin *(Committee Chairman)*
Mr. Hu Chung Min
Mr. Chan Chi Yuen

COMPANY SECRETARY

Mr. Yau Yan Ming Raymond

LEGAL ADVISERS AS TO HONG KONG LAW

Luk & Partners

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

STOCK CODE

1089

PRINCIPAL BANKERS

China Construction Bank International Holdings Limited
Bank of Communications Co., Ltd.
Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681,
Grand Cayman, KY-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1020-22, 10th Floor, Two Pacific Place,
88 Queensway, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

COMPANY WEBSITE

www.leyoutech.com.hk

When considering the Acquisition, please carefully consider the risk factors set out below and other materials set out in this circular. If any event set out below occurs, the Company's business, financial condition, results of operations, and prospects may be adversely affected. The risks and uncertainties set out below are not the only risks confronting the Company. Other risks and uncertainties the Company is not aware of or deems to be unimportant at present may also have an adverse effect on the Company's business, financial condition, results of operations, and prospects.

There are risks involved in the business of the Subject Companies, many of which are beyond the Company's control. These risks can be categorised as (i) risks relating to the business of the Subject Companies; (ii) risks relating to the video game industry; (iii) risks relating to conducting business in Canada; (iii) risks relating to conducting business in UK; (iv) risks relating to overseas markets where the Subject Companies' games are available; and (v) risks relating to this circular.

RISKS RELATING TO THE BUSINESS OF THE SUBJECT COMPANIES

The business of the Subject Companies could suffer if the Subject Companies do not successfully manage their current and future growth or maintain or enhance their monetisation abilities, which involves optimising their video games portfolios, building their workforce, and balancing their growth.

The Subject Companies have experienced high revenue growth during the Track Record Period. The Subject Companies may not be able to maintain their historical growth rates in the future. Revenue growth may slow down or even decline for a number of reasons, including a failure to continuously develop new popular video games, a failure to effectively market and promote their video games to third-party international channel distributors, a failure to attract and retain players and the market-leading publishers, decreased player spending, increasing competition, slowdown in the overall growth of the video game market, the emergence of alternative business models, changes in the regulatory environment, or general economic conditions.

To execute their growth strategies, the Subject Companies anticipate that they will need to manage and optimise their current video games portfolio, as well as develop additional video games. They will also need to continue to manage, train, expand, and motivate their workforce and manage their relationships with the market-leading publishers and their players, third-party channel distributors, and other third-party service providers. They may not be able to efficiently or effectively implement their growth strategies or manage their growth, and any failure to do so may limit their future growth, hamper their business strategies, and materially and adversely affect their financial condition and results of operations.

If the Subject Companies' existing video games do not maintain popularity among the players, or if their future video games are not appealing to the players, they will be unable to attract and retain players and improve the monetisation capability of their video games, and their results of operations could be adversely impacted. If the quality of the Target Group's game development work under the work-for-hire model is not satisfactory to the publishers, the Target Group's reputation with the publishers and its financial position and prospects could be adversely impacted.

For a free-to-play online video game to remain popular and continue to generate revenue, the Subject Companies must constantly enhance or upgrade it with improved and unique features that players find attractive. Constant enhancement or upgrading requires the investment of significant resources. However, the Subject Companies cannot assure you that the changes to or introduction of new video game features will either attract new players or that they will be well received by their current players, who may cease playing the existing video games because of these changes.

Depending on various factors, a free-to-play online video game has a limited life cycle, and the video game's monetisation ability will peak after a certain period of time and gradually decline afterwards. Further, if a new video game developed or published by the Subject Companies fails to be popular among players or attain the targeted player base within a certain period of time following its launch, it is unlikely that such video game's popularity or player base may be significantly improved over time. Even if the Subject Companies successfully extend the life cycle of their video games, they may not be able to maintain or increase the profitability of such video games. Therefore, in addition to maintaining the profitability of their existing video games, the Subject Companies must also develop new video games that are attractive to a significant number of players, which they may not be able to do.

Furthermore, the timing of launching new video games has a significant impact on the performance and popularity of these new video games. If the Subject Companies launch their new video games at the same time that other publishers do, the competition may make it difficult for the Subject Companies to attract new players to those new video games, and their third-party publishers may commit fewer resources to promote video games developed by the Subject Companies.

Any failure to extend the life cycle of the Subject Companies' popular video games, develop new video games, launch new video games during a favourable market window, or to address any other problems in launching or operating the Subject Companies' video games may decrease the popularity of the Subject Companies' video games and may harm the Subject Companies' businesses, financial conditions, and results of operations.

Sales of any video game on any console platform are limited to the player base of that platform. However, new emerging platforms are offered by game publishers in the market from time to time. If any new video game is developed by the Subject Companies for a new platform but player base of such new platform fails to take off, the sales of such video game may also fail to achieve its target. Extra cost will need to be incurred by the Subject Companies to port a game from one platform to another.

In respect of the game development work provided by the Target Group under the work-for-hire model, the risk that the Target Group takes when a developed video game has not been completed to the historic standard maintained by the Target Group or the specification in the agreement with the publishers, when completion of development work is below the standard required itself or the failure to make timely delivery of any deliverables on milestone dates in line with the agreed milestone schedule could negatively impact the Target Group's reputation with the publishers and, therefore, its financial position and prospects.

A small number of video games has generated a majority of the Acquired Group's revenue, and any failure to maintain or enhance the performance of these games or the failure to launch new video games in order to grow its revenue and sustain its competitive position may adversely affect the Acquired Group's business and results of operation.

A small number of video games has generated the majority of the Acquired Group's revenue during the Track Record Period, and it expects that this revenue concentration will continue in the foreseeable future. Currently, the Acquired Group has only one existing self-developed game, *Warfame*, and the revenue generated from publishing and distributing such game by itself and its third-party channel distributors contributed approximately 80.4%, 99.4%, 95.2%, and 98.0% of its total revenue for the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, respectively. Although the Acquired Group believes that *Warframe* has a long product lifespan, it cannot assure you that players will not lose interest in the game over time. The Acquired Group's growth depends largely on its ability to launch new video games that achieve significant popularity. As at the Latest Practicable Date, the Acquired Group was in the process of developing one new first-person competitive shooter game. As at the Latest Practicable Date, this new game title was in its development/before testing phase with an expected commercialisation date in the second quarter of 2017. The development of this game and any other video games requires significant time, engineering, marketing, and other resources to develop, launch, and maintain. Further, the average time and costs associated with these efforts may increase. The Acquired Group's ability to successfully launch and publish video games and attract and retain players largely depends on the Acquired Group's ability to:

(a) anticipate and effectively respond to changing interests and preferences of video game players;

(b) develop, sustain, and expand video games that are attractive, interesting, and engaging;

(c) minimise launch delays and cost overruns on new video games and video game expansions;

(d) effectively market new video games and enhancements to their existing and potential players;

(e) attract, retain, and motivate talented video games designers, product managers, and engineers;

(f) anticipate and respond to changes in the competitive landscape; and

(g) minimise downtime and other technical difficulties.

It is difficult to consistently anticipate player demand on a global scale, particularly as the Acquired Group develops video games in new genres, platforms, or markets. If the Acquired Group does not successfully launch video games that attract and retain a significant number of players and extend the life of their existing video games, its business, financial condition, and results of operations may be adversely affected.

The Target Group relies heavily on its three major customers for the work-for-hire projects.

The Target Group relies heavily on three major customers for the work-for-hire projects. For the years ended 31 March 2014, 2015, and 2016, and the six months ended 30 September 2016, the Target Group's revenue generated from such customers have collectively accounted for approximately 3.4%, 98.4%, 92.4%, and 92.3% of its total revenue, respectively. Except for the year ended 31 March 2014, the Target Group's revenue from the three major customers has contributed more than 80% of its total revenue, but there can be no assurance that such revenue can continue to do so in the future. In particular, while the Target Group has maintained a stable relationship with these three major customers, it does not have long-term agreements with such major customers. In addition, if the Target Group's three major customers encounter operational issues or their preference for the Target Group as their game developer changes, the Target Group's revenue might be adversely affected. Any significant reduction in the number of the work-for-hire projects for these three major customers, the loss of these three major customers, or a significant lowering of its average game development fees from these three major customers could materially and adversely affect the Target Group's business, financial condition, and results of operations.

The Acquired Group mainly relies on third-party international and PRC channel distributors to distribute a significant number of its video games, and its business and results of operations may be materially and adversely affected if these third-party international and PRC channel distributors breach their obligations to or if the Acquired Group fails to maintain relationships with a sufficient number of third-party international and PRC channel distributors or if the international and PRC channel distributors lose popularity among video game players.

Apart from selling its video games through its own websites, the Acquired Group also distributes its video games through third-party international and PRC channel distributors, including Valve, Sony and Microsoft, which are leading and popular video game platforms with large user bases. The Acquired Group relies on these third-party international and PRC channel distributors to distribute its video games, record purchases and collect payments from players, maintain the security of their platforms to prevent cheating and other fraudulent activities, provide certain aspects of player services, and make timely payments of the revenues generated from the video games to the Acquired Group. For the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, 48.1%, 79.9%, 84.6%, and 87.0% of the total revenue of the Acquired Group was generated by video games distributed through third-party international and PRC channel distributors, respectively. If these third-party international and PRC channel distributors fail to effectively promote the Acquired Group's video games or otherwise fulfil their obligations to the Acquired Group, in particular if the Acquired Group is unable to collect its revenue from these third-party international and PRC channel distributors in a timely manner, the Acquired Group's business and results of operations will be adversely affected. The Acquired Group may be negatively impacted if these third-party international and PRC channel distributors do not obtain or maintain relevant government licences to publish its video games.

Disputes with third-party international and PRC channel distributors may also arise, and the Acquired Group cannot assure you that it will be able to resolve such disputes in a timely manner or at all, and these disputes may further divert its management's attention and adversely affect its ability to collect revenues generated from the video games published on the relevant platforms. If its cooperation with major third-party international and PRC channel distributors terminates for any reason, the Acquired Group may not be able to find a replacement in a timely manner or at all, and the distribution of its video games may be adversely affected. Any failure on its part to maintain good relationships with a sufficient number of international and PRC channel distributors for the publication and distribution of its video games could have a material adverse effect on its business, financial condition, and results of operations.

In addition, certain third-party international and PRC channel distributors have their own in-house video game development capabilities, and other third-party international and PRC channel distributors may consider establishing such capabilities in the future. The Acquired Group is therefore subject to direct competition and potential conflicts of interest with its third-party and PRC international channel distributors, which may intensify in the future, and it cannot assure you that its third-party international and PRC channel distributors will always maintain a cooperative relationship with it. If the third-party international and PRC channel distributors cease or limit committed resources to promote the Acquired Group's video games on their platforms or cease publishing its video games, the Acquired Group's business and results of operations may be adversely affected.

The Acquired Group is subject to payment-related risks, which could adversely affect its reputation and results of operations.

The Acquired Group cooperates with various third-party online payment service providers to enable players on its websites to make payments through such payment service providers. If any of the Acquired Group's major payment service providers were to become unable or unwilling to settle the receivables in a timely manner or at all, the Acquired Group's liquidity could be adversely affected, and it may have to write off receivables or increase provisions against bad debts. Also, if any of the Acquired Group's major payment service providers were to become unable or unwilling to provide payment processing services, including the processing of payments made with credit cards and debit cards, the Acquired Group's business condition and results of operations could be materially and adversely affected.

The Acquired Group is subject to risks relating to player account abuse, human error, fraud, and other illegal activities in connection with its player accounts. If the Acquired Group's data security systems are breached or compromised, it may lose its ability to direct credit and debit card payments from its players, and it may be subject to claims for damages from its players and third parties, all of which could adversely and materially affect the Acquired Group's reputation as well as their results of operations.

If the monetisation capability of the Acquired Group declined, or the "free-to-play" business model ceased to be commercially effective, or if the Acquired Group changes its revenue model in the future but fails to effectively adjust to such new revenue model, its results of operation, financial condition, and business prospects could be materially and adversely affected.

Most of the Acquired Group's games are free-to-play; whilst, the Acquired Group generates the majority of its revenue from sales of virtual items. The success of this business model largely depends upon whether the Acquired Group can attract game players to play its games and, even more importantly, whether the Acquired Group can successfully encourage more players to purchase virtual items and more paying players to increase their in-game purchases. It is possible that the Acquired Group may not be able to market and price its virtual items effectively or that it may fail to accurately identify and introduce new and popular virtual items or price them properly. In addition, the "free-to-play" business model may cease to be commercially effective. There is no assurance that a sufficiently broad base of game players will continue to accept this model or that a new, competing business model will not emerge.

If the Acquired Group fails to continue to monetise its player base through sales of in-game virtual items, its business, financial condition, and prospects may be materially and adversely affected.

In order to maximise potential growth in its current and potential markets, the Acquired Group believes that it must expand its operations and frequently review and evolve its mix of business models. The Acquired Group may change the revenue model for some of its games in the future if it determines that its existing revenue model is not optimal, and it may adopt new revenue models for new types of games that it may develop in the future. The Acquired Group may have difficulties in effectively adjusting to a new revenue model. A change in revenue model could have adverse consequences, including disruption to its game operations, criticism from players who have invested time and money in a game and may be adversely affected by such a change, decrease in the number of its players, or decrease in revenue it generates from their games.

Change in revenue model will also place a significant demand on the Acquired Group's management, operational, accounting, and information systems. The Acquired Group will need to continue to improve its financial controls, operating procedures, and management information systems as the Acquired Group evolves its operations and business models. The Acquired Group will also need to effectively train, motivate, and manage its employees. Failure to manage the Acquired Group's operational evolution appropriately could negatively impact the Acquired Group's financial position and prospects.

Unauthorised use of the Subject Companies' intellectual property by third parties, and the expenses incurred in protecting their intellectual property rights, may adversely affect their business.

The Subject Companies rely on copyright, trademark, trade secret, and other intellectual property law, as well as confidentiality clauses in the employee contracts and licence agreements with their employees, licensors/licensees, business partners, and others to protect their copyrights, trademarks, trade secrets, and other intellectual property, all of which are critical to their success.

The Subject Companies have registered domain names for websites that they use in their businesses, such as digitalextremes.com and splashdamage.com. If the Subject Companies lose the ability to use their domain names, they would be forced to incur significant expenses to publish their games under new domain names, which could substantially harm their businesses. In addition, their competitors could attempt to capitalise on their brand recognition by using domain names similar to theirs. They may be unable to prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of their brand or their trademarks. Protecting and enforcing the Subject Companies' rights in their domain names and determining the rights of others may require litigation, which could result in substantial costs and diversion of management attention.

The Subject Companies' standard employment contracts contain standard terms covering confidential information and intellectual property rights that require their employees to acknowledge that all inventions, trade secrets, works of authorship, developments, and other processes generated by their employees on behalf of the Subject Companies are the Subject Companies' property, and the employees shall assign to the Subject Companies any ownership rights that such employees may claim in those works. The Subject Companies also use standard independent contractor agreements for their third-party contractors that include provisions concerning confidential information and intellectual property requiring the third-party contractors to acknowledge that they will not use confidential information other than for the performance of their duties under the contract, nor will they disclose such information unless required by law, and the Subject Companies own deliverables, results, and proceeds in perpetuity in any form, including all copyrights, patents, and trademarks. If the standard employment contracts and/or standard third-party contractor agreements are determined by a court of competent jurisdiction to be unenforceable for any reason, the Subject Companies may lose the confidentiality and intellectual property protections provided by these agreements.

As at the Latest Practicable Date, the Acquired Group (i) has not registered or filed for any application for the Evolution Engine, (ii) has not registered or filed for any application for some of its copyrights, (iii) has not registered trademarks for certain secondary aspects of their game property, and (iv) has not registered trademarks in all of the territories in which their games are distributed. The directors of the Acquired Group consider that keeping its inventions as trade secrets is a better way to protect its intellectual property in these inventions. However, the Acquired Group's failure to register their patents, copyrights, or trademarks may result in its novel technologies being reverse engineered or copied, may lead to some enforcement issues in relation to its copyright, or may hamper its ability to license copyrighted works.

Despite the Subject Companies' precautions, third parties may obtain and use intellectual property that the Subject Companies own, without their consent. Unauthorised use of the Subject Companies' intellectual property by third parties, and the expenses incurred in protecting their intellectual property rights, may materially and adversely affect their business.

While the Subject Companies intend to vigorously pursue their legal rights in various jurisdictions, the validity, enforceability, and scope of protection of intellectual property in internet-related industries are uncertain and still evolving. Policing unauthorised use of intellectual property is difficult and expensive. Any steps they have taken to prevent the misappropriation of their intellectual property may be inadequate. Moreover, litigation may be necessary in the future to enforce their intellectual property rights. Future litigation could result in substantial costs and diversion of their resources and could disrupt their business, as well as have a material adverse effect on their financial condition and results of operations.

The Subject Companies or their licensors may be subject to intellectual property infringement or misappropriation claims by third parties, which, if determined adversely against them or their licensors, may result in significant liabilities and costs for them and have material adverse effects on their businesses.

The Subject Companies cannot be certain that self-developed or co-developed, acquired, or licensed video games or other content posted on their websites do not and will not infringe upon patents, copyrights, trademarks, or other intellectual property rights held by third parties. For instance, the Subject Companies may encounter claims relating to trademarks held by their competitors or other companies when such trademark is similar to the Subject Companies' trademarks.

Neither the Subject Companies nor their licensors have encountered any material legal claims relating to patents, copyrights, trademarks, or other intellectual property rights held by third parties concerning the Subject Companies' own video games or licensed video games during the Track Record Period and the subsequent period up to the Latest Practicable Date. However, the Subject Companies cannot assure you that neither they nor any of their respective licensors will be perceived or alleged to infringe upon patents, copyrights, trademarks, or other intellectual property rights held by third parties and become subject to legal proceedings and claims from time to time.

If the Subject Companies or their licensors are found to have violated the intellectual property rights of others, they may be subject to monetary liability and enjoined from using such intellectual property, or they may incur new or additional licensing costs if they wish to continue using the infringing subject matter, be forced to develop or license alternatives, or be forced to stop operating one or more video games, any of which may materially and adversely affect their businesses and results of operations. In addition, they may incur substantial expenses and require significant attention of management in defending themselves against these third-party infringement claims, regardless of their merit.

In addition, the Subject Companies use open source software in their video games and may use open source software in the future. During the Track Record Period, the Subject Companies have complied with the licence terms for the open source software and have not sub licensed any source code or binary package of the open source software to any other party, and they have not faced any claims relating to the use of the licenced open source software. However, the Subject Companies cannot assure you that they will comply with licence terms for such open source software in the future and will not receive any claims with respect to their use of the open source software from any third party.

Any defects, disruptions, or other problems affecting the functioning of the Subject Companies' websites, game servers, network infrastructure, or information technology systems could materially and adversely affect their business.

The satisfactory performance and stability of the Subject Companies' websites, game servers, network infrastructures, and information technology systems is critical to players' experiences, which is in turn critical for retaining existing players and attracting new ones.

The Subject Companies operate their own websites on which they publish their self-developed games. The success of the games the Subject Companies publish also depends on their abilities to acquire and maintain traffic efficiently, promote such games towards their players, and provide quality player services. If the Subject Companies fail to do so, their businesses and results of operations may also be adversely affected. In addition, the Subject Companies' publishing business benefits their game development business in various aspects, such as providing access to large player databases, reliable websites on which to publish and distribute their games, and reliable sources of the latest market trends and player preferences. If the successes of the Subject Companies' own websites fall short of their expectations, their game development capabilities may in turn be adversely affected. The continuous and stable operation of their websites largely relies on the proper functioning of the Subject Companies' game servers, network infrastructures, and information technology systems.

Any defects or problems with their game servers, network infrastructures or information technology systems could significantly disrupt their businesses operations from game development to game publishing. The Subject Companies may in the future encounter website disruptions, outages, and other performance problems due to a variety of possible factors, including the following:

(a) their growing operations will put increasing pressure on their servers and network capacities as they launch more video games and increase the size of their player bases;

(b) they may encounter problems when upgrading their systems or services, which could adversely affect the performance of the software they use to provide their services;

(c) they may be subject to hacking or virus attacks on their network infrastructures and information technology systems;

(d) they rely on third-party service providers for certain key aspects of their network infrastructures and information technology systems, including the storage and maintenance of their servers and collection of online payments, and any disruptions or other problems with such providers' services are out of their control and may be difficult to remedy; and

(e) their network infrastructures could be damaged or interrupted as a result of earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses, and similar events.

The Subject Companies expect to continue making investments in their technology infrastructures to maintain and improve all aspects of players' experiences and video game performance. To the extent that their disaster recovery systems are not adequate, or they do not effectively address capacity constraints, upgrade their systems as needed, and continually develop their technology and network infrastructure to accommodate increasing traffic, the Subject Companies' businesses, financial conditions, and results of operations may suffer.

Furthermore, online games are subject to maintenance and updates from time to time on the server side. While regular maintenance is expected and generally accepted by the players, prolonged downtime and unscheduled maintenance may significantly and adversely affect the user experiences of the players, which will in turn affect the popularity of the relevant games and the Subject Companies' performances.

If the Subject Companies fail to maintain their brands' recognition, they may face difficulty in attracting new players and establishing new business relationships.

According to the Frost & Sullivan Report, *Warframe*, a free-to-play game published by the Acquired Group, ranked 5th on PC and 3rd on consoles in terms of the number of total active players in the two weeks ended 15 February 2017 among all major free-to-play games, while *Dirty Bomb*, a free-to-play game developed by the Target Group, ranked 18th on PC in terms of the number of total active players in the two weeks ended 15 February 2017 among all major free-to-play games. Splash Damage was engaged by Microsoft to develop part of *Gears of War 4*. Players' word of mouth and recognition by large game publishers and distributors are important for the Subject Companies to expand the market reach of their video games and enhance their business relationship with the game publishers. The Subject Companies believe that maintaining and enhancing their brands are crucial for them to attract new players to their games and their own websites and to establish new business relationships with third-party game publishers and distributors. The Subject Companies must continuously make efforts to ensure that the images of their brands are not tarnished by substandard or negatively published games. The Subject Companies must also find ways to distinguish their games from their competitors' games to avoid any negative impact on their brands' recognition. If for any reason the Subject Companies are unable to maintain and enhance their brands' recognition, their businesses and results of operations may suffer.

The Subject Companies have a relatively short operating history in self-publishing and self-distributing video games, which makes it difficult to evaluate their prospects and future financial results with respect to the self-publishing and self-distributing video games businesses.

Prior to 2013, the Acquired Group focused on developing video games for third-party publishers under the work-for-hire model. In March 2013, the Acquired Group began online distribution of *Warframe*. Currently, the Target Group is principally engaged in the development of AAA video games for third-party publishers under the work-for-hire model. It started to self-publish its owned-IP game titles in 2012.

The Subject Companies' short operating history in self-publishing and self-distributing video games makes it difficult to effectively assess their future prospects in respect of their self-publishing and self-distributing video game businesses. As part of the Subject Companies' growth strategy, they intend to continue to develop and publish their self-developed video game to meet the evolving needs of their players. The new video games the Subject Companies may offer in the future present further operating and marketing challenges. In addition, the markets for video games are highly competitive. If the Subject Companies fail to successfully self-publish more new game titles in competitive markets in a timely manner, they may not be able to capture the growth opportunities associated with these new games or recover the costs associated with self-publishing such video games, which may materially and adversely affect the Subject Companies' businesses, financial conditions, results of operations, and growth strategies.

The Acquired Group's data analytics capability or the Target Group's game-hosting and support services may be harmed if they fail to properly collect, store, or analyse player data or provide free and diversified channels for closely communicating with their players.

The Acquired Group's video games development and publishing businesses and the Target Group's game-hosting and support services are data driven, and they rely on their data analytics capability to continue developing and publishing popular video games or provide online services and back-end support of video games, improve player in-game experience, and enhance monetisation of their video games. The Acquired Group is required to collect and store all player behaviour data in accordance with certain protocols in a timely manner and the Target Group is required to do so in accordance with the game-hosting and support services related agreement. However, if the Subject Companies fail to collect or retain certain data, they may not have the data they need to conduct their data analytics. If there is a delay in collecting player behaviour data, the data may not be able to accurately or fairly reflect the latest player behaviour and will be meaningless or even misleading in their video game development process or the Target Group's game-hosting and support services.

Furthermore, the Subject Companies' data analytics methodology may not be as effective as expected and may fail to capture the latest market trends and player preferences. In addition, they cannot assure you that their data will not be damaged or lost due to technical errors, security breaches, inadvertent or unauthorised data access, or hacking, and the Subject Companies may be unable to anticipate such events. If any of the above occurs, including an actual or perceived security breach, their businesses may be negatively affected.

The Acquired Group communicates with its game players through the utilisation of social networking medias such as Twitch, Facebook, and YouTube, the forums set up on its own website, and fansite links where its fans can share their likes and dislikes. If the Acquired Group stops closely and actively communicating with its players by using these existing channels, its ability to collect the feedback on its games from the players would be negatively affected, which in turn would affect the Acquired Group's data analytics capability.

Material errors or defects in the Subject Companies' video games could materially and adversely affect their business prospects and results of operations.

The Subject Companies' video games may contain errors or defects. The occurrence of material errors or defects in the Subject Companies' video games could disrupt the Subject Companies' operations, damage the Subject Companies' reputations, and discourage the Subject Companies' players from playing their video games and purchasing virtual items. In addition, the Subject Companies may need to make significant expenditures to eliminate such errors or defects in the Subject Companies' video games, which could materially and adversely affect their businesses, financial conditions, and results of operations. During the Track Record Period, the Subject Companies have received complaints from players regarding certain technical problems they encountered while playing the Subject Companies' video games, such as log-in and payment failures and connection interruptions. No such complaint has yet subjected the Subject Companies to any consumer disputes, regulatory proceedings, or litigations, nor has it materially or adversely affected the Subject Companies' business and financial conditions. However, the Subject Companies cannot assure you that they will not receive any complaint in the future that could materially and adversely affect their businesses, financial conditions, and results of operations.

The Subject Companies' new video games may lure players away from their existing video games, which may have negative effects on their businesses, financial conditions, and results of operations.

The Subject Companies' new video games may lure players away from their existing video games and shrink the player base of their existing video games, which could in turn make those existing video games less attractive to other players, resulting in decreased revenue from their existing video games. Players of the Subject Companies' existing video games may also spend less money purchasing virtual items in the Subject Companies' new video games than they would have spent if they had continued playing the Subject Companies' existing video games. The occurrence of any of the above may have a material adverse effect on the Subject Companies' businesses, financial conditions, and results of operations.

The Subject Companies depend on their key personnel, and their business and growth prospects may be severely disrupted if they lose their services or are unable to attract new key employees.

The Subject Companies' future success is heavily dependent upon the continued services of their key executive officers and other key employees. The Subject Companies also rely on a number of key technology officers and staff for the development and operation of their video games and to maintain their competitiveness.

If one or more of the Subject Companies' key personnel are unable or unwilling to continue in their present positions, the Subject Companies may not be able to replace such key personnel easily or at all and may incur additional expenses to recruit and train new personnel; the Subject Companies' businesses may be severely disrupted, and the Subject Companies' financial conditions and results of operations could be materially and adversely affected.

In addition, if any of the Subject Companies' executive officers or key game development employees join a competitor or form a competing company, the Subject Companies may lose know-how, trade secrets, suppliers, players, and key professionals and staff. Most of the executive officers and key game development personnel of the Subject Companies have entered into non-competition agreements with the Subject Companies. However, it can be difficult to enforce non-competition provisions in Canada and the UK, as they are viewed as a restraint on trade. Consequently, such provisions will only be enforced to the extent necessary to protect the Subject Companies' proprietary interest, having regard to a variety of factors, including the length and geographic scope of the non-compete, as well as the description of the competitive activity.

Furthermore, according to the Frost & Sullivan Report, since the demand and competition for talent is intense in the video game industry, particularly for video game development personnel and related technical personnel, the Subject Companies may need to offer higher compensation and other benefits in order to attract and retain key personnel in the future, which could increase the Subject Companies' compensation expenses.

The Subject Companies believe that they have the appropriate incentivisation structures to attract and retain the calibre of employees necessary to ensure the efficient management and development of the Subject Companies. However, any difficulties encountered in hiring appropriate employees and the failure to do so may have a detrimental effect upon the performance of the Subject Companies. The ability to retain and attract employees with the appropriate expertise and skills cannot be guaranteed. The ability of the Target Group to recruit internationally and to obtain work visas for their international employees in the UK may be adversely affected by the United Kingdom's exit from the EU and the impact of this on workforce and immigration regulations.

The Subject Companies cannot assure you that they will be able to attract or retain the key personnel necessary to implement their strategies and achieve their business objectives.

Discontinuation or decrease of government subsidies or tax relief granted to the Subject Companies may adversely affect their financial positions and results of operations.

The Acquired Group receives various industry-specific subsidies granted by local governments to support its business from time to time. The Acquired Group recorded government subsidies of approximately CAD8.1 million, CAD5.8 million, CAD6.8 million, and CAD5.0 million for the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, respectively. The Target Group recorded tax relief of GBP0.2 million, GBP1.0 million, GBP2.0 million, and GBP1.1 million for the three years ended 31 March, 2014, 2015, and 2016, and the six months ended 30 September 2016, respectively.

As government subsidies and tax relief are granted at the full discretion of the relevant government authorities, the Subject Companies cannot assure you that they will continue to be eligible for government subsidies, tax relief or other forms of government support, or that if the Acquired Group is eligible, it will continue to enjoy the same level of subsidies. If the government subsidies, tax relief, or other government support the Subject Companies receives decreases or discontinues in the future, their financial position and results of operations may be adversely affected.

The Subject Companies process, store, and use personal information and other data, which subjects them to governmental regulation and other legal obligations related to privacy, and their actual or perceived failure to comply with such obligations could harm their businesses.

The Subject Companies receive, store, and process personal information and other player data. There are numerous laws and regulations around the world regarding privacy and the storing, sharing, using, processing, disclosure, and protection of personal information and other player data on the Internet and the websites of the Subject Companies, the scope of which is changing and subject to differing interpretations and may be inconsistent between countries or in conflict with other rules. It is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or the Subject Companies' practices. Any failure or perceived failure by the Subject Companies to comply with their privacy policies, their privacy-related obligations to players or other third parties, or their privacy-related legal obligations or any compromise of security that results in the unauthorised release or transfer of personally identifiable information or other player data may result in governmental enforcement actions, litigation, or public statements against the Subject Companies by consumer advocacy groups or others and could cause their players to lose trust in them, which could have an adverse effect on the Subject Companies' business. Additionally, if any third parties the Subject Companies work with, such as players, vendors, developers, or third-party publishers, violate applicable laws or the Subject Companies' policies, such violations may also put the Subject Companies players' information at risk and could in turn have an adverse effect on the Subject Companies, businesses.

Restrictions imposed on sales of video games containing violent themes could have a material adverse effect on the Subject Companies' results of operations.

Many popular video games contain material with violent themes. These video games receive an age rating, including by the British Board of Film Classification and the Pan-European Game Information system and the Entertainment Software Rating Board in Canada and the United States. As actual violent events occur and are publicised, public acceptance of violent themes in video games may decline. At the same time, there may be ongoing concerns in society that video games have other adverse societal effects. As a result, the Subject Companies' sales of such video games may decline, which could adversely affect their results of operations.

The Group could be adversely affected if operations of the Acquired Group or the Target Group resulted in sales to customers in countries that are subject to evolving economic sanctions of the United States, the United Nations, the EU, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organisations, including the EU, the UN, and Australia, have comprehensive or broad economic sanctions that target Sanctioned Countries. In addition, there are sanctions that target specific Sanctioned Persons independently of their location. During the Track Record Period, the Acquired Group's virtual items were sold to end users around the world through third-party channel distributors and online payment platform providers. Also during the Track Record Period, the Target Group engaged a Russian distributor to distribute its online game (although no sales were made to end users under the contract before it was terminated). The Acquired Group may continue to carry out such business activities from time to time with third-party channel distributors and online payment platform providers. The Group's business and reputation could be adversely affected if the authorities of the United States, the EU, the UN, Australia, or any other jurisdictions were to determine that any of the Group's activities constitute a violation of the sanctions they impose or provide a basis for a sanctions designation of the Group. In addition, because many sanctions programmes are evolving, new requirements or restrictions could come into effect that might increase scrutiny on the Group's business or result in one or more of our business activities being deemed to have violated sanctions or being sanctionable.

The Group undertakes to the Stock Exchange that it will not use any future funds raised through the Stock Exchange to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Sanctioned Countries or Sanctioned Persons, or any other government, individual, or entity sanctioned by the United States, the EU, the UN or Australia, including, without limitation, any government, individual, or entity that is the subject of any OFAC sanctions. The Group also undertakes to the Stock Exchange that the Group will not enter into sanctionable transactions that would expose the Group or the relevant persons to risks of being sanctioned. If the Group breaches any of these undertakings to the Stock Exchange, it is possible that the Stock Exchange may delist its Shares. In order to ensure its compliance with these undertakings to the Stock Exchange, the Group will continuously monitor and evaluate the Group's business and take measures to protect the interests of the Group and their Shareholders. For details of our internal control procedures, please refer to "Business of the Acquired Group – Sales to Sanctioned Countries – the Group's Undertakings and Internal Control Procedures".

The Group will also seek to prevent the transactions of the Acquired Group or the Target Group in the Sanctioned Countries from being subject to sanctions under the laws of the United States, the EU, the UN, or Australia and avoid doing business with any Sanctioned Persons. However, to the extent any penalties under International Sanctions are imposed on the Acquired Group or the Target Group, the Group's business and Shareholders' interests could be affected. The Group cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy by the EU, the UN, Australia, or other applicable jurisdiction with respect to any current or future activities by the Acquired Group or the Target Group or its affiliates in the Sanctioned Countries and/or with Sanctioned Persons. The Group has no present intention to undertake any future business that would cause it, the Stock Exchange, HKSCC, HKSCC Nominees, or the Shareholders or investors to violate or become a target of any International Sanctions. However, the Group cannot provide any assurance that its future business will be free of sanctions risk or that its business will conform to the expectations and requirements of the U.S. authorities or the authorities of any other governments.

RISKS RELATING TO THE VIDEO GAME INDUSTRY

The video game industry is highly competitive. If the Subject Companies are unable to compete effectively, their businesses, financial conditions, and results of operations will be materially and adversely affected.

According to Frost & Sullivan, the video game industry is highly competitive, and only video games with excellent content, elaborate production, stable programming, and smooth running experience can win the favour of players. In recent years, numerous competitors have entered the video game industry. The Subject Companies compete with other companies. Current and potential competitors may have substantially greater financial, technical, and marketing resources; longer operating histories; larger customer bases; greater name recognition; and more established relationships than the Subject Companies and so may be better able to compete in the video game industry. If the Subject Companies are unable to compete effectively, the results of their operations will be materially and adversely affected.

The Subject Companies expect more companies to enter the market and a wider range of video games to be introduced to the video game industry. Competition from other video game developers or publishers is likely to intensify in the future. The video game industry in the global market is constantly evolving, and unforeseen changes in the industry may prove to be more advantageous to certain competitors than to the Subject Companies. In particular, any of these competitors may offer games and services that provide significant improvements in performance, price, creativity, or other advantages over the Subject Companies' games, which may weaken their competitive position.

Increased competition in the video game industry may make it more difficult for the Subject Companies to retain existing players and attract new players. Moreover, the Subject Companies may face competition from web games and mobile games that have previously achieved significant success in the global markets. Further, the Subject Companies also compete for players with various other offline games, as well as various other forms of traditional or online entertainment. If the Subject Companies are unable to compete effectively, their businesses, financial conditions, and results of operations may be materially and adversely affected.

The Subject Companies face uncertainties in the continued growth of the video game industry and the market acceptance of their video games.

The growth of the video game industry as well as the market acceptance of the Subject Companies' video games are subject to a high degree of uncertainty. The Subject Companies' results of operations depend largely on factors beyond their control, including:

(a) the Subject Companies' ability to upgrade and improve the Subject Companies' existing video games in a timely manner to effectively extend such video games' life cycles and maintain or expand the Subject Companies' market share in the industry;

(b) the popularity of new video games and price of virtual items that the Subject Companies and their competitors launch and sell;

(c) the popularity of the platform on which the Subject Companies' video games are distributed;

(d) changes in player demographics, tastes, or preferences;

(e) whether the video game industry will continue to grow and the rate of such growth;

(f) the growth rate in the number of users of personal computers, console devices, the Internet, and broadband;

(g) the availability and popularity of other forms of entertainment, particularly web games and mobile games offered on social networks and mobile platforms, which are already popular; and

(h) general economic conditions and consumer sentiment that impact the level of discretionary consumer spending.

The Subject Companies' ability to plan for game development and distribution and promotional activities will be significantly affected by their ability to anticipate and respond to rapid changes in players' tastes and preferences. Video games are becoming increasingly popular globally. However, there is no assurance that they will continue to be popular. A decline in the popularity of video games would adversely affect the Subject Companies' business prospects and results of operations. The Subject Companies must be able to track and respond to these changes in players' preferences in a timely and effective manner.

The Subject Companies may not be able to respond to the rapidly evolving video game industry, especially to changes in technology. If they fail to anticipate or successfully implement new technologies, their video games may become obsolete or uncompetitive, and their business prospects and results of operations could be materially and adversely affected.

According to Frost & Sullivan, the global video game industry is evolving rapidly. The Subject Companies constantly need to adapt to new industry trends, including changes in video game players' preferences, new revenue models, new video games' content distribution models, new technologies, and new governmental regulations. The Subject Companies evaluate these changes as such changes emerge and strive to adapt their business and operations in order to maintain and strengthen their position in the industry, and the Subject Companies' failure to do so may materially and adversely affect their businesses, financial conditions, and results of operations.

The video game industry is also subject to rapid changes in technology. The Subject Companies constantly need to anticipate the emergence of new technologies and assess their market acceptances. In addition, government authorities or industry organisations may adopt new standards that apply to video game development. The Subject Companies also need to invest significant financial resources in game development to keep up with the pace of technological advances. However, video game development is inherently uncertain, and the Subject Companies' significant investment in technology may not generate corresponding benefits. If the Subject Companies fall behind in adopting new technologies or standards, their existing video games may lose popularity, and their newly developed video games may not be well received by their players. In addition, the Subject Companies may incur significant cost overruns in game development, which would materially and adversely affect their business prospects and results of operations.

The Subject Companies' businesses are sensitive to general economic conditions. A severe or prolonged downturn in the global economy could materially and adversely affect their businesses and financial conditions.

The Subject Companies' businesses and prospects may be affected by global economic conditions. The Subject Companies rely on the spending of their players for their revenue, which may in turn depend on their players' level of disposable income, perceived future earnings, and willingness to spend. Due to uncertain global economic conditions, the Subject Companies' players may reduce the amount they spend on the Subject Companies' video games. In addition, renewed financial turmoil affecting the financial markets, banking systems, or currency exchange rates may significantly restrict the Subject Companies' abilities to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all, which could also materially and adversely affect their businesses, results of operations, and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN CANADA

Unfavourable changes to industry regulation in Canada may adversely affect the Acquired Group's financial position and results of operations.

Acquired Group is subject to Canadian laws and regulations of general application as well as Canadian laws and regulations specifically governing eCommerce, privacy, anti-spam, and intellectual property. While no changes to Canadian laws or regulations with a material impact on the Acquired Group's growth or strategy are currently expected, there is always the possibility that future changes to Canadian laws or regulations may be introduced that may impede the Acquired Group's growth or strategy. Such laws and regulations may affect taxation, privacy, data protection, pricing, content, copyrights or other intellectual property, distribution, mobile communications, consumer protection, web services, the provision of online payment services, websites, and the characteristics and quality of products and services. In April 2016, the Department of Canadian Heritage announced that it will lead public, stakeholder, and online consultations on strengthening Canadian content creation, discovery, and export in a digital world, having regard to a number of different types of media platforms including video games. Depending on the outcome of consultations, the video game industry in Canada may be subject to further regulation. Unfavourable changes in Canadian laws and regulations could decrease demand for the Acquired Group's games, increase its cost of doing business, or otherwise have a material adverse effect on the Acquired Group's reputation, popularity, results of operations, and financial condition.

RISKS RELATING TO CONDUCTING BUSINESS IN THE UK

Pursuant to the UK's decision to withdraw from the EU in June 2016 (commonly referred to as "Brexit"), there may be an impact on the Subject Companies' businesses, particularly in relation to recruitment, finances, and taxation. However, it is difficult to assess these implications in further detail until the UK's exit plan is agreed.

The foreign currency exchange rate has been affected in the wake of the UK's decision to leave the EU. The payment terms under contracts with certain customers provide for payment in U.S. Dollars, which could be at a more favourable rate than the British Pound. Accordingly, changes in the foreign exchange rate may affect the Target Group's financial results.

Brexit may also cause issues around employee retention and recruitment. The Target Group currently has employees who are EU nationals or residents, and it is unclear whether their right to remain and work in the United Kingdom will be affected. The Target Group may also find it hard to attract talent for the same reason. Once negotiations between the UK and EU begin, there will be a clearer picture of the exit plan that the UK is seeking with regard to immigration. Until then, there is a risk of greater difficulty for all UK businesses in attracting and retaining talent within the UK. This risk could be even greater for the Target Group, which has a significant proportion of EU national or resident employees within their existing work force.

Similar issues of uncertainty present themselves around taxation within the UK, particularly in relation value added tax ("**VAT**"), as EU treaties may be affected by Brexit. This could have an impact on the pricing and payment terms in the Target Group's key contracts. There may also be additional tax registration requirements in different territories, which could result in a greater financial and regulatory burden on the Target Group.

Further, Brexit may also result in prolonged periods of uncertainty or significant macroeconomic deterioration, including, but not limited to, decreased GDP in the UK, decreases in global stock exchange indices, and a downgrade of the UK's sovereign credit rating. There are also concerns that economic and political uncertainty following Brexit could push the UK into an economic recession. Since the Target Group's video game development business is currently conducted in the UK, their business may be negatively affected by general economic conditions across the UK.

Because a significant proportion of the regulatory regime applicable to the Target Group is derived from EU directives and regulations, Brexit could materially change the regulatory framework applicable to the Target Group's operations. The regulations cover a range of the Target Group's operations and activities, including its workforce and protection of personal data received from its players.

Unfavourable changes of industry regulation in the EU may adversely affect the Target Group's financial position and results of operations.

The Target Group is subject to general business regulations and laws, as well as regulations and laws specifically governing the internet, eCommerce, and electronic devices in EU. Existing and future laws and regulations may impede the Target Group's growth or strategy. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, consumer protection, web services, the provision of online and payment services, websites, and the characteristics and quality of products and services. Unfavourable changes in regulations and laws could decrease demand for the Target Group's events and online offerings, increase its cost of doing business, or otherwise have a material adverse effect on the Target Group's reputation, popularity, results of operations, and financial condition.

RISKS RELATING TO OVERSEAS MARKETS WHERE THE SUBJECT COMPANIES' GAMES ARE AVAILABLE

The Subject Companies face risks associated with the licensing of their video games in the overseas markets, and if they are unable to effectively manage these risks, their abilities to expand their businesses internationally could be impaired.

The Subject Companies licensed video games to third-party channel distributors to publish in a number of overseas countries or regions. The Subject Companies plan to further license their existing and new video games in more countries and regions.

Licensing their video games in international markets exposes the Subject Companies to a number of risks, including:

(a) identifying and maintaining good relations with third-party channel distributors who are knowledgeable of, and can effectively distribute and publish the Subject Companies' video games in, international markets;

(b) negotiating licensing agreements with third-party channel distributors on terms that are commercially acceptable to the Subject Companies, enforcing the provisions of those agreements, and renewing those agreements upon expiration;

(c) developing and updating video games catering to overseas markets, which involves challenges caused by language and cultural differences and local competition;

(d) maintaining the reputation of the Subject Companies and their video games, given that the Subject Companies' video games are published by third-party channel distributors in international markets with different standards;

(e) protecting the Subject Companies' intellectual property rights overseas and managing the related costs;

(f) dealing with credit risk and payment fraud and auditing the royalties the Subject Companies are entitled to receive; and

(g) complying with the different commercial and legal requirements of the international markets in which the Subject Companies' video games are offered, such as video game content and import regulatory procedures, taxes, and other restrictions and expenses.

In addition, the Subject Companies' plan to continue to license their video games in international markets may also be adversely affected by public opinion or government policies in markets in which the Subject Companies license their video games. If the Subject Companies are not able to license their video games internationally as planned, their businesses, financial conditions, and results of operations could be materially and adversely affected.

Foreign currency exchange rate fluctuations may adversely affect the Subject Companies' financial results, and the Subject Companies have not actively adopted a foreign currency hedging policy.

The Subject Companies are exposed to currency risks primarily attributable to licence fees and royalties from their international third-party channel distributors that were denominated in a currency different from their functional currencies, the UK Pound and Canadian Dollar. The major foreign currencies that the Subject Companies' international third-party channel distributors adopted for settlement of the Subject Companies' licence fees and royalties were USD.

For the Acquired Group, if Canadian Dollars had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit would have been approximately CAD166,596, CAD291,256, CAD939,304, CAD819,227 and CAD711,561 higher/lower for the years ended 2013, 2014, and 2015, and the nine months ended 30 September 2015 and 2016 respectively, mainly as a result of foreign exchange gains/losses on translation of net monetary assets denominated in USD. For the Target Group, if GBP had weakened/strengthened by 15% against the USD with all other variables held constant, post-tax loss would have been approximately GBP543 and GBP855 higher/lower for the years ended 31 March 2014 and 2015 respectively, post-tax profit would have been approximately GBP41,892 and GBP61,542 higher/lower for the year ended 31 March 2016, and for the six months ended 30 September 2016 respectively, mainly as a result of foreign exchange losses/gains on translation of net monetary liabilities/assets denominated in USD.

The Subject Companies may face difficulties protecting the Subject Companies' copyrights in certain countries in which the Subject Companies' games are available where those countries are non-signatories of the Berne Convention.

The Berne Convention, formally known as the Berne Convention for the Protection of Literary and Artistic Works and as modified from time to time, is an international copyright agreement signed in Berne, Switzerland, in 1886. The Berne Convention affords its signatories automatic copyright protection. If a country is a signatory to the Berne Convention, such country must extend to citizens of other member countries the same copyright protection and restrictions it extends to its own citizens. As of the Latest Practicable Date, Canada and the United Kingdom are signatories to the Berne Convention. Notwithstanding, where the author of a work is a citizen of a member country of the Berne Convention and his or her work is published or used commercially in a country that is not a signatory, that person's work is protected only to the extent covered by the copyright laws in that country after going through the procedures as required by the local relevant laws.

The Subject Companies' ability to effectively protect their copyright in the territories that are not signatories to the Berne Convention is limited to the extent that the prevailing copyright laws and regulations permit. In the event that the Subject Companies fail and/or are unable to effectively protect their copyright in any country that is not a signatory to the Berne Convention, the game operation conducted by the Subject Companies' international third-party channel distributors, their financial positions, and reputations could be materially and adversely affected.

RISKS RELATING TO THIS CIRCULAR

This circular contains forward-looking statements.

This circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

(a) business strategies and plans to execute these strategies;

(b) operations and business prospects, including development plans for the existing and new businesses;

(c) video games in the pipeline;

(d) financial condition;

(e) availability of bank loans and other forms of financing;

(f) ability to reduce costs;

(g) dividend policy;

(h) future developments, trends, conditions, and competitive environment in the video game industry;

(i) the effect of the global financial markets and economic crises;

(j) changes or volatility in interest rates, foreign exchange rates, and overall market changes;

(k) the regulatory environment for the video game industry in general; and

(l) the general economic trend of the global general economic conditions.

The words "anticipate," "believe," "consider," "could," "estimate," "expect," "going forward," "intend," "may," "ought to," "plan," "potential," "project," "seek," "will," "would," and similar expressions and the negative of these words, as they relate to the Company or the Subject Companies, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of the Directors with respect to future events and are subject to certain risks, uncertainties, and assumptions, including the risk factors described in this circular. Investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the section headed "Risk Factors Relating to the Subject Companies" many of which are beyond the Company's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Company or the Directors that their plans or objectives will be achieved.

If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, the financial condition of the Company or the Subject Companies may be materially and adversely affected and actual outcomes may differ materially from those described in this circular as anticipated, believed, or expected.

Subject to the requirements of the Listing Rules, the Company does not intend to publicly update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events, or otherwise. As a result of these and other risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this circular might not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this circular are qualified by reference to this cautionary statement.

Except as otherwise provided in this circular, the information that appears in this Industry Overview section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and interviews with industry experts and participants, and is prepared primarily as a market research tool. Our Directors believe that the sources of information contained in this Industry Overview section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this Industry Overview section has not been independently verified by the Group, the Financial Adviser, their respective affiliates or advisers, or any other party involved in the very substantial acquisition. No representation is given as to the accuracy or completeness of such information, and the information should not be relied upon in making, or refraining from making, any investment decision. We have engaged Frost & Sullivan to prepare the reports for use in whole or in part in this circular.

SOURCES OF INFORMATION

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us.

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to report on, the global video games market for the period from 2010 to 2020. The report we commissioned (the "**Frost & Sullivan Report**") has been prepared by Frost & Sullivan independently. We paid Frost & Sullivan a fee of HK$350,000. Founded in 1961, Frost & Sullivan has over 40 global offices, with more than 1,700 industry consultants, market research analysts, technology analysts, and economists. It offers industry research and market strategies and provides growth consulting and corporate training.

The Frost & Sullivan Report includes information on the global video games industry and its sub-segments and other market and economic data, which have been quoted in this circular. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the global video games industry and its sub-segments. Primary research involved interviewing industry experts and participants. Secondary research involved review of company annual reports, official bureaus' databases and Frost & Sullivan proprietary database built up over the past decades. Historical data for market size and competition analysis was obtained both from primary research including top-down interviews with industry participants and from a variety of secondary research.

Assumptions and Bases of the Frost & Sullivan Report

The Frost & Sullivan Report is based on the following assumptions and bases:

- ***Stable political environment.*** The global political environment is comparatively stable and there are no adverse political policies internationally to restrict the development of video games.

- ***Steady economic growth.*** As the global economy continues to grow steadily in recent years, per capita disposable income has increased as well as the amount spent on video games. In addition, due to globalisation, the development of cross-currency payment services and online payment channels worldwide has provided support for the global publishing of video games (especially for online games).

- ***Continuous influence of major market drivers.*** Market drivers such as increasing digital spending and the evolvement of technologies are likely to continuously drive the global video games market during the forecasted period.

FORMS OF VIDEO GAMES

A video game is an electronic game that exists as and controlled by software. Video game software typically runs on a video game console, a computer, or a mobile device, and the graphical images of video games are typically displayed on a video terminal or a television screen. Players use a paddle, mouse, keyboard, gamepad, or touchpad to control or to interact with the graphical images of video games. According to the Frost & Sullivan Report, nowadays video games can be played on different devices that produce two or three-dimensional images. Video games are known for vibrant colors, sound effects, and complex graphics. In recent years, some games are incorporated with force feedback (such as vibration effects), virtual reality (VR), and augmented reality (AR) technologies.

The electronic systems used to play video games are known as platforms. According to the Frost & Sullivan Report, platforms are built with combinations of specific electronic components or computer hardware and software. Based on the type of platforms, the video games market comprises of (1) the PC games market, (2) the console games market, and (3) the mobile games market.

PC Games Characteristics

According to the Frost & Sullivan Report, PC games are typically run on personal computer (including desktop and laptop) with the graphical game content displayed on its monitor. Players typically use a keyboard, mouse, touchscreen, gamepad, motion controller or a combination of these devices to control the graphical output of the video game. In comparison to other gaming platforms, the PC platform allows for more flexibility for developers and players to make modifications to PC games.

Console Games Characteristics

Console games are typically run on a console gaming device with its graphical content displayed through television monitors. Players control the in-game action by using input devices such as a gamepad, a paddle or a motion controller. A particular type of console gaming system can only run video games which are specifically developed for it.

Mobile Games Characteristics

Mobile games are played on mobile game devices, tablets, and smartphones. The main characteristics of mobile games are that they can be played on portable devices. Mobile games that are developed for smartphones and tablets are generally downloadable from the Internet, according to the Frost & Sullivan Report.

According to the Frost & Sullivan Report, video game players on different platforms have distinguished characteristics that significantly affect developers' decisions on game design and promotion. Players on mobile platform are usually casual players who spend less time continuously on mobile games, while players on console platform and PC platform tend to spend more time on playing video games on average. Moreover, according to the Frost & Sullivan Report, there are a number of professional PC game players taking full-time participation in PC E-sports. The following table provides a general comparison of selected characteristics of video games on different platforms.

	Mobile Platform	**Console Platform**	**PC Platform**
Average Playing Time per Player per day per Day in 2015	10-30 minutes	Around 1 hour	Around 2 hours
Player Stickiness	Weak	Medium	Strong
Estimated Number of Global Video Game Player in 2015	3.1 billion	0.5 billion	1.8 billion
Games Life Span	Low	Medium to High	High
Proportion of Paying Players to All Players in 2015	10%≤	≥90%	5% ~ 15%
Global Monthly ARPPU(1) in 2015	US$5.3	US$22.0	US$9.4

Source: Frost & Sullivan Report

Note:

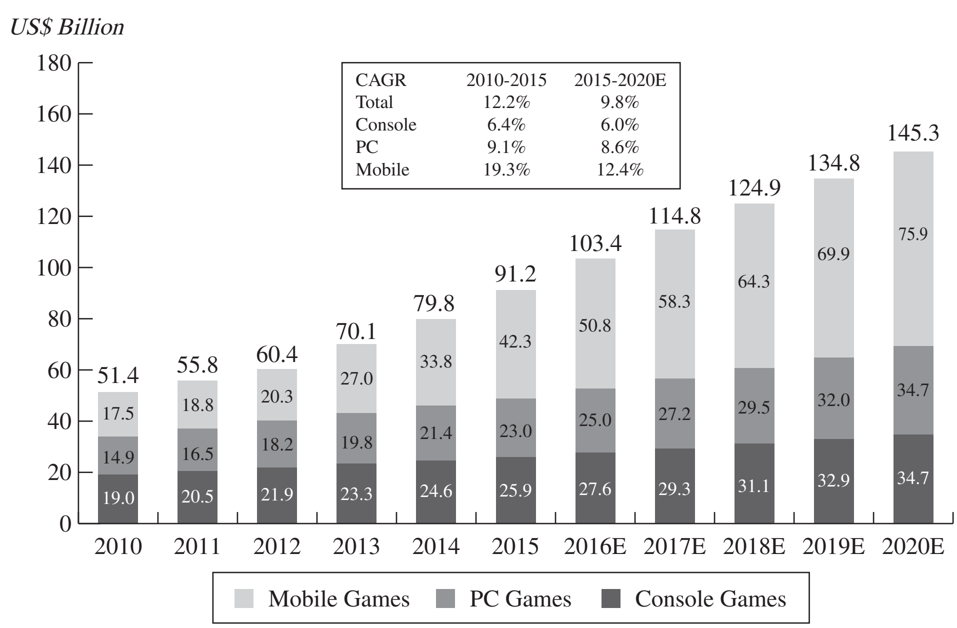
(1) ARPPU refers to average revenue per paying user, according to the Frost & Sullivan Report.

OVERVIEW OF GLOBAL VIDEO GAMES MARKET, TRENDS, AND GROWTH DRIVERS

According to the Frost & Sullivan Report, driven by the healthily growing macroeconomic environment development of the Internet and increasing number of video game players, the market size of the global video games industry, as measured by the combined revenue of all video game enterprises worldwide, recorded an optimistic growth during the period from 2010 to 2015, increasing from US$51.4 billion in 2010 to US$91.2 billion in 2015, representing a CAGR of 12.2%. According to the Frost & Sullivan Report, the market size of the global video games industry is expected to further increase in the future, given that (i) video games are becoming increasingly popular as products to satisfy consumers' entertainment demand, and (ii) more females and older generations are expected to start playing video games in the future. According to the Frost & Sullivan Report, the market size of the global video games industry is expected to maintain its positive growth at a CAGR of 9.8% during the period from 2015 to 2020, reaching US$145.3 billion in 2020.

The following chart illustrates the market size of the global video games industry from 2010 to 2015 and the forecasted market size from 2016 to 2020.

Global Market Size of Video Games and Forecast, 2010-2020E



Source: Frost & Sullivan Report

Key Trends for the Global Video Games Market

According to the Frost & Sullivan Report, the global video games market is experiencing the following trends:

- ***Outsourcing of Game Development to Game Studios:*** In order to diversify their game portfolios and reduce costs on research and development, large game publishers or holders of intellectual property rights may choose to outsource the game development to independent game studios that specialise in developing specific genres of games or are able to complement the shortage of internal resources of publishers or holders of intellectual property rights. The productions of some popular video game titles are partially or fully outsourced by the publishers to game developers worldwide.

- ***More Games Designed for Female Players:*** As a result of the increasing popularity of smartphones and tablets, the number of female video game players now represents almost half of the total number of video game players, contributing to around 40% of total revenue of the global video games industry. A trend of an increasing number of games specifically designed for females has been formed across all platforms.

- ***Online Distribution:*** Some video game contents are now delivered by game publishers to players as digital information, without the exchange or purchase of any physical media. Online distribution is becoming more prominent as a method of selling games, especially with the support of enhanced internet speed. To facilitate the sale of video games, various video game companies have their own online stores.

- ***Continued Popularity of Shooting Games:*** According to the Frost & Sullivan Report, shooting games have always been one of the most popular game genres. Until the 2010s, shooting games were still one of the most profitable game genres. Given the rise in disposable income and the gradual increase in the acknowledgement of copyright protection, especially in developing countries, an increasing number of video game players are able and willing to purchase legal copies of pay-to-play shooting games.

Key Growth Drivers of the Global Video Games Market

The growth of the global video games market is expected to be primarily driven by the development of the Internet as it paves a new way for video game companies to generate more revenue. With the modernisation of personal computers and console gaming devices, as well as a growing Internet and technology-savvy population worldwide, there are more potential game players on different platforms than ever before. In particular, according to the Frost & Sullivan Report, the key growth drivers for the global video games market include the following:

Increasing Digital Spending. According to the Frost & Sullivan Report, in the past few years, downloadable content, the digital components of video games, had been playing an increasingly important role for video game companies to generate revenue. In recent years, the spending of video game players on such digital components of video games has overtaken their spending on physical components, such as purchases of the game consoles and games themselves. Digital components refer to various downloadable content ("**DLC**"), in-game items, or add-ons. They are usually distributed through the internet by the game's official publisher. These digital components can include outfit changes for the game characters, extensive storylines, additional soundtracks, and others. Digital components have become prevalent with the proliferation of Internet-enabled game platforms (including both PCs and consoles). In particular, with the increasing popularity of free-to-play games and online games, digital components have been, and are likely to continue to be, an important source revenue for video game companies.

Evolvement of Technology. As a technology-based industry, the global video games market has been evolving alongside technological developments in the past few decades. Besides the application of the Internet, some advanced technologies have been applied to the hardware of different video game platforms in order to diversify the ways to play, as well as improve the gaming experience for players. For example, the continuing development of new graphics processing units (GPUs) helps accelerate the processing of complex scenes in 3D games on PCs and consoles.

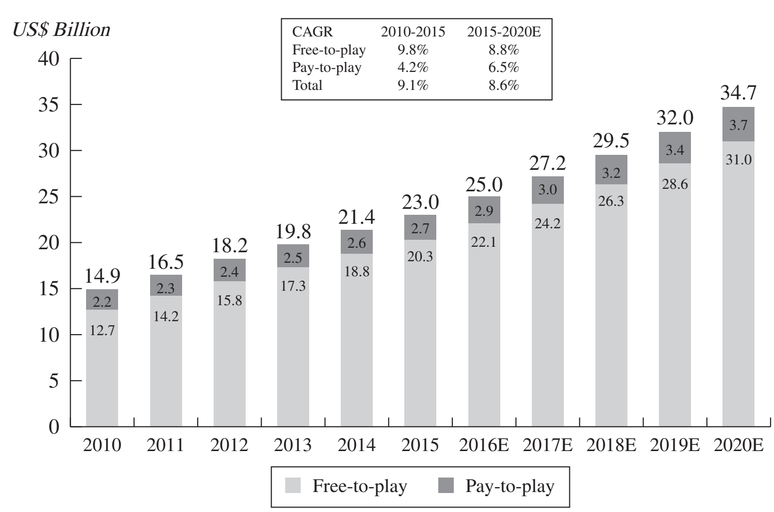
*Popularity of Electronic Sports ("**E-sports**").* "E-sports" is the streaming/broadcasting of competitive video game competitions amongst professional video game players, according to the Frost & Sullivan Report. Over the past few years, E-sports has become increasingly popular. The most common game genres associated with E-sports are first person shooting (FPS), real-time strategy, fighting, and multiplayer online battle arena (MOBA). The viewing of E-sports is expected to triple from 2.4 billion hours in 2013 to 6.6 billion hours in 2018. According to the Frost & Sullivan Report, many of these viewers have high income and are willing to spend on entertainment. Further, there appears to be a trend where viewers who are not themselves video game players yet are, on a large scale, transitioning from viewers to players. This trend drives up the sales of video games with competitive characteristics. There is an increasing number of media companies that are embracing and broadcasting E-sports events. These developments within the global video games market provide incentives for video game companies to develop and publish such games to attract E-sports players.

PC Games Market Size and Trends

According to the Frost & Sullivan Report, the global market size of PC games demonstrated a steady growth during the period from 2010 to 2015, increasing from US$14.9 billion in 2010 to US$23.0 billion at a CAGR of 9.1%. The steady growth was attributable to (i) the large global personal computer user base and the convenient access to personal computers and (ii) the increasing popularity of MOBA games in the recent years. In terms of the future development of the global PC games market, the development of cross-platform video games (i.e. video games that could be run on multiple platforms) is expected to eliminate the barriers between different platforms. The PC games market is expected to benefit from this development since more video games that are popular on other platforms would become available on the PC platform. According to the Frost & Sullivan Report, free-to-play games in the PC segment developed rapidly after 2008 and successfully met players' demand. In 2015, the free-to-play segment has already occupied 88.3% of the PC games market. The global market size of PC games is anticipated to maintain sustainable growth and is expected to reach US$34.7 billion in 2020, representing a CAGR of 8.6% during the forecasted period from 2016 to 2020, according to the Frost & Sullivan Report.

The following chart illustrates the market size of the global PC games market from 2010 to 2015 and the forecasted market size from 2016 to 2020.

Global Market Size of PC Games and Forecast, 2010-2020E



Source: Frost & Sullivan Report

Key Trends for the Global PC Games Market

According to the Frost & Sullivan Report, the global PC games market is experiencing the following trends:

- ***Free-to-Play Games Taking the Lead:*** Players of PC games nowadays are showing a trend of increasing interests in collecting, showing off from the purchase and resale of virtual in-game items, especially for online games. In order to attract more players and to make continuous sales to them, game companies tend to develop and publish free-to-play games and charge the players with paid upgrades or in-game purchase items. According to the Frost & Sullivan Report, in 2015, free-to-play massively multiplayer online games ("**MMOs**") with in-game purchases have recorded higher revenue globally than pay-to-play MMOs, representing a proportion of around 6:4.

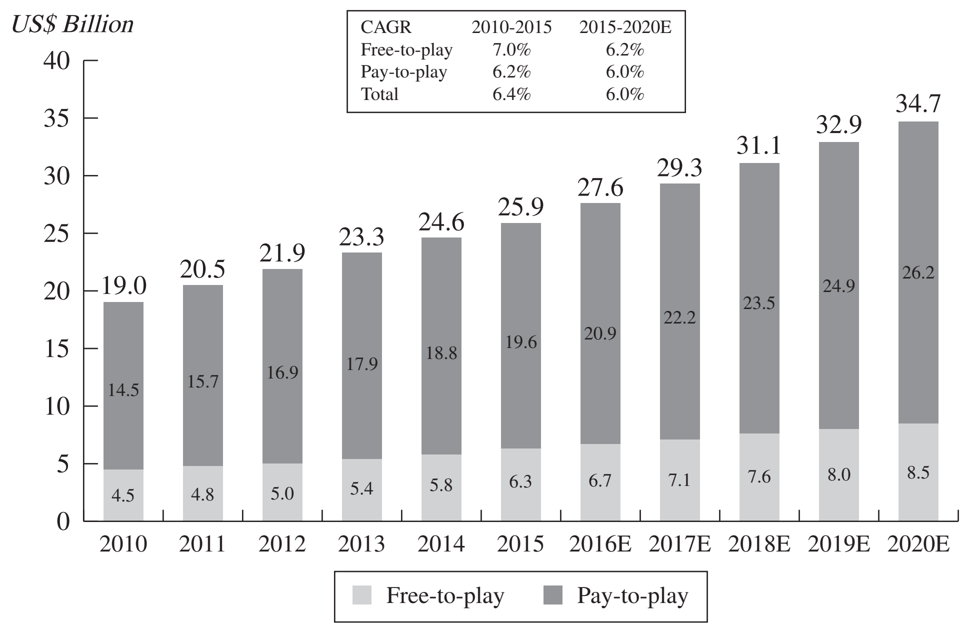
- ***Modifications Are More Common:*** The openness of the PC platform allows players to modify their games based on their preferences and distribute the results of modification to other players over the internet. A healthy game modification community is helpful in increasing the longevity and player retention rate of a game. It is becoming more common for game developers to release the tools they use to create their games (and sometimes even the source code) in order to encourage modifications from the player community.

Console Games Market Size and Trends

According to the Frost & Sullivan Report, the global market size of console games demonstrated a robust growth during the period from 2010 to 2015 and grew from US$19.0 billion in 2010 to US$25.9 billion in 2015, representing a CAGR of 6.4%. The considerable level of disposable income of players in developed regions is acknowledged as a main driver for sustaining the growth of global console games market size, according to the Frost & Sullivan Report. However, according to the Frost & Sullivan Report, console games recorded limited growth among developing regions, and, therefore, there is still plenty of room for console games to expand further in such regions. The global market size for console games is estimated to reach US$34.7 billion in 2020, representing a CAGR of 6.0% from 2015 to 2020, according to the Frost & Sullivan Report.

The following chart illustrates the market size of the global console games market from 2010 to 2015 and the forecasted market size from 2016 to 2020.

Global Market Size of Console Games and Forecast, 2010-2020E



Source: Frost & Sullivan Report

Key Trends for the Global Console Games Market

The key trends in the global console games market are as follows, according to the Frost & Sullivan Report:

- ***Increasing Opportunities to Enrich Players' Experience:*** Console games were traditionally all pay-to-play games. In recent years, an increasing number of console game publishers are learning from the PC games market and are increasing their focus on developing free-to-play games with in-game purchases as a way to generate revenue. With the support of increasing broadband quality and internet speed, players can easily obtain free-to-play games and purchase in-game virtual items such as DLC. They have more opportunities to enrich their gaming experiences.

- ***More Cross-Platform Games:*** With diversified game portfolios, large multi-platform console publishers performed well in recent years in comparison to video game publishers that focused on a single platform. The boundaries between platforms are becoming blurred as more games can now be played on different platforms, and some online games allow PC game players to play with/against console game players.

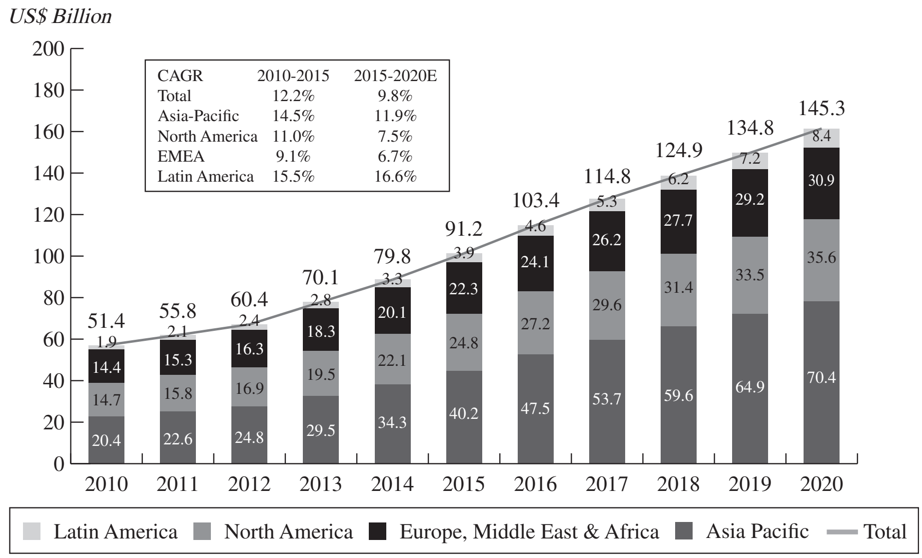
OVERVIEW OF THE MAJOR VIDEO GAMES MARKETS BY GEOGRAPHICAL REGION

According to the Frost & Sullivan Report, Asia-Pacific was the largest video games market, accounting for 44.1% of total revenue of the global video games market in 2015. North America was the second largest market, accounting for 27.2% of total revenue of the global video games market in 2015, followed by regions that include Europe, the Middle East, and Africa (collectively, EMEA), with an aggregate percentage contribution of 24.5% to the total revenue of the global video games market in the same year. Among the different regions, the video games market in Asia-Pacific and Latin America experienced dynamic growth during the historical period from 2010 to 2015, recording CAGRs of 14.5% and 15.5%, respectively. Moving forward, driven by the increase of consumers' purchasing power and the gradually improving network environment, the video games market in Asia-Pacific is estimated to grow at a CAGR of 11.9% from 2015 to 2020, reaching US$70.4 billion in 2020. For Latin America, given its large population and limited network penetration rate, the video games market in that region is considered to have tremendous growth potential; results in the Frost & Sullivan Report suggest that its market size may reach US$8.4 billion in 2020 at a CAGR of 16.6% from 2015 to 2020.

The video games markets in North America and EMEA are relatively more mature in comparison to the other aforementioned regions, according to the Frost & Sullivan Report. The video games markets in North America and EMEA demonstrated CAGRs of 11.0% and 9.1% during the period from 2010 to 2015, respectively. Moving forward, these regions are forecasted to record slightly lower growth rates compared to the markets in Asia-Pacific and Latin America, according to the Frost & Sullivan Report.

The following chart sets forth the market size of the global video games market by region from 2010 to 2015 and the forecasted market size from 2016 to 2020.

Global Market Size of Video Games and Forecast by Different Regions, 2010-2020E



Source: Frost & Sullivan Report

OVERVIEW OF THE FREE-TO-PLAY AND PAY-TO-PLAY MARKET SEGMENTS OF THE GLOBAL VIDEO GAMES MARKET

No matter if a video game runs on personal computers, consoles, or mobile devices, there are two general models for developers and publishers of the game to generate revenue, namely the free-to-play model and the pay-to-play model.

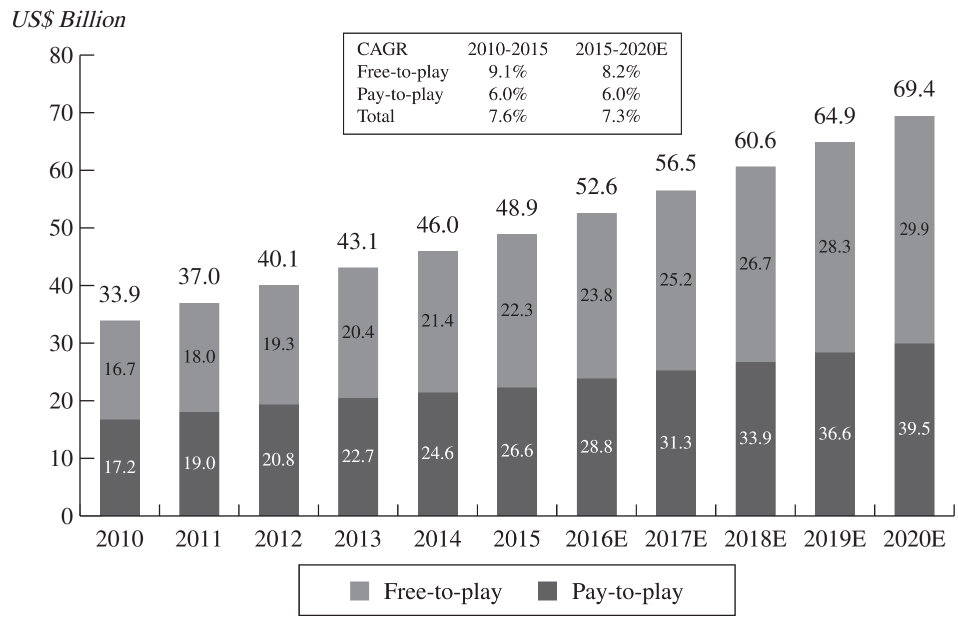
Free-to-play video games refer to video games where players can acquire and play the basic features of the games for free. Free-to-play games are free to install and play, according to the Frost & Sullivan Report. This model was first popularly used on the PC platform in massively multi player online role-playing games ("**MMORPGs**") targeting at casual video game players. Currently, this model is widely used in mobile games and has also become more common in console games. In contrast, pay-to-play video games are video games that players must pay to access. According to the Frost & Sullivan Report, pay-to-play games generally require users to settle the payment first, but some allow users to play certain parts of the game or for a certain period of time before completing the payment. On the PC platform, pay-to-play video games are also commonly seen among MMORPGs, and, on the console platform, a majority of video games belongs to the pay-to-play category. Nevertheless, more free-to-play games are being developed in recent years for the console platform, according to the Frost & Sullivan Report.

For free-to-play games, as it is free for players to play such games, game developers and publishers generate their revenues primarily from the sale of in-game virtual items and from advertisement. In-game purchases refer to purchase of in-game virtual items or points that a player can buy for use within a virtual world to improve a character or enhance the gaming experience. For example, such items can be used to enhance the power, status, or cosmetics of the player's game character or accelerate the game progression speed. In contrast, game developers and publishers of pay-to-play games generate revenue from payments made by users to access the game or for the subscription of game time. Within such pay-to-play games, there could also be in-game items for players to purchase. For console games, players may need to pay for certain DLC if they want access to expansion packs, which may include aesthetic items, extensive storyline or new maps.

Historically, pay-to-play games used to represent a dominating share of the total market size of the video games industry until the emergence of free-to-play games in the early 2000s. Through the adoption of the in-game purchase revenue model, free-to-play games succeeded in helping the video games industry recover after the 2008 recession. According to the Frost & Sullivan Report, this was because, unlike mandatory payments required by pay-to-play games, the in-game purchase model in free-to-play games catered to the sluggish economic situation many consumers were then facing and attracted more potential players to get involved in video games by allowing players to decide whether they would like to spend money on in-game product consumption. The global market size of pay-to-play games grew from US$16.7 billion in 2010 to US$22.3 billion in 2015 at a CAGR of 6.0%, while the global market size of free-to-play games increased from US$17.2 billion in 2010 to US$26.6 billion in 2015 at a CAGR of 9.1%. According to the Frost & Sullivan Report, free-to-play games are especially well-received amongst massively multiplayer online games on the PC platform. For details, please refer to the paragraphs headed "– PC Games Market Size and Trends" above. The global market size of free-to-play games is expected to continue expanding from US$26.6 billion in 2015 to US$39.5 billion in 2020 at a CAGR of 8.2% and the market share of free-to-play games is forecasted to reach 56.9% of the combined global PC games and console games markets by 2020.

The following chart illustrates the combined market size of the global PC and console games market by different business segments from 2010 to 2015 and the forecasted market size from 2016 to 2020.

Global Market Size of PC Games and Console Games and Forecast by Different Segment, 2010-2020E



Source: Frost & Sullivan Report

VIDEO GAMES VALUE CHAIN OVERVIEW

According to the Frost & Sullivan Report, the video games industry participants primarily consist of holders of intellectual property rights, game developers, publishers, distributors, and players. While each role in the value chain can be taken up by an independent organisation, these classifications are not watertight compartments, and there can be considerable overlap between the first four classes of industry participants, according to the Frost & Sullivan Report. For example, a developer may also own the intellectual property rights to certain elements of the game, and a publisher with development and distribution capabilities may develop and distribute its own games. The diagram below illustrates the typical value chain of the video games industry regardless of the physical platform (i.e. PC, consoles, or mobile devices) on which the game operates.

Source: Frost & Sullivan Report

- Intellectual property holders typically own the intellectual property rights of a video game's specific elements, including but not limited to the game's music, characters, and storyline or intellectual property right to the original game for adaptation or sequel. Developers or publishers are allowed to use these elements in their games by paying agreed licensing fees to the intellectual property holders. Intellectual property rights holders can be the game developer, game publisher, or an independent entity that owns the original intellectual property right.

- Game developers can range in size from small studios with several members to large companies with many employees. They are responsible for developing and designing game contents, performing pre-launch testing, ongoing post-launch calibration of games, game-hosting, and providing player services and technical supports. Sometimes, developers may outsource parts of, or the entire, development process to an independent developer. Major roles of a video game developer include: game designers to design the rules and structure of a video game; visual artists to create video game art; programmers to develop the game and related software; level designers to create levels for the game, such as challenges or missions; sound engineers to create sound effects and sound positioning; and game testers to locate and document software defects. Developers are usually responsible for the post-publication games hosting, updates of the game and the receiving and processing of players' feedback. However, some developers also choose to outsource the game-hosting function to third-party server providers, which may possess more advanced hardware or specialties in hosting a game at lower costs.

- Game publishers are usually companies that are responsible for financing the game's development and production, as well as the marketing of the game. Publishers publish video games that are either developed by themselves internally or by third-party game developers. Specifically, publishers are generally involved in the publishing of video games developed by (i) the publishers' in-house development studios, (ii) independent developers who sign licensing agreements with publishers allowing the publishers to release, publish, market, and operate the video games in certain districts, or (iii) third-party developers hired by the publishers under a work-for-hire arrangement. Therefore, according to the Frost & Sullivan Report, publishers can be involved in every level of the value chain. They may invest in new games and/or develop and publish video games independently. Publishers may supply the consoles and accessories for players to play the games, and they may also have their own distribution channel to reach the end users.

- Game distributors are responsible for selling the video games to their end users (i.e. players). Distribution channels mainly include physical stores and on-line platforms. Publishers of video games usually have their on-line platforms where players can download the games and purchase in-game virtual items. Games and in-game virtual items can also be obtained from third-party distribution platforms.

- Players are the consumers who purchase or download the video games. Depending on whether the game adopts a pay-to-play or free-to-play model, players may or may not need to incur any additional monetary cost in playing the video game.

Relationship between Video Game Developers, Intellectual Property Rights Holders and Publishers

Intellectual property rights in the video games industry

According to the Frost & Sullivan Report, game developers, intellectual property rights holders and publishers cooperate closely to ensure that a new video game can be launched and distributed in the market successfully. In the early stage of launching a new video game, a high quality intellectual property that stems from renowned movies, TV series, or novels can help attract a large number of players, which can reduce the cost of promoting a new game. By cooperating with holders of intellectual property rights, game developers can acquire a large potential player base in a short duration. To a certain extent, the brand recognition that stems from a well-known intellectual property represents an existing market and potential player base, according to the Frost & Sullivan Report.

Further, purchasing intellectual property rights from their holders is now becoming a trend for video game publishers. The holder of intellectual property rights to a video game is entitled to receive income from developers and publishers who use their intellectual property, such as characters and story lines in video games. According to the Frost & Sullivan Report, publishers tend to achieve better promotion results and rewards through purchasing intellectual property rights, because games with famous intellectual property tend to be more popular among the video game player community. For example, some video game players may buy games that they played when they were younger due to nostalgia. According to the Frost & Sullivan Report, purchasing intellectual property is a great way to utilise old video game titles and have them remastered for new release and monetisation.

Relationship between video game developers and publishers

In the video games industry, game developers typically adopt one of the following business models depending on the nature of their relationships with game publishers, according to the Frost & Sullivan Report.

- *Self-development and self-publishing model.* Under this business model game developers will develop their own video game and will own the intellectual property rights to such game (if the game is original and not derived from existing intellectual property owned by other entities). They will also be responsible for publishing their own games. According to the Frost & Sullivan Report, this model gives the developer the sole discretion in determining the price of the games and the in-game items. The developer can make sales either through its own distribution channels or via the services of third-party platforms. If the developer-publisher distributes its games through its own distribution channels, it will be entitled to all revenues generated without being subject to any fees charged by any third-party distribution platforms. If it makes sales by utilising the services of third-party distribution platforms, then the developer-publisher will be entitled to all revenues minus the fees agreed to be paid to such third-party distribution platforms.

Unlike the aforesaid business model, there are generally two situations where game publishers may publish games that are developed by third-party developers. In the following business models the game publishers and game developers are independent of each other, according to the Frost & Sullivan Report.

- *Licensing/revenue-sharing model.* Under this business model, large publishers would select to publish quality games that may complement their game portfolio or games that they view to have potential for commercial success. Under this model, a publisher would negotiate with the game developer with respect to the territory of game publication, licensing fees, sharing of revenue, and other rights and obligations. The intellectual property of the game usually continues to be held by the developer if the game is original and not derived from existing intellectual property owned by other entities, according to the Frost & Sullivan Report. Revenue generated from a game is usually shared between the publisher and the developer according to the agreement signed. The revenue split between the developer and the publisher is a subject to negotiation between the parties.

- *Work-for-hire model.* Under this business model, a game developer would typically enter into a contract with a publisher to develop a game based on the publisher's requirements. The developer usually does not own the intellectual property rights to the game under this model. Instead, the publisher typically owns such intellectual property rights if the game is original and not derived from existing intellectual property owned by other entities. In consideration of the developer's work, the publisher would pay the developer on or prior to the delivery of products based on their contract and may also pay the developer for the game's future updates or maintenance. According to the Frost & Sullivan Report, advance payments or milestone payments are usually paid by the publisher to the developer for game development, and sometimes there may be sharing of game revenue between the publisher and developer subject to the agreement between the two parties.

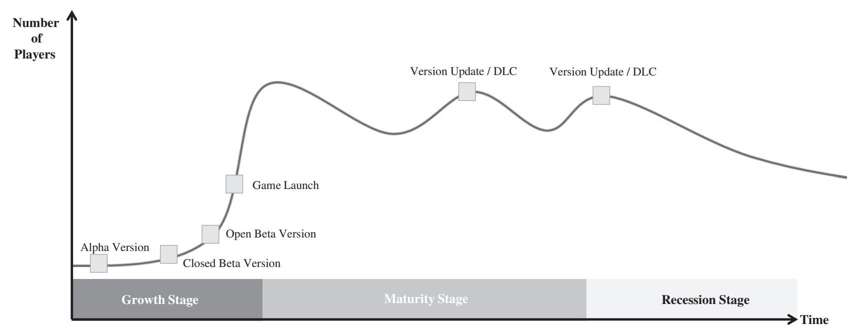
According to the Frost & Sullivan Report, a publisher's successful track record of launching and operating popular video games is valued by game developers. A track record of success in publishing popular video games is often proof that the publisher has a relatively mature business process and that the feasibility of this process has been verified by the market. For game developers, selecting a publisher that has the capability to smoothly publish a new video game can help save costs in developing and marketing the game as the publisher may be able to provide additional resources to help developers optimise the game contents to cater to the players' preferences. For details, please refer to the paragraphs headed "– Competitive Landscape".

Access to Game Data

Under the self-development and self-publishing model, a developer has access to all information in relation to the game that it developed and published. In contrast, in situations where a publisher publishes games developed by an independent developer, each of them has access to certain game data; the developer will usually have access to in-game metrics and player activity data, whereas the publisher may have access to player-acquisition-related data, including player demographics, sources of traffic, and promotion efficiency data.

GAME LIFESPAN AND MATURITY

The typical lifespan of a video game can be categorised into three stages: (1) growth, (2) maturity and (3) recession, according to the Frost & Sullivan Report. The following chart illustrates typical change in the number of players at each stage of the video game's lifespan.



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, the growth stage mainly refers to a games' developing and testing period. In this stage, the game is still a semi-finished product and the revenue generated, if any, will be minimal. Before the launch version, there are usually two testing versions of the game under development, namely the alpha version and the beta version.

- ***Alpha version.*** The game content is completed at this phase with a version available for quality assurance testing. The game is playable from start to finish. The developer and publisher will invite work staff and limited number of public players to play the game so as to debug and improve the prototype based on their feedback.

- ***Closed beta version.*** After the game has begun to take shape, development will typically move on to the closed beta version. In the closed beta version, the game is released to a group of chosen end users to test the game and the infrastructure required to run the game. Closed beta testing typically includes tests on backend systems, authentication systems, and business intelligence. Users are usually required to sign a non-disclosure agreement restricting them from disclosing information about the unfinished experience. Closed beta is often used as a marketing tool to generate market interest for a product in development.

- ***Open beta version.*** In open beta version, the game is released to the public to continue game balancing and polishing based on their feedback. The experience delivered by the open beta version is typically as polished as a final product. It is not uncommon for a game to remain in the open beta phase for over a year. This allows the developer to incorporate major changes to the game as part of the ongoing improvements to the experience. Removing a beta tag from a game is often a marketing event celebrating the end of major tuning and balancing.

- ***Launch version.*** When all tests and adjustments to the game have been completed, the game becomes ready for official launch. Usually, the number of players will increase quickly soon after the official launch.

As time passes and as the game reaches its maturity, the loss of casual players is inevitable. However, according to the Frost & Sullivan Report, it is during the maturity stage that a group of core players will be formed and begin to stick to the game. The game will continue to generate revenue based on its established revenue model during the maturity stage. With the game's content being fully explored by its players, it is inevitable that some players may lose interest in the game. In response to this phenomenon, the game developer and publisher may choose to release version updates and/or DLC to preserve existing players and attract new players. A video game may have multiple version updates and DLC releases, which may increase player retention and stickiness to the game, according to the Frost & Sullivan Report. Sometimes, a video game will reach its second prime in terms of number of players by releasing version update and/or DLC.

Finally, during the recession stage, the number of players begins and will continue to decline under competitions from other emerging games with higher graphic quality or more innovative playing method. Depending on the popularity of the game, the developer and publisher may set up a game sequel project to capitalise on the existing player base of the game.

GENRES OF VIDEO GAMES

According to the Frost & Sullivan Report, video games can generally be categorised into the following genres, namely action games, role-playing games, simulation games, adventure games, trading or collective card games, strategy games, and sports games. A video game usually encompasses features of two or more genres, and, in such a case, the game is usually classified according to the dominant genre feature.

- *Action games (“**ACT**”).* Action games mainly emphasise on kinematic challenges, including hand-eye coordination and reaction speed. In an action game, the player typically controls the avatar of a protagonist to defeat enemies, collect objects, and avoid obstacles. Enemy attacks and obstacles deplete the avatar's health and lives, and the game is over when the player runs out of lives. The players' ultimate objective is to clear all checkpoints and to strive to achieve the maximum score. For example, the Acquired Group developed and published *Warframe*, a third-person shooter ACT, and the Target Group developed *Dirty Bomb*, a first-person shooter ACT, and *Tempo*, a cinematic ACT.

- *Role-playing games (“**RPG**”).* RPGs are a game genre where players control the action of growing characters who are placed in a fictional setting with a uniquely drafted storyline. The storyline usually offers guides and cues to help players perform actions that push forward the plot of the game. Another important factor of RPG is character growth, which means the character usually will be more powerful as in-game time passes and as the story of the game unfolds.

- *Simulation games (“**SIM/SLG**”).* An SIM/SLG attempts to simulate various activities in real life in the form of a game. Some simulation games have explicit goals to achieve, while some have no strictly defined goals in the game. The latter sometimes allow the players to control their game characters to just run around in the game and experience the in-game world designed and developed by the game developers. Besides, simulation games can have very broad themes such as sports and business management.

- *Adventure games (“**AVG**”).* In an AVG, the players typically control a protagonist in an interactive storyline that involves exploration and puzzle-solving instead of kinematic challenge in action games. Most adventure games are designed for a single player to experience narrative contents.

- *Trading/collectible card games (“**TCG/CCG**”).* A TCG/CCG is a game that uses a self-assembled card deck, which originates from players’ self-processed cards, to battle against the enemies’ card deck. The enemies could be the in-game artificial intelligence or other players. A key characteristic of TCG/CCG is to trade/collect cards, while some rare and unique cards are randomly scattered in booster packs offered by the game developers or publishers. Usually players would spend lots of resources to obtain such rare and unique cards.

- *Strategy games.* Strategy games are a genre of video games that places emphasis on skillful thinking and planning to achieve victory. In most strategy video games, the player is given a bird’s-eye view of the game world and indirectly controls game units under player’s command. A player needs to plan and execute a series of actions against one or more opponents. For example, the Target Group developed and published *RAD Soldiers*, a turn-based strategy game.

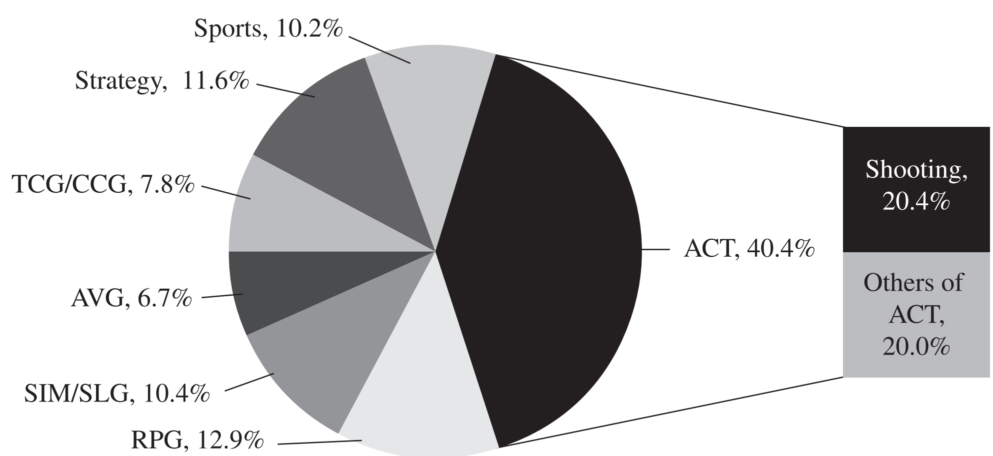
- *Sports games.* Sports games are a video game genre that involves the simulation of sports activities, which are mostly competitive in nature like real-life sports. Sports games are generally created based on sports activities in real-life, including team sports, such as basketball, track and field, extreme sports, and combat sports. According to the Frost & Sullivan Report, this genre has been popular in the video games industry.

For details of the games developed and/or published by the Subject Companies, please refer to the sections headed "Business of the Acquired Group" and "Business of the Target Group" of this circular.

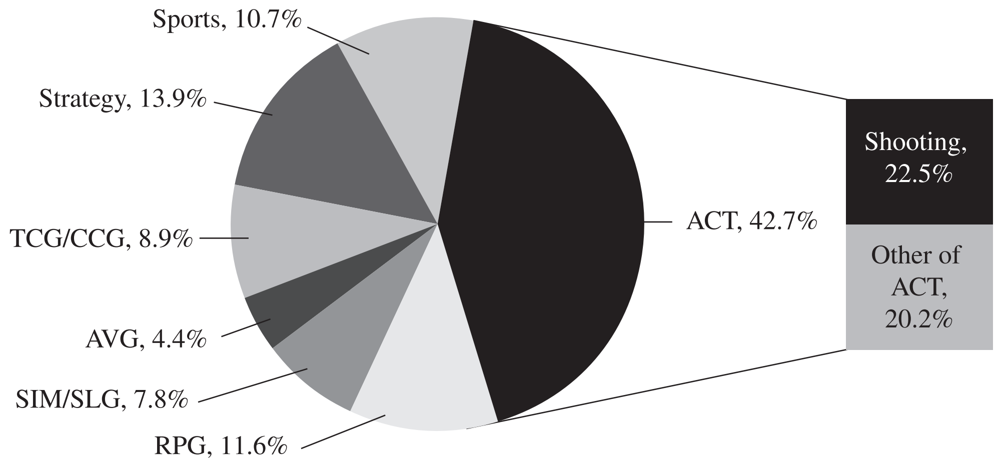
Global Video Games Market Size by Game Genre

According to the Frost & Sullivan Report, ACT, TCG/CCG, and strategy games represented the top three game genres in the global video games market in terms of revenues generated from the respective game genres. ACT, being a traditionally popular game genre, represented 42.7% of the global video games market in 2015 in comparison to 40.4% in 2010. Strategy games and TCG/CCG also showed rapid growth from 2010 to 2015, respectively. The growth of strategy games was attributable to the popularity of MOBA games, while the growth of TCG/CCG was driven by the strong demand in mobile devices, according to the Frost & Sullivan Report. Within the ACT genre, shooting games remained the largest segment with a market share of 20.4% in 2010 and 22.5% in 2015. Moving forward, shooter games are expected to maintain an optimistic growth at a CAGR of 12.3% from 2015 to 2020 and reaching a market share of 25.2% of the global video games market in 2020. The following charts illustrate the market size breakdown by game genre in 2010, 2015, and the forecasted breakdown in 2020, respectively.

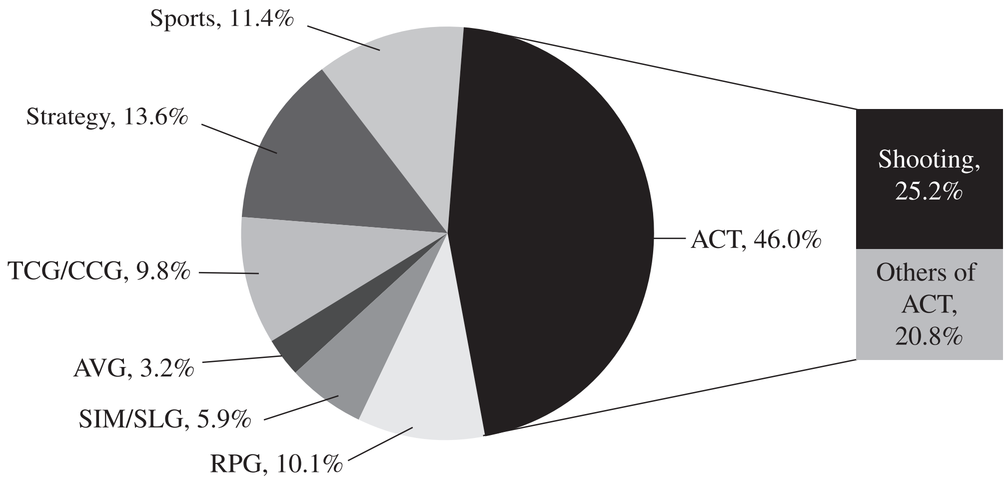
Global Video Games Market Size Breakdown by Game Genre, 2010



Global Video Games Market Size Breakdown by Game Genre, 2015



Global Video Games Market Size Breakdown by Game Genre, 2020E



COMPETITIVE LANDSCAPE

Major Entry Barriers

Major entry barriers to the global video games industry include:

- ***Technology Barriers.*** The competition of global video games industry is fierce, only video games with excellent content, elaborate production, stable programme, and smooth running experience can win the favour of players. Therefore, having a high level of research and development capability in all aspects, including creative planning, art animation, and software development is essential to a game developer's success. This is particularly so for PC games and console games, given the development cycle of video games on such platforms are typically longer than mobile games.

- ***Capital and Talents Barriers.*** A large amount of capital is needed for developing and operating a video game. As quality talents for game development and operation are in high demand, video game developers and publishers have to pay high salary in order to attract those talents. Moreover, the cost in the construction of infrastructure is also high in order to ensure the development of high-quality video games.

- ***Market Concentration Barriers.*** Large companies, especially leading publishers, have control over the resources such as user information and promotional channels and are also expanding rapidly to consolidate their position and gain more market share. Thus, new entrants with much fewer resources have to compete from a disadvantaged position.

In general, entry barriers for the PC and console games markets are higher than the entry barriers for the mobile games markets, according to the Frost & Sullivan Report. This is because the capital barrier for developing mobile games is relatively low. Generally, the cost of developing a new mobile game is below RMB0.5 million, which is much lower than the typical cost of developing a PC or console game. According to the Frost & Sullivan Report, only about three to five individual developers are needed to develop a mobile game, whereas a team of more than twenty individual game developers are usually required for the development a PC or console game. The technology barrier for the mobile games market is also lower because of the lower operation requirements of the gaming platform.

Competitive Landscape of Game Developers

According to the Frost & Sullivan Report, the global video games market is comprised of a large number of game developers, and therefore the game developers' market is relatively fragmented. As aforementioned, game developers typically adopt one of the three business models, namely self-development and self-publishing; licensing/revenue sharing; and work-for-hire. Developers that adopt the licensing/revenue sharing and work-for-hire business models cooperate closely with publishers. It is common for developers to concentrate on providing game development services only to several publishers, or even one publisher in some cases, because developers usually have small business scales and limited resources to work on several large projects. To lower cost on research and development, as well as diversify game portfolios, publishers are more willing to apply work-for-hire model. For publishers, work-for-hire developers with proven game developing track records and good reputation amongst players are preferred. Generally, publishers invite tenders for a new game idea publicly or privately, then work-for-hire developers discuss directly with publishers regarding their experiences and capabilities to develop the game. Developers will be invited to a pitch or asked to create a prototype for the new game. If the pitch or prototype is successful, the developer will enter into a contract with the publisher and develop the game.

Developers' relationship with leading publishers is thus crucial to the success of their business. By cooperating with leading publishers, developers can leverage the publishers' expertise in marketing and have access to a large amount of players' information which can help developers better understand players' preference and improve their video games. Some large publishers may also provide significant financial support to developers for dedicated game development.

According to the Frost & Sullivan Report, *Warframe*, a free-to-play game developed and published by the Acquired Group ranked 5th on PC and 3rd on consoles in terms of the number of total active players in the two weeks ended 15 February 2017 among all major free-to-play games, while *Dirty Bomb*, a free-to-play game developed by the Target Group, ranked 18th on PC in terms of the number of total active players in the two weeks ended 15 February 2017 among all major free-to-play games.

Competitive Landscape for Game Publishers

According to the Frost & Sullivan Report, the global game publishers' market is highly concentrated, with the combined market share of top 10 players representing over 50% of the publishers' market size in 2015. Both developers and publishers are faced with fierce competition in their respective market segments, due to an increasing number of new entrants. Given factors such as players being exposed to more game choices, rising marketing expenses to promote video games, and the homogenisation of video games, even publishers with experienced promotion capability cannot maintain their market position easily. In order to enhance their competitiveness, maintain profitability, and diversify their game portfolios, large publishers tend to apply the strategy of acquiring small to medium-sized developers and publishers, according to the Frost & Sullivan Report. Considerable amounts of M&A transactions have been completed in recent years, according to the Frost & Sullivan Report and, consequentially, the publishers' market becomes even more concentrated. In the global video games industry, it is common for publishers, especially those with small business scales, to rely on one or several games to be profitable and survive in the competition. The limited game portfolio is usually due to limited resources owned by such publishers in terms of both financial and talent resources, according to the Frost & Sullivan Report. Many large publishers started as small studios that only focused on developing and publishing one game at a time and then expanded their portfolios after achieving sufficient profits and market attention. However, according to the Frost & Sullivan Report, it could also be the case that publishers are strategically choosing to focus on publishing a limited number of games that are most well-received by the market.

Challenges faced by Video Game Developers and Publishers

According to the Frost & Sullivan Report, the major challenges faced by game developers and publishers are as follows.

Adapting to constantly changing players' preferences. In the fiercely competitive video games industry, player acquisition is critical to the success of game developers and publishers. To attract players, developers need to design high quality games to meet the players' expectations, while publishers need to allocate resources in promoting the game on multiple media platforms. Given that players' preferences are constantly changing, game developers and publishers may need to adjust their game development and marketing approaches on an ongoing basis to cater to the players' preferences.

Declining players' loyalty. The average lifespan of video games is gradually decreasing primarily due to declining loyalty of video game players. In order to improve player retention, developers need to cooperate with publishers to maintain stable operation of games, update game contents from time to time, and provide players with a sense of freshness to the games by responding to user feedback collected by the publishers.

Increasing sensitivity to the price of video games. Given the fierce competition in the video games industry, the varieties of video games available in the market are also increasing. This allows players to have more choices and, thus, they are more sensitive to the price of video games. Free-to-play games are more likely to attract players to download and try the game. This means that the pricing of video games and their in-game virtual items becomes crucial for both game developers and publishers. On the one hand, the prices charged must cover the costs of development and publishing; on the other hand, the prices must be competitive compared to other comparable games in the market.

REGULATORY OVERVIEW – CANADA

Canada is a federation and its constitution divides jurisdiction over various matters among the federal and provincial governments. The federal government is generally responsible for national and international matters. The provincial governments are generally responsible for local or private matters, including property. Canada has a common law system with legislation passed by parliament and provincial legislatures and judicial decisions forming legal precedents. The Acquired Group is not subject to any specific Canadian laws or regulations that have a material impact on its business. While there are many laws of general application that may affect the Acquired Group in certain circumstances, the material ones of which are described below, as a whole the Acquired Group's business is not carried on in a highly regulated industry.

E-Commerce Legislation

Canada and its provinces have adopted various e-commerce legislation to recognize and regulate contracts formed electronically, including those formed via electronic agents. Generally, Canadian law has developed a neutral approach to technology, applying without regard to format. However, certain formalities are prescribed. For example, when the Acquired Group contracts with an electronic agent, the counter party must be able to obtain a copy of the relevant agreement and view a confirmation of the proposed order prior to accepting the agreement.

Similarly, Canada's various evidence laws have been amended to address the admissibility and reliability of electronic records, typically taking a format neutral approach. If the Acquired Group is seeking to have an electronic document admitted before the court, it has the burden of proving its authenticity by evidence capable of supporting a finding that the electronic document is what the Acquired Group purports it to be. This is typically satisfied on proof of the integrity of the electronic documents system in which such record is recorded or stored.

Private Sector Privacy Legislation

The Acquired Group is subject to Canadian privacy laws and regulations that govern the collection and storage of personal information. Private sector privacy is regulated in Canada, in part, on the basis of: (i) the nature of the information; (ii) the nature of the organization (federally or provincially regulated); (iii) where an activity occurs; and (iv) the nature of the relationship of the organization with the individual. Generally, the federal private sector privacy legislation applies to all commercial activities involving personal information that occur between provinces or across national borders, or that are undertaken by federal works, undertakings or businesses. The federal legislation also applies to all commercial activities involving personal information that occur within a province unless the province has enacted substantially similar legislation. As the Acquired Group is incorporated in the Province of Ontario, and Ontario does not have any provincial privacy legislation, the Acquired Group is subject to the requirements of the federal legislation.

Although the definition of "personal information" varies from jurisdiction to jurisdiction, it generally refers to any information about an identifiable individual, other than the individual's business contact information (such as name, title and business address, phone and e-mail) when that information is used or disclosed for the purpose of contacting such individual in their capacity as an employee or officer of an organization. Generally, Canada's private sector privacy legislation requires the Acquired Group to:

- Limit its Activities with Personal Information: The Acquired Group may only collect, use and disclose personal information for reasonable purposes and only to the extent necessary to meet those purposes.

- Obtain Consent: Consent can be express, implied or deemed and may be withdrawn. Exceptions to the consent requirement are limited and specified in the legislation.

- Safeguard the Information: The Acquired Group is responsible for the personal information in its custody or under its control, and is responsible (and liable) for the compliance of its service providers. The Acquired Group must ensure the accuracy of the personal information and protect and safeguard the information including, without limitation, from loss or theft, or unauthorized access, disclosure, copying, use, modification, disposal or destruction. Personal information must be destroyed or rendered anonymous after it has fulfilled its purpose.

- Be Open and Accountable about its Privacy Activities: The Acquired Group must develop and follow policies and practices designed to meet its obligations under and otherwise give effect to the privacy legislation. The Acquired Group must designate one or more individuals to be responsible and accountable for ensuring that it complies with its privacy obligations. Individuals have the right to access their personal information and challenge the Acquired Group's compliance.

Anti-Spam Legislation

Canada has adopted anti-spam legislation that the Acquired Group must comply with in the course of conducting its business. The anti-spam legislation governs not only the sending of commercial electronic messages, but also: requires explicit consent to alter the transmission of data in an electronic message so that the message is delivered to a destination other than or in addition to that specified by the sender; prohibits installing a computer program on any person's computer system without consent; and prohibits causing a program on any person's computer system to send an electronic message.

The Acquired Group is prohibited by Canada's anti-spam legislation from sending commercial electronic messages to an electronic address unless: the message is exempt under such legislation; or the message meets the formality requirements and the person to whom the message is sent has consented to receiving it. These formalities require that the commercial electronic message sent by the Acquired Group contain: (i) the name of the sender, the name under which the sender carries on business, and the name of the person on whose behalf the message is sent (if any); (ii) the mailing address, and either: a telephone number; an email address; or a web address of the sender; and (iii) an unsubscribe mechanism.

Gaming

In Canada, a business operating lotteries and games of chance is caught by the Criminal Code of Canada if the game satisfies three elements: consideration, a prize and chance. The element of consideration would be satisfied if real money is exchanged for game "credits" and the element of chance would be satisfied if there is a chance of winning or losing game "credits". However, the prize element of the test has been interpreted to mean money, money's worth or stakes, which does not seem to extend to virtual items that cannot be used to obtain real value. The Acquired Group may not permit game "credits" to be exchanged for real money if its games include credits as prizes for games of chance.

Intellectual Property

Canadian law provides for the protection of various types of intellectual property including trademarks, copyright, patents and trade secrets. Canadian federal legislation, (*i.e.*, the *Trademarks Act* ("**TMA**"), the *Copyright Act* ("**CA**") and the *Patent Act* ("**PA**")), governs the law of trademarks, copyrights and patents. Trade secrets do not have a legislative scheme but are governed by the law of confidential information which exists under Canadian provincial jurisdiction.

The TMA impacts the trademarks used or registered by the Acquired Group by prescribing requirements for registering a trademark, claiming infringement and exceptions to infringement, and claiming passing off of an unregistered trademark. Trademark rights arise through the use of the trademark in Canada. Trademarks do not need to be registered to be protected, however, there are benefits to trademark registration particularly when enforcing the trademark in Canada. On June 19, 2014, the *Economic Action Plan 2014 Act*, No. 1 which includes significant amendments to the TMA received royal assent. The amendments to the TMA have not yet come into force. The amendments to the TMA change the requirements for filing a trademark application in Canada including removing the requirement to declare use in a trademark application.

The CA impacts the copyrights owned by or any copyrightable material used by the Acquired Group by prescribing requirements for obtaining copyright, ownership and claiming infringement and exceptions to infringement. Copyright subsists in all original literary, artistic, dramatic and musical works, including computer programs. Copyright arises automatically upon the creation of an original work. A copyright registration provides benefits particularly when enforcing copyright, however, a copyright registration is not a requirement for obtaining rights or for being able to enforce those rights. Copyright protection generally lasts for the life of the author plus 50 years. However, where copyright lies in a performer's performance that is fixed in a published sound recording or where the copyright lies in a published sound recording, the copyright continues for 70 years from the date of first publication.

The PA impacts any patents applied for, registered or licensed in Canada or patentable inventions used by the Acquired Group in Canada but owned by third parties by prescribing requirements for patentability, obtaining and maintaining a patent in Canada, infringement and exceptions to infringement. A Canadian patent is a monopoly granted by the Canadian government that affords the patent holder an exclusive right to manufacture, sell or use an invention throughout the country for a period of 20 years from the date of the application.

A trade secret is any confidential business information which provides an enterprise a competitive edge. Canadian law provides remedies for the protection of confidential information provided that there is a relationship requiring confidentiality and the information is in fact maintained as a secret.

Corporate Law

Digital Extremes is governed by the *Ontario Business Corporations Act* ("**OBCA**"). The OBCA requires Digital Extremes to have its head office and hold its books and records in Ontario. The OBCA requires that at least 25% of a corporations directors be resident Canadian, and imposes certain obligations on directors. It also provides certain rights and protections for shareholders, including protections for minority shareholders.

Employment and Labour Law

The nature of the business carried on by the Acquired Group determines whether its relations with its employees (including any union-related issues, as well as employment standards such as overtime, wage rates, hours of work, pregnancy, parental and other types of leaves) are regulated by federal or provincial law. In this case, as with most businesses in Canada, the Acquired Group is provincially regulated and therefore governed by provincial employment and labour law statutes.

The Acquired Group is impacted by extensive regulation of individual employment contracts. Laws exist that govern human rights, employment insurance, occupational health and safety, workers' compensation, pension, and other minimum standards of employment. In Ontario, the Acquired Group must also ensure that it complies with additional obligations set out in the *Accessibility for Ontarians with Disabilities Act*, which requires the Acquired Group to enact policies and programs to make sure it meets certain accessibility standards.

The Acquired Group may terminate an employment relationship for "just cause", which is a high standard, or by providing notice (or pay in lieu thereof). The costs that the Acquired Group faces as it relates to terminating a Canadian employee can be significant. An Acquired Group employee that is terminated without cause is guaranteed certain minimum entitlements under applicable provincial employment standards legislation. If an Acquired Group employee does not have a valid or binding employment contract with an enforceable termination provision, that employee may also claim additional damages at common law for reasonable notice (up to 24 months of each element of compensation for long service employees). The Acquired Group is also impacted by mass termination notice requirements under applicable employment standards legislation if it seeks to terminate a large number of employees in a short time period.

Human rights legislation impacts all aspects of the employment relationship and provides protections against employees who possess a protected ground/characteristic. These protected grounds vary under each applicable provincial statute, by protecting the Acquired Group employees from experiencing harassment or discrimination in the workplace and provide a method and forum for an Acquired Group employee to seek redress, up to and including back wages and reinstatement of employment. Human rights protections apply to all stages of the employment relationship, even before an employee is hired with the Acquired Group.

Significant protections exist for Acquired Group employees who wish to be represented by a union. Separate labour relations legislation exists in each jurisdiction that sets out rules regarding how an Acquired Group employee may engage in union organization, bargaining, rights to strike or lockout, mediation, assert an unfair labour practice, union recognition and move towards enforceability of collective agreements. Labour relations legislation impacts the way covered employees may advance and resolve complaints under collective agreements through a grievance procedure or arbitration.

The Acquired Group has an obligation to ensure its employees work in a safe working environment. Occupational health and safety laws impact how a business must safeguard worker health and safety while workers' compensation insurance (paid through employer contributions) impacts how covered employees may receive benefits for workplace-related injuries or health disorders. Any failure by the Acquired Group to properly protect a worker under applicable occupational health and safety legislation can result in serious penalties, and in some cases, prosecutions for individual convictions under Canada's criminal laws. The Acquired Group must ensure it is compliant with this statutory matrix by making proper statutory deductions to employees' pay for Canadian Pension Plan contributions and Employment Insurance.

Corporate Income Tax

Canadian taxation of corporate income is governed by the *Income Tax Act* (Canada) (the "**ITA**") in addition to any applicable provincial taxing legislation. With a couple of exceptions, provinces generally follow the federal income tax regime and corporate income taxes levied under provincial legislation are administered by Canada's federal taxation authority, the Canada Revenue Agency ("**CRA**").

Under the ITA, a corporation resident in Canada is subject to taxation in each taxation year on its worldwide taxable income from all sources in that year, including income from business or property and net taxable capital gains. A corporation is generally deemed to be a resident of Canada if it is incorporated in Canada or has its central mind and management located in Canada. The Acquired Group is incorporated under the laws of the Province of Ontario, Canada, and therefore subject to tax in Canada as described herein.

A corporation's taxation year typically ends on the same date as its fiscal year-end. The Acquired Group has a December 31 taxation year-end. A corporation is also deemed to have a taxation year ending immediately before an acquisition of control. A corporation is required to file an income tax return within six months following its taxation year-end.

Generally, the Acquired Group's taxable income for Canadian tax purposes will be its income for the year less deductions allowed by the ITA. The Acquired Group will be generally entitled to deduct expenses incurred for the purpose of earning income from a business or property, including salaries and wages, the purchase of inputs, supplies and services, and other current expenses in computing its income. Interest expense incurred for the purpose of earning income is generally deductible, subject to certain exceptions. These exceptions include the ITA's thin capitalization rules which generally (i) limit the deductibility of interest paid by a corporation on outstanding debts to certain non-resident shareholders or others where the corporation's debt-to-equity ratio exceeds 1.5 to 1, and (ii) recharacterize the non-deductible interest as a dividend subject to Canadian withholding tax. Dividends received by Acquired Group from certain corporations, including a taxable corporation resident in Canada, will also generally be deductible by the Acquired Group in computing its taxable income under the ITA.

Capital expenditures are generally not deductible except where expressly provided by the ITA. A deduction in respect of capital cost allowance may be available to the Acquired Group in respect of depreciable property owned by it and used in its business. The rate of capital cost allowance that the Acquired Group may claim varies by asset category and is generally based on the useful life of the asset.

Where the Acquired Group enters into a transaction with non-arm's length non-residents, the ITA generally requires that the terms and conditions for the transaction mirror the terms and conditions of similar transactions occurring between arm's length parties. If the transaction is found not to have occurred on arm's length terms, the CRA generally can adjust the quantum or nature of the transfer price for the transaction, and by extension, the taxable income of the Acquired Group .

Operating losses of the Acquired Group generally may be carried back up to three years or carried forward up to 20 years to reduce its taxable income in those years. Any capital losses realised by the Acquired Group may only be used to reduce capital gains and may not be used to reduce other income. Capital losses of the Acquired Group may be carried back three years or carried forward indefinitely (subject to certain loss denial rules) to offset capital gains in those years.

Amounts paid (or deemed to be paid) as dividends by the Acquired Group to a non-resident of Canada are generally subject to Canadian withholding tax at the rate of 25%, subject to any reduction in the rate of withholding to which the dividend recipient is entitled to pursuant to the provisions of an applicable income tax treaty or convention. A return of "paid-up capital" by the Acquired Group to a non-resident shareholder is not subject to Canadian withholding tax.

Generally, Canadian withholding tax is not applicable to amounts paid (or deemed to be paid) by the Acquired Group to a non-resident as interest, other than interest (i) that is paid to a non-arm's length person, or (ii) that is "participating debt interest". The 25% rate is generally reduced for interest paid to a non-resident of Canada where the recipient is the beneficial owner of the interest and a resident in a country with which Canada has an income tax treaty or convention.

Goods and Services Tax

The *Excise Tax Act* (Canada) levies a five percent value-added tax (the "**GST**") on the supply of most goods and services in Canada. GST is paid by a recipient of a supply and is collected and remitted by the supplier to the CRA. Generally, GST is typically paid in the course of commercial activities is recoverable through input tax credits, which are applied again the GST collected.

The provinces of British Columbia, Saskatchewan, Manitoba, and Quebec impose separate provincial sales tax in addition to GST under provincial legislation, which applies to supplies of goods and services in those provinces and varies in rate from seven to ten percent. In Ontario, New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador, the GST has been harmonized with the provincial sales tax component so that a single value added sales tax is imposed on essentially the same base as GST. There is no provincial sales tax in Alberta.

REGULATORY OVERVIEW – UK

Regulations specific to the video games industry

Consumer protection

The key legislation in the United Kingdom ("**UK**") relating to consumer protection is the Consumer Rights Act 2015 ("**CRA**"). Under the CRA, video games are 'digital content'. Digital content must be of satisfactory quality, fit for any purpose specified and in accordance with any pre-sale information provided. Amongst other matters, the CRA sets out requirements relating to information that must be provided to consumers, restrictions on a business limiting its liability to consumers, the unenforceability of unfair terms in consumer contracts and specifies consumer remedies (including repeat performance or, where this is impossible or not provided within a reasonable period, a price reduction). The CRA also provides an automatic right to consumers to cancel orders for goods within 14 days of placing an order, known as a 'cooling off' period. Where a game is downloaded, the retailer must obtain express consent and acknowledgement from the consumer that their right to cancel an order has been lost once the download begins.

The Consumer Protection from Unfair Trading Regulations ("**CPRs**") aim to protect consumers from unfair, misleading or aggressive trading practices, including misleading digital marketing. In addition, the CPRs prohibit any advertisement (such as an in-game/in-app offer) that directly exhorts children to buy products, for example in-game/in-app purchases. Breach of the CPRs can lead to criminal convictions (including prison terms of up to 2 years, although this is very rare) and/or fines, as well as adverse publicity. In promoting the video games, Warchest (and, to the extent they undertake such activity, Splash Damage and Fireteam) will also be subject to rules that governing advertising in the UK, the Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing ("**CAP Code**"). The CAP Code applies to all non-broadcast marketing communications, including online advertising.

Customers of Warchest can pay to download video games rather than play free online. Processing of credit or debit card payments are subject to the Payment Card Industry Data Security Standard ("**PCI DSS**"). The PCI DSS are technical and operational requirements set by the PCI Security Standards Council, and are designed to protect payment card data. The PCI DSS apply to any person who stores, processes or transmits payment card data, and as such, apply to all merchants (such as Warchest) who accept debit or credit card payments in their business.

Age ratings and classification of video games

In Europe, most countries determine video game age ratings using the Pan European Game Information ("**PEGI**") classification system which is administered by the Video Standards Council. The PEGI system provides rating bands (3, 7, 12, 16 and 18) and content descriptions. This is a voluntary system based upon self-certification unless a country has incorporated it into its legislation.

In the UK, the Video Recordings Act 1984, as amended by the Digital Economy Act 2010, regulates boxed (physical) video games and incorporates the PEGI system into UK law. It provides that any video game that is only suitable for viewing by persons aged 12 years and above (determined in accordance with the PEGI system) must be submitted to the Games Rating Authority (which is games rating arm of the Video Standards Council) for classification using the PEGI system prior to its release. In order to obtain an age rating, the games developer or publisher must provide a content declaration and supporting evidence that includes video footage and a copy of the game to the Games Rating Authority. After the information has been evaluated, the applicant receives a licence to use the rating logos.

However, these requirements do not apply to online or downloadable apps or video games. Therefore developers, publishers and distributors of online video games are not obliged to obtain and display a PEGI rating. Developers and publishers may voluntarily choose to classify their online video games using the PEGI system or to become a member of PEGI Online and comply with the PEGI Online Safety Code, which includes providing age ratings for online games. In practice, online video games are also subject to the ratings framework of platform providers and digital distributors such as Steam, the Google Play Store and the Apple App Store.

Regulations and applicable laws relating to intellectual property

Copyright

Copyright law protects the form of expression of ideas in original works which may include literary works (including computer programs and databases), dramatic works, musical works and/or artistic works (including graphic works). Copyright also protects sound recordings, films, broadcasts and typographical arrangements of published editions. Numerous elements of video games are protected by copyright law. Copyright will also be relevant in protecting other materials created by each of the Target Group companies, including corporate documents, marketing materials and website content.

Copyright law is set out in the Copyright Designs and Patents Act 1988 which was amended by the Copyright (Computer Programs) Regulations 1992 (SI 1992/3233) which implemented the Copyright Directive (2001/29/EC). The Intellectual Property Act 2014 expanded on the provisions in these earlier laws relating to copyright infringement.

Copyright protection in literary, dramatic, musical or artistic works lasts for 70 years from the end of the calendar year of the death of the author of such works. There are no registration requirements for copyright protection and works will be protected once it is recorded in a material form. A copyright author may also have moral rights to be identified as the author of a work and a right to object to derogatory treatment of a copyright work.

The UK is a member of a number of international agreements relating to copyright (such as the Berne Convention) which provide reciprocal protection for works which are protected under copyright laws in other member countries. For non-EEA works, the duration of copyright will be the same as it is in the country of origin (provided that is not longer than the standard duration of protection for such works in the UK). In order to infringe copyright, there must be copying of the whole or a substantial part of the copyright work.

Trade marks

A trade mark is any sign capable of being represented on the register and is capable of distinguishing goods/services of one undertaking from those of another. For example, company brands, individual video game names or logos may be registerable as trade marks. A trade mark owner has the exclusive right to use its mark in the territory of registration on the goods and services that it has specified in its registration (subject to certain rights of 'fair use' given to third parties). Trade mark protection lasts for a period of ten years which is renewable for further periods of ten years (in theory, indefinitely).

It is possible to apply for a trade mark registration covering the UK or for a trade mark covering all member states of the EU ("**EUTMs**"). The primary law relating to trade marks in the UK is the Trade Mark Act 1994 which implemented the Trade Mark Directive (2008/95/EC). The law relating to trade marks in the EU is Council Regulation (EC) No. 207/2009 which was amended by EU Regulation 2015/2424.

In the UK, there is also some protection for unregistered trade marks under the common law concept of passing off. The law of passing off protects a business's goodwill which it has built up in relation to names, marks or the get-up of a product. For protection under passing off to arise the public should recognise the name, marks or get-up as denoting the quality or character of the goods or services of one business, although they do not need to be able to identify the name of that business.

The Target Group have two trade marks registered in the UK and eleven registered EUTMs.

Domain names

There are no specific laws governing the registration of domain names. Domain names are registered with the registrars that control the use of a particular type of domain name (for example.com or.co.uk). When registering a domain name, registrars will bind customers into dispute resolution policies such as the Uniform Domain-Name Dispute-Resolution Policy which was established by the Internet Corporation for Assigned Names and Numbers for.com domains (among others) and the Nominet Dispute Resolution Service for.co.uk domains. These policies govern any disputes between parties relating to domain names.

The Target Group has five domain names registered in the UK. The Target Group has one further domain name registered in the UK which is noted on a Whois search as being suspended.

Regulations and applicable laws relating to data protection and privacy

The legal provisions relating to data protection in the UK are derived mainly from the Data Protection Act 1998 ("**DPA**") which implemented EU Directive 95/46/EEC and governs the processing of personal data. Processing is widely defined and covers almost everything that can be done with data, including collecting, storing and disclosing data. Personal data is defined as any data from which a living individual can be identified and includes names, email and home addresses, IP addresses and dates of birth of both employees and end users. Data that is sufficiently anonymised does not constitute personal data.

The DPA applies to data controllers, who must comply with the eight data protection principles set out in the DPA when processing personal data. A data controller is the person who determines the purposes for which, and the manner for which, any personal data is processed. Each of Splash Damage, Fireteam and Warchest is registered as a data controller with the UK Information Commissioner's Office. Each entity processes employee data and any other personal data collected in the ordinary course of business with other companies. In addition, Fireteam processes user email addresses for its clients' games and Warchest collects personal data for user accounts and marketing purposes. The collection and processing of personal data in this manner is market standard, however Warchest has the most exposure as it is the customer-facing entity dealing with larger volumes of personal data.

A data controller is liable for any breaches of the DPA by itself or any of its data processors. Breaches of the DPA may result in an enforcement notice or, for serious breaches, a fine of up to £500,000.

The EU data protection regime will change significantly from 25 May 2018 when the General Data Protection Regulation ("**GDPR**") comes into effect. Following the result of the referendum on 23 June 2016 regarding the UK's decision to end its membership of the EU ("**Brexit**"), the UK's Secretary of State has confirmed that the UK will implement the GDPR. Key changes in the GDPR include an extended territorial reach, more onerous obligations upon data controllers, direct obligations and liability for data processors, a requirement for appropriate state of the art technical and organisational security measures and substantially increased fines.

Any business that undertakes direct marketing activities must also comply with the Privacy and Electronic Communications Regulations 2003. There is also a requirement for web users to be provided with clear information about the use of cookies on websites and to be given choices about these cookies.

Regulations and applicable laws relating to employment

Employment contracts, policies and practices

The Employment Rights Act 1996 ("**ERA**") governs employment relationships in England and Wales and is applicable to the Target Group. The ERA sets out the minimum particulars of employment required to be given to an employee in a written statement and also contains provisions which govern the termination of employment, such as notice periods and the right not to be unfairly dismissed. The ERA also contains provisions inserted by the Public Interest Disclosure Act 1998, pursuant to which a worker has the right not to be subjected to a detriment by his employer on the ground that he has reported a wrongdoing by his employer or a third party.

Other mandatory employment law rights are governed, for example, by the Working Time Regulations 1998 (which stipulate the basic minimum holiday entitlement and requirements on working time) and the National Minimum Wage Act 1998 and National Minimum Wage Regulations 2015 (which provide that workers are entitled to a minimum rate of pay).

Specific legislation also applies to the Target Group in respect of its fixed-term employees (the Fixed-term Employees (Prevention of Less Favourable Treatment) Regulations 2002) and part-time workers (the Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000) which provide for the right not to be treated less favourably on the ground of fixed-term or part-time status.

The Equality Act 2010 contains provisions concerning discrimination, harassment and victimisation in employment. In particular, an employee has the right not to be discriminated against because of age, disability, gender reassignment, marital or civil partnership status, pregnancy or maternity, race, religion or belief, sex or sexual orientation.

Intellectual property and confidentiality provisions in employment contracts

Principles relating to confidentiality and restraint of trade are enshrined in common law, i.e. principles of law derived from UK courts rather than by statute.

The Copyright, Designs and Patents Act 1988, the Copyright and Rights in Databases Regulations 1997 and the Registered Designs Act 1949 grant an employer automatic ownership of certain intellectual property rights created by its employees in the course of employment. This applies to copyright in literary, dramatic, musical, artistic and film works, database rights, unregistered design rights and registered design rights, provided that the employee created these during the course of employment. In the case of copyright and database rights, there must be no agreement to the contrary between the employer and employee. In addition, even if an employer owns the copyright in a work, the employee retains his or her moral rights, which are non-assignable but can be waived by the employee.

Immigration and recruitment of migrant employees

The Target Group employs a number of migrant workers from outside of the UK and therefore certain UK immigration laws apply, including the Immigration, Asylum and Nationality Act 2006 and the Immigration Act 2016.

Pensions

Save in respect of social security contributions paid to the UK government, the only mandatory requirement in relation to private sector pension arrangements in the UK relates to what is known as "auto-enrolment", a legal requirement arising under the Pensions Act 2008 and underlying regulations.

Essentially, auto-enrolment requires employers (and therefore the Target Group) to ensure that their workers falling within the scope of auto-enrolment have at least a minimum level of pension provision whilst employed or otherwise providing their services (though workers are allowed to "opt-out" of such requirements if they so choose). There are various forms that this minimal level of pension provision can take, but at its most basic, it requires the employer to offer membership of simple defined contribution pension arrangements, with specified minimum contribution rates payable by the employer and in aggregate. These minimum levels are being increased over time, so that after 6 April 2019 the aggregate minimum contribution rates (including tax relief) payable to such defined contribution arrangements will be 4 per cent of "qualifying earnings" (being earnings within specified limits which vary from year to year) from the worker, 3 per cent from the employer (and 1 per cent basic tax relief claimed by the scheme).

Regulations and applicable laws relating to taxation

Corporation Tax

The UK rules relating to corporation tax are primarily set out in the Corporation Tax Act 2009 and the Corporation Tax Act 2010. In the UK, corporation tax is paid by a company on the taxable "profits" of its business. The taxable profits include all sources of income and chargeable gains, less certain deductible payments that may have been made and subject to exemptions and reliefs. Companies resident for tax purposes in the UK (such as the Target Group companies) are charged to corporation tax on their worldwide profits regardless of where they arise (subject to double taxation treaty relief for foreign taxes).

A company pays corporation tax by reference to its accounting periods. The rates of corporation tax are fixed for financial years which run from 1 April to 31 March. Since 1 April 2015 the main rate of corporation tax in the UK for all companies is 20 per cent. Companies usually pay corporation tax within nine months from the end of the relevant accounting period but large companies are required to make quarterly instalments.

In the UK, a company may surrender certain of its excess losses to another company in the same corporation tax group to be used against that other company's profits in order to reduce the other company's taxable profits for the purposes of calculating its corporation tax liability. However, as the Target Group companies have historically been owned by an individual (PW) rather than another company, they have not formed a corporation tax group. Following completion of the acquisition of the Target Group companies by the Company, the Target Group companies will form a corporation tax group.

The UK government has adopted various specific regimes relating to particular specified activities which provide enhanced relief from corporation tax or, to the extent the relevant company or trade is loss making, a repayable corporation tax credit. In particular, corporation tax relief under the Research and Development Relief and the Video Games Tax Relief regimes may be available to the Target Group companies and Target Group companies have claimed relief under these regimes in the past.

Withholding Tax

Any UK company (such as the Target Group companies) paying yearly interest is required to withhold income tax from that interest at the basic rate of income tax (currently 20 per cent), subject to certain UK statutory and any applicable double taxation treaty exemptions.

There is no UK withholding tax on the payment of dividends by UK companies to its shareholders including to non-UK shareholders, such as a payment of dividends from the Target Group to the Company.

Value Added Tax ("VAT")

The UK rules relating to VAT are primarily set out in the Value Added Tax Act 1994. VAT is a tax on supplies of goods and services made by a taxable person in the course of its business in the UK.

In broad terms, VAT is borne economically by the ultimate consumer of the goods and services supplied. To the extent that the Target Group companies are not the ultimate consumer of any goods and services received by them and they charge VAT to their own customers (or the supplies they make are zero rated) they may, generally, deduct an amount equal to the VAT on supplies to them from the VAT that they charge on supplies and account only for the difference to the UK tax authority.

The standard rate of VAT is 20 per cent. Certain taxable supplies are taxed at a reduced rate (for example zero per cent or 5 per cent) and certain other supplies are exempt.

The Target Group companies have been registered as a group for VAT purposes. This has various consequences for the Target Group from a VAT perspective, including in particular that any supplies of goods and services made between the Target Group are ignored for VAT purposes and that each member of the VAT group has joint and several liability for all of the VAT group's VAT liabilities.

Every EU member state is required to adopt the common system of VAT provided for by EU law (Council Directive 2006/112/EC). The outcomes of Brexit have not yet fully been established but if the UK were to leave the EU, it would sit outside the territorial scope of EU VAT and it would therefore be open to the UK to change how VAT is charged in the UK, although it is generally considered that a material departure from existing VAT rules is unlikely. The most immediate consequence of the UK leaving the EU in a VAT context would likely be the imposition of "import" VAT when goods enter the EU from the UK, and when EU goods enter the UK. Even if any such VAT charged was ultimately recoverable this may cause cash flow issues for UK companies such as the Target Group. If the UK does leave the EU this could also affect the customs duties payable on imports to and exports from the UK to the EU.

Regulations and applicable laws relating to share option schemes

The Target Group companies have entered into certain incentive arrangements whereby certain employees and contractors of the Target Group (being the First Round Optionholders and the Second Round Optionholders) have been granted options to acquire Splash Damage Option Shares, Fireteam Option Shares and Warchest Option Shares respectively.

The options granted to the First Round Optionholders and the Second Round Optionholders broadly fall into two categories:

(a) enterprise management incentive (EMI) tax advantaged options granted to certain employees of the Target Group companies under Schedule 5 of the Income Tax (Earnings & Pensions) Act 2003 which, subject to the relevant statutory criteria being satisfied, are subject to a beneficial tax regime; and

(b) unapproved, non-tax advantaged options granted to certain employees and contractors of the Target Group companies which are effectively taxed in the same way as salary.

An EMI option that satisfies the relevant statutory criteria is normally taxed as follows:

(a) there is no tax on grant of the option; and

(b) assuming the exercise price of the option equals at least the actual market value of the shares on the date of grant of the option, the exercise of an EMI option will not give rise to a liability to employment income tax and/or social security contributions, such that the difference between the exercise price and the market value of the shares as at the exercise date of the option will be taxed at beneficial capital gains tax rates if and when the shares acquired on exercise of the option are sold.

In general, an unapproved option is taxed as follows:

(a) there is no tax on grant of the option; and

(b) employment income tax and employee social security contributions are payable by the option holder and employer social security contributions are payable by the employer on the difference between the exercise price and the market value of the shares as at the exercise date of the option (noting that employee and employer social security contributions are not payable if the shares acquired on exercise of the option are not readily convertible assets at the time of exercise of the option).

Regulations and applicable laws relating to dividend distributions to shareholders

The law in the UK governing distributions of dividends by private limited companies to its shareholders is set out largely in the Companies Act 2006 and in the UK's common law.

The Companies Act 2006 sets out what profits are available for a dividend distribution and what accounts are required in order to justify a dividend distribution. If the requirements of the Companies Act are not met, a dividend payment shall be deemed unlawful. A shareholder is however only required to repay an unlawful dividend distribution if they know or have reasonable grounds for knowing that it was made unlawfully at the time of payment.

In summary, the Companies Act 2006 states that:

(a) a company may only make a distribution out of profits consisting of accumulated realised profits (so far as not previously utilised by distribution or capitalisation) less its accumulated realised losses (so far as not previously written off in a reduction or reorganisation of capital duly made); and

(b) a distribution is required to be justified by reference to the company's:

  (i) last annual accounts;

  (ii) interim accounts; or

  (iii) where the distribution is proposed to be declared during the company's first accounting reference period, or before any accounts have been circulated in respect of that period, it may be justified by reference to initial accounts.

The company's most recent annual accounts means the company's individual accounts:

(a) that were last signed and circulated to shareholders;

(b) that were properly prepared in accordance with the Companies Act 2006; and

(c) unless the company is exempt from an audit and the directors take advantage of that exemption, the auditor must have made its report on the accounts.

For a private company, interim and initial accounts need to be sufficient for the directors to make a reasonable judgement as to profits, losses, assets and liabilities, provisions, share capital and reserves. There is no requirement to file interim accounts or initial accounts for private limited companies at Companies House (the UK's registrar of companies).

Directors must also keep in mind their fiduciary and other duties, for example their obligation to safeguard the company's assets and take reasonable steps to ensure that the company is in a position to settle its debts as they fall due. Directors also need to assess whether the company will still be solvent following a proposed distribution of dividends.

Under common law, a company cannot lawfully make a distribution out of capital. The directors therefore need to assess, both at the time they propose the distribution and when it is made, whether the company has incurred losses subsequent to the balance sheet date to which the relevant accounts were prepared that have eroded its profits available for distribution. Finally, the company's Articles of Association will also typically set out rules on authorisation and payment of dividends.

IMPACT OF INTERNATIONAL SANCTIONS LAW

During the Track Record Period, our add-on gaming products were sold through distributors and payment processors to end users in various Sanctioned Countries. In light of this, we have appointed Hogan Lovells, an international law firm, to determine whether our sale of products through distributors and payment processors to end users in various Sanctioned Countries during the Track Record Period violate International Sanctions laws.

As advised by Hogan Lovells, our legal advisers as to International Sanctions laws, our Group's sales and other business activities relating to Sanctioned Countries during the Track Record Period are not sanctioned activities under International Sanctions and do not implicate the application of relevant sanctions laws on our Group, or any person or entity, including our Group's investors, the Stock Exchange, the HKSCC and the HKSCC Nominees. For details on our business activities relating to Sanctioned Countries and impact of sanctions laws, please refer to the subsection headed "Business of the Acquired Group – Sales to Sanctioned Countries" in this Circular.

REGULATORY OVERVIEW – GERMANY

Laws and Regulations Specific to the Video Games Industry

Consumer Protection/Contract Law

In Germany, the EU consumer protection law has been largely transposed into the Civil Code (*Buergerliches Gesetzbuch*, "**BGB**") and the Introductory Act into the Civil Code (*Einfuehrungsgesetz zum Buergerlichen Gesetzbuch*, "**EGBGB**"). The main provisions regarding consumer contracts can be found in Sections 312 to 312 lit j BGB. According to two EU regulations on the law applicable to contractual obligations (Regulation (EC) No 593/2008) and non-contractual obligations (Regulation (EC) No 864/2007), German consumer protection law would even apply to a Canadian company if this company's services are "directed" at German consumers. For online services that is generally considered to be the case if several of the following criteria are met: the website is offered in German; the prices on the website are indicated in Euros; the website is offered with a German top-level domain (.de); a German bank account is indicated on the website; the website indicates a German customer hotline; German terms and conditions are provided on the website. However, if contracts are entered into via a website serviced by an entity of a video game company established in another EU Member State, the consumer law of that EU Member State is applicable.

With regard to EU and German consumer protection law, the respective service provider is required to provide the customer with a multitude of information prior to, during and after the conclusion of the contract (e.g., specification of the product, identity of the company, price elements, payment, shipping and right of withdrawal). With regard to online services, an important element of consumer protection law is the consumer's right to withdraw from the underlying online contract. In theory, such a right to withdrawal does also exist for online provision of video games. The consumer must clearly be informed of such a right to withdrawal before entering into the online contract with the service provider. Video games that are not incorporated on a portable data carrier but rather accessible via streaming or downloading are considered "digital content". The consumer protection provisions of distance sales law apply to the sale of any goods but also to the sale of such digital content such as online video games. However, the concept of withdrawal does not seem to match the reality of the provision of digital content, since the consumer may start to use the digital content right away and a return to the service provider is impossible. Therefore, a right of withdrawal does not apply where the seller already has begun with the performance of the contract (e.g., in a downloading or streaming scenario). According to Section 312 lit f paragraph 3 BGB, the consumer needs to expressly consent to the seller commencing with the performance of the long distance sales contract regarding digital content (e.g., starting download or stream) and acknowledge that the consumer thereby foregoes the right of subsequent withdrawal from the contract.

The same standards regarding consumer protection in principle apply to virtual tokens and items handled within the video games.

In addition, the consumer protection provisions of general contract law, and the law on terms and conditions, apply to any sales scenario where the acquirer is a consumer. According to these provisions, companies may, for example, not limit the statutory warranty and liability provisions below a certain standard or limit the consumer by choosing a foreign law as applicable. Any clauses in terms and conditions providing otherwise are in general considered invalid.

Unfair Trade Practices

The Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*, "**UWG**") contains several provisions to protect consumers and market competitors from unfair, misleading or aggressive commercial practices, including misleading and unsolicited marketing. German law on unfair trade practices applies if a company's marketing is targeted at German customers. In the context of video games, the UWG could, in particular, be applicable to advertisements in the form of in-game/in-app offers and a general offering in the German language. According to the UWG, any commercial practice towards consumers shall be illegal in any case where this practice does not conform to the professional diligence required of the seller and are suited to a tangible impairment of the consumer's ability to make an informed decision regarding the product. Since video games are in many cases played by minors, it might be of particular interest that the UWG prohibits any advertisement that directly exhorts children to buy products. According to Section 7 UWG, unsolicited emails may not be sent to customers without their prior consent. Claims due to breach of the UWG may only be claimed by market competitors and consumer organizations, not by consumers themselves. A breach of the UWG provisions may lead to cease and desist and damage claims but, in theory, also to criminal convictions for up to two years imprisonment and/ or fines.

Protection of Minors

There are several laws for the protection of minors in Germany. The Act for the Protection of Minors (*Jugendschutzgesetz*, "**JuSchG**") as at 23 July 2002 (last amendment 17 July 2016) that governs i.a. digital content on portable media and the State Agreement on the Protection of Minors in Media (*Jugendmedienschutz-Staatsvertrag,* ("**JMStV**") as at 1 April 2003 which governs online videogaming. However, even though not clearly specified in the law, both laws do not govern the online offerings of website platforms hosted and run by companies located outside the European Union which has been widely criticized by German regulators.

Laws and Regulations regarding Intellectual Property in Video Games

Copyright

Video games contain various elements that are protected by copyright law. The two main elements are audio-visual features (including pictures, video recordings and sounds) and the underlying software, which technically manages the audio-visual elements and permits users to interact with the different elements of the game. Copyright law protects the form of expression of ideas in original works, which may include literary works (including computer programs/software and also databases), musical works, artistic works (including graphic works) and film works.

In Germany, copyright law is mainly regulated by the Copyright Act (*Urheberrechtsgesetz*, "**UrhG**"), which also incorporates the EU Copyright Directive (2001/29/EC). Throughout the EU, copyright protection in literary, musical or artistic works lasts for 70 years from the end of the calendar year of the death of the author of such works. In Germany, there are no registration requirements for copyright protection and works will be protected once they are recorded in a material form. An author of a copyrighted work under German law is understood to have non-transferrable moral rights in the respective work (e.g., the right of recognition of authorship in the work and the right to object to derogatory treatment of a work). However, usually the use of copyrighted works by third parties other than the author is ensured by granting an exclusive far-reaching right to use the copyrighted work to the interested third party. In order to infringe someone else's copyright, the whole or a substantial part of the copyright work must be concerned by the infringing act. Infringing acts are defined in the UrhG. The most important ones are the reproduction, distribution or exhibition of the copyrighted work without the author's consent. Employment agreements are frequently construed as granting the employer an exclusive license to any works created by the employee within the scope of the employee's obligations. For computer programs, Section 69 lit b UrhG expressly provides that all economic use rights in the computer program shall vest with the employer. With regard to computer programs created by freelancers, a comprehensive license regarding the computer program should be clearly granted by the freelancer to the entity commissioning the freelancer since such transfer of rights/grant of license is not statutorily provided.

Of particular importance for video games is the general principle of exhaustion that is laid down in Section 69 lit c no 3 UrhG, according to which a copy of a computer program may be freely distributed (also via download) without the right holder's consent by the subsequent owner as long it was originally distributed on the EU market with the right holder's consent. According to the case law of the German Federal Court, the principle of exhaustion does not hinder the right holder to limit the transfer of product or activation keys and user accounts to video games in contractual terms of use.

Trademarks

A trademark is a recognizable sign, design or expression that identifies products or services of a particular source from those of others. The primary statute relating to trademarks in Germany is the Trademark Act (*Markengesetz*, "**MarkenG**"), which implemented the EU Trademark Directive (2008/95/EC) and also applied to commercial designations. According to Section 3 MarkenG, any sign, particularly words (including names), designs, letters, numerals, sounds, three-dimensional designs, including colors and color combinations, may be protected as trademarks if such a sign is capable of distinguishing the goods or services of one company from those of other companies. For example, company brands, individual video game names or logos may be registerable as trademarks if they have distinctive character with regard to the company using it. Under German law, proprietary rights in relation to a trademark may be established through actual use of the trademark in the marketplace, or through registration of the trademark. German trademarks are registered with the German Trademark and Patent Office (*Deutsches Patent und Markenamt*, "**DPMA**"). A trademark owner has the exclusive right to use its trademark in the territory of registration on the goods and services the trademark is registered for if nobody else has registered such a trademark at the same time. Trademarks can be transferred without formalities, even by oral agreement. The registration with the DPMA is merely declaratory, but usually trademarks are registered with the respective trademark office. Trademarks must be used within five years after registration. If they are not used within that period in the form in which they are registered, the trademarks can be cancelled upon application of a third party (use it or lose it). Trademark protection lasts for a period of ten years which is renewable for further periods of ten years (in theory, indefinitely). EU trademarks covering the whole area of the EU Member States can be registered with the EU Intellectual Property Office ("**EUIPO**").

Domain names

In Germany, there are no specific legal frameworks governing the registration of domain names. Domain names are understood to be protected as quasi-proprietary rights within the framework of name rights (Section 12 BGB) or trademarks or commercial designation rights (MarkenG). In Germany, the country code top-level domains *.de* are registered with the DENIC (*Deutsches Network Information Center*, "**Denic**"). When registering a.de domain name, registrars are bound by the registration agreement with Denic and acquire a contractual right to use a certain domain in relation to a certain web presence. Any disputes between parties relating to.de domain names are covered by dispute resolution policies of Denic.

Patents and Utility Models

In Germany, the protection of inventions is mainly governed by the Patents Act (*Patentgesetz*, "**PatG**") and the Utility Models Act (*Gebrauchsmustergesetz*, "**GebrMG**"). A patent or utility model covering Germany can be obtained by filing of a national application with the DPMA. A German patent has a protective term of 20 years. A utility model is protectable for three years and up to ten years. Patents are granted for any inventions, in all fields of technology, provided that they are new, involve an inventive step and are susceptible to industrial application. Computer programs may, in rare cases, be registered as patents. The part of the video games that are computer programs might be registered as patents if the underlying computer program is protectable as computer-implemented invention.

Data protection and privacy in relation to Video Games

The legal provisions relating to data protection in Germany are laid down in the Federal Data Protection Act (*Bundesdatenschutzgesetz*, "**BDSG**"), which implemented the EU Data Protection Directive (95/46/EC). The application of German data privacy law is triggered if a companies' website serviced outside of the EU uses "means" located in Germany for the collection, use and processing of personal data. Such means are for example, the placing of cookies on a German users' computer or the use of a downloaded video game which is installed on the customer's computer. The BDSG applies to the collection, processing and use of personal data and also lays down certain rules for data security. As a general principle of the BDSG, the collection, processing and use of personal data is strictly prohibited, unless it is permitted by law or the person concerned gives consent. Personal data is defined as any data from which a living individual can be identified and includes names, email and home addresses and dates of birth. The European Court of Justice has recently ruled that IP addresses are considered personal data as well. The BDSG in particular applies to data controllers who collect, process or use personal data on their own behalf or commission others to do the same. A data controller is understood to be the person or entity who determines the purposes for which, and the manner in which, any personal data is processed. Where the data controller commissions a third party to conduct the processing on its behalf, this third party must be obligated in writing to the BDSG principles. A data controller is liable for any breaches of the BDSG by itself or of any commissioned data processors (e.g., service providers). Breaches of the BDSG may result in an administrative fine of up to EUR 50,000 or even up to EUR 300,000 per incident and, in more serious cases, criminal liability and imprisonment for up to two years and a fine.

In addition, the Telemedia Act (*Telemediengesetz*, "**TMG**") is applicable to any entity offering services online. According to Section 13 paragraph 1 TMG a user of a website has to be informed of the type, scope and purpose of the collection, use and processing of personal data when using the website. Therefore, the entity offering the website must inform the user in a data policy, which is clearly understandable and accessible to the user on the website. Breaches of the TMG may result in an administrative fine of up to EUR 50,000 or in civil damage claims.

In the case of online video games, one can assume that personal data from customers are collected, used and processed for user accounts and marketing purposes (also by using certain cookies).

The EU data protection regime will change significantly from 25 May 2018 when the General Data Protection Regulation ("**GDPR**") comes into effect and is directly applicable in all the EU Member States. Key changes in the GDPR include an extended territorial reach, more severe obligations upon data controllers, direct obligations and liability for data processors, a requirement for appropriate state of the art technical and organizational security measures and substantially increased fines (up to EUR20 Million or 4% of a company's total worldwide turnover).

Tax Law

Corporate Income Tax and Trade Tax

The German rules relating to corporate income tax are set out in the German corporate income tax act (*Körperschaftsteuergesetz*, *KStG*) the income tax act (*Einkommensteuergesetz, EStG*) and specific other laws. A corporation resident for tax purposes in Germany is liable to corporation tax on its worldwide income in principle (subject to double taxation treaty relief for foreign taxes). A corporation resident for tax purposes outside Germany is subject to corporate income tax for the portion of its German source income.

Income of a corporation is regularly assessed on the basis of statutory accounting which is modified for tax purposes. Corporations pay corporate income tax annually, however, they may be required to make quarterly (pre)payments as instalments.

The taxable income includes profits from trade and business and all sources of income and chargeable gains, less certain deductible expenses incurred and subject to exemptions and reliefs. A statutory rate of 15.825% corporate income tax (including the solidarity surcharge (*Solidaritätszuschlag*)) is applied on the taxable income.

In addition to corporate income tax, corporations are submitted to trade tax on their trade profits generated in German establishments at a locally different rate. The rules relating to German trade tax are primarily set out in the German trade tax act (*Gewerbesteuergesetz, GewStG*). Trade tax is charged by German municipalities on income of trade and business. The tax base ("**profits**") is derived from the corporate income tax base, but subject to certain modifications. Each municipality has the competence to determine its own rate on taxable income generated by corporations based in the respective city. In major German cities, rates vary between 14% to 17% other municipalities have comparably lower tax rates.

Value Added Tax ("VAT")

VAT is a tax on supplies of goods and services made by a taxable person in the course of its business in Germany. Every EU member state is required to adopt the common system of VAT provided for by EU law (Council Directive 2006/112/EC). The relevant German rules are primarily set out in the German VAT Act (*Umsatzsteuergesetz, UStG*).

To the extent that the relevant entity receiving supplies is not the ultimate consumer of any goods and services received and charges VAT to its own customers it may, generally, deduct an amount equal to the VAT on supplies to it from the VAT and account only for the difference to the German tax authority.

The standard statutory rate of VAT is 19%. Certain taxable supplies and services are taxed at a reduced rate (for example zero per cent or 7%) and certain other supplies and services are exempt from VAT.

German Racing Betting and Lottery Act

Gambling games and raffles where a player invests money for a chance to win money or other economic advantages are subject to taxation under the German racing betting and lottery act (*Rennwett- und Lotteriegesetz, RennwLottG*).

Withholding Tax ("WHT")

If a person (company, private individuals) resident in Germany for tax purposes pays royalties for any right to use IP, etc. to a counterparty non-resident in Germany for tax purposes, the German licensee is obliged to withhold tax at a statutory rate of 15% on behalf of the entity counterparty non-resident in Germany for tax purposes. WHT also applies to payments of dividends by German companies to their shareholders.

REGULATORY OVERVIEW – UNITED STATES

Government Regulation of the Internet and e-commerce in General

Developers and publishers of online, personal computer ("**PC**"), video game console, handheld, mobile and tablet games distributed to end users resident in the U.S. by online download sales of PC products, purchases and downloads via third-party console, mobile and tablet platforms, and licensing of software to third-party or related party companies that distribute their products are subject to general business regulations and laws as well U.S. and state level regulations governing the internet and e-commerce. These laws and regulations include taxation, user privacy, data protection, pricing, content, protection of minors, copyrights, distribution, electronic contracts, advertising, anti-money laundering, payments and money transmitter laws and regulations. There is uncertainty as to the exact application of such laws and regulations to such developers and publishers conducting such business and laws affecting such business may vary by jurisdiction and may be inconsistent with one another, imposing conflicting or uncertain restrictions.

Legislation is continually being introduced, and litigation and regulatory enforcement actions are taking place, that may affect the way in which developers, publishers and distributors of games may offer content and features, and distribute and advertise products. For example, legislation has been introduced at one time or another at the federal and state levels in the U.S. that permit governmental entities to restrict or prohibit marketing or distribution of interactive entertainment software products because of the content therein. Although the U.S. Supreme Court in 2011 held unconstitutional a California law which would have banned selling "violent" video games in California to children, similar restrictive legislation in other U.S. jurisdictions continues to be proposed. Further, the growth and development of electronic commerce and virtual items and tokens may lead to more stringent consumer protection laws that may impose additional burdens on or limitations on operations of such companies conducting business through the Internet and mobile devices. Furthermore, existing laws or new laws regarding the marketing of in-app purchases, regulation of currency, banking institutions, unclaimed property, and money laundering may be interpreted to cover virtual tokens or goods.

Sales Taxes

The application of indirect taxes, such as sales and use taxes, to the distribution of games by online download sales of PC products, purchases and downloads via third-party console, mobile and tablet platforms, and licensing of software to third-party or related party companies that distribute games and game related products is a complex and evolving issue. Generally, U.S. state and local sales tax laws require all retailers with a presence in the taxing jurisdiction to collect and remit sales taxes and file tax returns with respect to sales and certain licenses within such jurisdiction. Sales tax laws and rates vary greatly from state to state. Such distribution of games may require the developer/publisher to collect state and local sales tax from buyers and remit the sales tax to the appropriate taxing authorities, based on the buyer's location, unless there is a valid exemption from sales tax available with respect to such distribution of games. Certain sales tax exemptions that might be available include exemptions related to resellers and intangible property. From time to time, tax authorities may audit a business to assess whether the business has collected sales tax on applicable transactions. If audits of this kind determine that the business should have collected sales or other taxes on certain transactions, but failed to do so, the business may be liable for the taxes that should have been collected and subject to interest charges, fines or subsequent sales tax assessments.

Data Privacy and Security

There are a number of U.S., state and local laws and regulations that provide for certain obligations and restrictions with respect to data privacy and security, and the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure, and protection of personal information and other customer data gathered from end users of PC, video game console, handheld, mobile and tablet games. For example, the U.S. Children's Online Privacy Protection Act regulates the collection, use, and disclosure of personal information from children under 13 years of age, including requiring companies to obtain parental consent before collecting personal information from children under this age. Additionally, in the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to implement. The scope of these obligations and restrictions in the U.S. and its states is rapidly changing, subject to differing interpretations, and may be inconsistent among jurisdictions or conflict with other rules, and their status remains uncertain. The U.S. government, including the Federal Trade Commission and the Department of Commerce, is continuing to review the need for greater regulation over the collection of personal information and information about consumer behavior on the Internet and on mobile devices, which could impact the operation and marketing downloaded games.

As to providing downloads of games and game related products to mobile devices, distributors are also subject to additional regulations regarding communication via this channel, such as the Telephone Consumer Protection Act ("**TCPA**"). The interpretation of many of these laws, including the TCPA, and their application to current means of communication through mobile devices is unclear and in a state of flux. These laws may be interpreted and applied in a manner that is not consistent with current industry practices. The costs of compliance with these laws may increase in the future as a result of changes in interpretation and may greatly reduce distributors' ability to contact our players through this channel.

Foreign Exchange

The U.S. dollar is freely convertible and there are no restrictions generally affecting the remittance of funds. There are no currency control regulations, currency control restrictions or approval requirements applicable to outbound currency transfers.

Intellectual Property

U.S. law provides for the protection of various types of intellectual property, including patents, trademarks, copyrights and trade secrets.

U.S. patents are regulated by the U.S. Patent and Trademark Office ("**USPTO**") under the authority of the federal Patent Act, which was amended by the Leahy-Smith America Invents Act ("**AIA**"). There is no common law patent protection. A patent is a monopoly granted by the USPTO that affords the patent holder an exclusive right to manufacture, sell or use an invention throughout the country. An invention is patentable if it meets the requirements of the Patent Act, which determination is made by a USPTO patent examiner. Patent protection generally lasts for 20 years from the earliest patent application filing date. Design patents, which protect new, original and ornamental designs, are protected for 14 years from the date of issue.

Trademarks are used to identify and distinguish the particular source or origin of goods and services in a relevant marketplace, such as names, brands, symbols and slogans. In the U.S., trademark rights are territorial in nature. A trademark owner can receive legal protection for its trademarks whether they are unregistered (for the territory in which they have been used) or registered (for the territory in which they are registered). Trademarks are protected at the federal level under the Lanham Act and trademarks eligible for federal protection may be registered with the USPTO. Trademarks are also protected under state statutory and common law. Every state in the U.S. operates a trademark office that, with varying requirements, provides for registration in that state. Although trademarks do not need to be registered to be protected, there are benefits to registration including presumptions of ownership and the exclusive right to use the mark throughout the territory in which it is registered (the entire country in the case of a federal registration) or in connection with the goods and services listed in the registration. Federal protection lasts 10 years and is renewable indefinitely in 10-year increments if the mark continues to be used in commerce.

Copyrights are regulated in the U.S. by the U.S. Copyright Office under the authority of the federal Copyright Act. Copyrights automatically vest in protectable works on creation and there is no requirement to register a copyright to obtain legal protection for the work. However, with certain limited exceptions, copyrighted works must be registered to bring an infringement action in court. Registration is required to obtain certain other benefits, such as evidentiary advantages in infringement litigation and the availability of statutory damages and attorney's fees. A work is protected if it is original and fixed in a tangible medium of expression for more than some transitory period of time. Copyright protection generally lasts for the life of the author, plus 70 years.

Trade secrets are protected in the U.S. at the federal level under the Economic Espionage Act, which was amended by the Defend Trade Secrets Act of 2016 ("**DTSA**"), and at the state level by state trade secret statutes. All states, except Massachusetts and New York, as well as the District of Columbia and the US Virgin Islands, have adopted a version of the Uniform Trade Secrets Act ("**UTSA**"). Until the DTSA, private enforcement of trade secrets was governed exclusively by state law. The DTSA supplements but does not preempt state law and confers on U.S. federal courts jurisdiction over civil claims of trade secret misappropriation. Under both federal and state law, trade secret protections apply broadly to business, financial, and technical information that meets the following criteria: (i) is not generally known or ascertainable outside of the owner's organization and control, (ii) the owner derives independent economic value or business advantage from the information not being generally known and (iii) the owner make reasonable efforts to preserve its secrecy. Trade secrets protection lasts until the information is publicly available or until the owner no longer derives economic value or business advantage from its secrecy.

GROUP STRUCTURE, HISTORY AND DEVELOPMENT OF SUBJECT COMPANIES

(A) Group Structure, History and Development of the Acquired Group

General

The Acquired Group was founded on 23 December 1993, when Digital Extremes was incorporated under the laws of Ontario in Canada by Mr. James Schmalz. On 31 December 1993, Digital Extremes entered into an asset purchase agreement with Mr. James Schmalz, pursuant to which Digital Extremes agreed to purchase, and Mr. James Schmalz agreed to sell, certain assets stated therein. As part of the consideration for such asset purchase, Digital Extremes allotted and issued to Mr. James Schmalz 100 common shares of Digital Extremes.

On 22 February 2007, the common shares of Digital Extremes was split on a 1:100,000 basis, and after such share split, Mr. James Schmalz held 10,000,000 common shares of Digital Extremes.

In June 2013, Digital Extremes underwent a reorganization, including the creation of additional classes of shares, distribution of dividends and multiple share subscriptions, primarily in order to facilitate the establishment of DE Employee Trust and cater for the tax planning of its then shareholders. Immediately after such reorganization and prior to the 58% Acquisition (the details of which are set out in the section headed "– Acquisition by the Company – 58% Acquisition" below), the issued shares of Digital Extremes were held by its then shareholders as follows:

Shareholder	Number and class of shares	As a percentage of the total issued share capital of Digital Extremes
Ontario 1 Ltd. (a company wholly owned by Mr. James Schmalz)	13,400,000 common shares	66.97%
	10,000 class B non-voting redeemable special shares	0.05%
Sub-total	***13,410,000 shares***	***67.02%***
Ontario 2 Ltd. (a company wholly owned by Dr. Michael Schmalz and Michael Schmalz Family Trust together)	1,400,000 common shares	7.00%

Shareholder	Number and class of shares	As a percentage of the total issued share capital of Digital Extremes
Ontario 3 Ltd. (a company wholly owned by Mr. Steve Sinclair)	2,020,000 common shares	10.09%
DE Employee Trust	3,180,000 common shares	15.89%
Total	**20,010,000 shares**	**100.00%**

On May 7, 2014, Digital Extremes US was incorporated by Digital Extremes as its sole shareholder under the laws of California and authorized to issue 10,000,000 shares of common stock. Digital Extremes US was primarily engaged in the marketing of the video games developed by Digital Extremes in the United States. Since its incorporation, Digital Extremes US has been wholly owned by Digital Extremes.

Acquisition by the Company

58% Acquisition

On 14 October 2014, Ontario Ltd. 1, Ontario Ltd. 2, Ontario Ltd. 3, DE Employee Trust (together with Ontario Ltd. 1, Ontario Ltd. 2, Ontario Ltd. 3, the "**Vendors**"), Multi Dynamic Games, Perfect Online, Digital Extremes and certain other parties entered into the Acquisition Agreement, pursuant to which Multi Dynamic Games and Perfect Online conditionally agreed to severally but not jointly acquire Leyou Sale Shares (representing 58.0% of the entire issued share capital of Digital Extremes) and the PW Sale Shares (representing 3.0% of the entire issued share capital of Digital Extremes) respectively from the Vendors for an aggregate consideration of US$73.2 million (equivalent to approximately HK$567.3 million), of which US$69.6 million is attributable to the Leyou Sale Shares and the balance of US$3.6 million is attributable to the PW Sale Shares. Please refer to the announcement of the Company dated 10 October 2014 and the circular of the Company dated 23 December 2014 in relation to, among other things, the 58% Acquisition for more details.

2015 Amalgamation

Pursuant to an amalgamation agreement dated 20 July 2015, Digital Extremes amalgamated with Ontario Ltd. 2 and Ontario Ltd. 3 (the "**2015 Amalgamation**"). As a result of the 2015 Amalgamation, the shares to be acquired pursuant to the Acquisition Agreement became the aggregate 61.0% of the common shares and 61.0% of the Class B special shares of the resulting entity of the 2015 Amalgamation, and the Vendors became Ontario Ltd. 1, DE Employee Trust, Ontario Ltd. 4, Michael Schmalz Family Trust, Ontario Ltd. 5 and Mr. Steve Sinclair. Other than that, the 2015 Amalgamation did not affect the commercial agreement previously reached between the parties. Please refer to the announcement of the Company dated 21 July 2015 in relation to, among other things, the 2015 Amalgamation for more details.

The 58% Acquisition was completed on 21 July 2015 and the considerations for the 58% Acquisition was settled by Multi Dynamic Games and Perfect Online in full on the same day. Immediately upon the completion of 58% Acquisition, Digital Extremes became an indirect non-wholly owned subsidiary of the Company.

39% Acquisition

On 30 December 2015, Multi Dynamic Games served a call notice on the 39% Vendors to exercise the 39% call option pursuant to the New Shareholders' Agreement to acquire the 39% Sale Shares from the 39% Vendors, receipt of which was acknowledged on 1 January 2016. Pursuant to the 39% Call Option, on 28 April 2016, Multi Dynamic Games entered into the Second Acquisition Agreement, among other parties, with the 39% Vendors, pursuant to which each of the 39% Vendors shall sell, as the legal and beneficial owner, and Multi Dynamic Games shall purchase the 39% Sale Shares at the 39% Consideration on the 39% Acquisition Closing Date.

On 20 May 2016 all the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled, and the completion of 39% Acquisition took place on the same day. The final 39% Consideration (including the adjustment of the Vendor's Distributable Profits Shortfall, being the US dollar equivalent of C$2,660,828) paid by Multi Dynamic Games to the 39% Vendors amounted to US$65,028,688 (equivalent to approximately HK$503,972,335), which was fully settled in full on the date of the completion. Following the completion of 39% Acquisition, both the common shares and Class B special shares in the issued share capital of Digital Extremes were owned as to 97.0% by Multi Dynamic Games and 3.0% by Perfect Online. Please refer to the announcement of the Company dated 28 April 2016 in relation to the 39% Acquisition for more details.

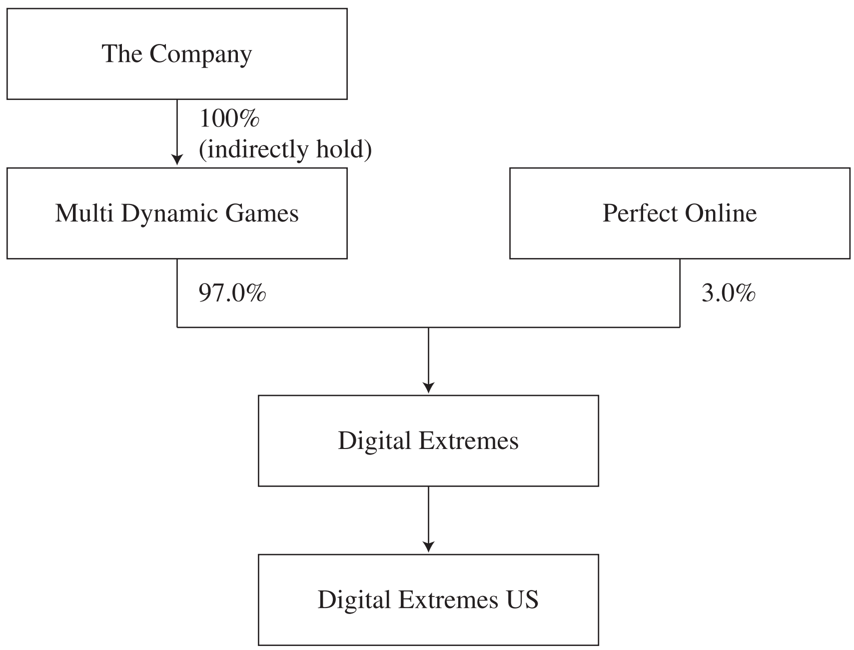
Business Milestones

Set out below is a list of major milestones of the business development of the Acquired Group:

Year	Business Milestones
1993	Incorporation of Digital Extremes
1998	Launch of *Unreal* – published by GT Interactive
2002	Commencement of the development of Evolution Engine
2005	Launch of *Pariah* on Xbox 360 and PC platforms published by Groove Games
2008	Launch of *Dark Sector* published by D3 Publishing of America
2011	Launch of *Homefront* published by THQ Games
2013	Launch of *Star Trek* on PS3, Xbox 360 and PC platforms published by Paramount Pictures, and launch of *Warframe* on PS4 and PC platforms published by Digital Extremes
2014	Launch of *Warframe* on Xbox One platform published by Digital Extremes
2015	Digital Extremes became a subsidiary of the Company, and *Warframe* entered into China market

Group Structure

The structure of the Acquired Group as at the Latest Practicable Date is as follows:



(B) Group Structure, History and Development of the Target Group

General

Splash Damage was incorporated under the laws of England and Wales on 30 April 2001 with an authorized share capital of £1,000 divided into 1,000 ordinary shares of £1 each. Upon its incorporation, Splash Damage was owned as to 50% by PW and as to 50% by Francesca Wedgwood. On 27 February 2006, Francesca Wedgwood transferred all the ordinary shares of Splash Damage held by her to PW, after which PW became the sole shareholder of Splash Damage. On 1 September 2009, each authorized and issued ordinary share of £1 each in the share capital of Splash Damage was sub-divided into 10,000 ordinary shares of £0.0001 each. After such share sub-division, the authorized share capital of Splash Damage comprised 10,000,000 ordinary shares of £0.0001 each, and the issued share capital of Splash Damage comprised 1,000,000 ordinary shares of £0.0001 each, all of which were held by PW. On 18 December 2007, Demolition Games was incorporated by PW under the laws of England and Wales with an initial share capital of £100 divided into 100 ordinary shares of £1 each. On 31 March 2015, PW transferred the 100 ordinary shares of Demolition Games to Splash Damage for a consideration of £100, after such transfer Demolition Games become a wholly-owned subsidiary of Splash Damage. Since its incorporation, Demolition Games has been dormant.

Fireteam was incorporated under the laws of England and Wales on 22 September 2011. Upon its incorporation, Fireteam was wholly owned by PW. On 10 July 2012, the single issued ordinary share of £1 in the share capital of Fireteam was sub-divided into 1,000,000 ordinary shares of £0.000001 each, all of which are held by PW.

Warchest was incorporated under the laws of England and Wales on 22 September 2011. Upon its incorporation, Warchest was wholly owned by PW. On 10 July 2012, and the single issued ordinary share of £1 in the share capital of Warchest was sub-divided into 1,000,000 ordinary shares of £0.000001 each, all of which are held by PW.

Milestones

Set out below is a list of major milestones of the business development of the Target Group:

Year	**Business Milestones**
2001	Incorporation of Splash Damage
2002	Release of *Return to Castle Wolfenstein Game of the Year Edition*
2003	Release of *Wolfenstein: Enemy Territory*
2004	Release of *Doom 3*
2007	Release of *Enemy Territory: Quake Wars*
2011	Incorporation of Fireteam and Warchest; release of *Brink*
2012	Release of *RAD Soldiers*
2013	Release of *Batman: Arkham Origins*
2015	Release of *Dirty Bomb*, *Tempo* and *Gears of War: Ultimate Edition*
2016	Release of *Gears of War 4*

Group Structure of the Target Group

Please refer to the section headed "Shareholding Structure of the Group and the Target Group" in the letter from the Board in this circular for the shareholding structure of the Group and the Target Group (i) as at the Latest Practicable Date; (ii) upon the exercise of all the options granted to the Optionholders by the Target Group immediately prior to Completion; and (iii) immediately after Completion.

OVERVIEW

The Acquired Group is principally engaged in the development and publishing of video games for both PC and home-gaming console hardware terminals, as well as the sale of merchandise. Founded in 1993, the Acquired Group focused on developing video games for third-party publishers under the "work-for-hire" model up to 2013. The Acquired Group has been retained by market-leading third-party publishers to develop video games on their behalf. It developed games such as *The Darkness II*, *Star Trek*, and *Dark Sector* under the work-for-hire model.

The Acquired Group started to focus on the development of *Warframe* in 2012. In March 2013, the Acquired Group began the online distribution of *Warframe*, a self-published title that is a co-op-based, third-person-shooter game set in an evolving sci-fi world on both PC and home-gaming consoles under the "free-to-play" model. As at the Latest Practicable Date, *Warframe* has been published on distribution channels including PC, Xbox One, and PlayStation 4. According to the Frost & Sullivan Report, *Warframe* ranked 5th on PC and 3rd on consoles in terms of the total number of active users among all major free-to-play games and ranked 18th in terms of the total number of active users among all major games in the two weeks ended 15 February 2017.

The revenue under the free-to-play model is generated primarily from the sales of virtual token to players through microtransactions. *Warframe* is played in over 200 countries, including the United States, Canada, the United Kingdom, and Germany. As at the Latest Practicable Date, the number of registered players of *Warframe* has reached over 26 million. During the Track Record Period, the Acquired Group generated a substantial portion of its revenue from publishing *Warframe*. For the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, the Acquired Group generated approximately CAD23.5 million, CAD65.5 million, CAD114.6 million, and CAD114.3 million revenue from its game development and publishing segment, representing approximately 80.4%, 99.4%, 99.6%, and 99.7% of the Acquired Group's total revenue, respectively.

The Acquired Group has developed the Evolution Engine as its proprietary video game development engine. The Evolution Engine offers a variety of tools and processes to help the Acquired Group make games more efficiently and cost effectively. During the Track Record Period, the Acquired Group made its games available for download through (i) the webpage of the Acquired Group, serving as its proprietary distribution channel, and (ii) distributional channels owned by third-party channel distributors. As at the Latest Practicable Date, the Acquired Group maintained its strongest distribution coverage in North America and Europe. *Warframe* has been distributed through third-party international channel distributors, third-party PRC publishers, and its proprietary distribution channel. During the Track Record Period, the Acquired Group generated the majority of its revenue from international distribution through third-party international channel distributors, including Steam, PlayStation, and Xbox. For the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, the Acquired Group generated approximately CAD14.0 million, CAD52.6 million, CAD94.0 million, and CAD98.0 million revenue from royalties received from third-party international distribution channels, representing approximately 48.1%, 79.9%, 81.7%, and 85.5% of its total revenue, respectively.

In order to take advantage of the commercial opportunities presented by the popularity generated by the Acquired Group's games and game characters, the Acquired Group is also engaged in marketing collectibles, apparel, and other merchandise based on *Warframe* and its characters.

COMPETITIVE STRENGTHS

The Acquired Group believes that the following competitive strengths are key to its continued success.

The Acquired Group possesses strong in-house game development and operation expertise

Anchored by the Acquired Group's core game development talent, which is led by its senior management team, the Acquired Group has recognised game development expertise as demonstrated by its track record as a developer under the work-for-hire model and the success of *Warframe*. The Acquired Group also maintains a database of game-related data. For example, the database records when players log into their game accounts and purchase in-game virtual items, and such data are carefully analysed by the Acquired Group's game analytics team. As a result of its game development and hosting process, complemented by the creativity and expertise of the Acquired Group's game development and management team, as well as the core intellectual property owned by the Acquired Group, it is able to continually deliver video games with good quality. The Acquired Group also aims to launch new popular titles by leveraging on its game development talent. The Acquired Group believes that it has quick development and short update cycles, which gives the Acquired Group a competitive advantage to adapt to changing market conditions and players' preferences.

The Acquired Group believes that its track record of launching successful games under the owned-IP model and the proven ability to update and optimise games would enhance visibility and market penetration for games developed by the Acquired Group.

The Acquired Group's self-developed Evolution Engine represents a significant competitive advantage by helping its game development team to create better games on time and within budget

The Evolution Engine is a game development engine that was developed by the Acquired Group's in-house engineers. The Evolution Engine offers a variety of tools and processes by which developers of the Acquired Group can develop video games efficiently, and it plays a crucial role in implementing the Acquired Group's video game concepts and designs. The Evolution Engine also functions as a debugging facility. The Acquired Group believes that the Evolution Engine represents a significant competitive advantage as it is developed by the Acquired Group's in-house engineers, who can customise, maintain, and update the engine in order to add new features based on the Acquired Group's game development needs. The Evolution Engine is also tailored to apply rapid and constant iteration to accommodate the technical requirements of the Acquired Group in a timely manner. Please see the section headed "– Game Development and Publishing – Monetisation Mode – Technology Engines and Tools" for details on page 136 of this circular.

The Acquired Group possesses an experienced management team with extensive operational experience and industry knowledge

The management team of the Acquired Group has extensive operational experience in the game development industry. Mr. James Schmalz, the founder and chief executive officer of Digital Extremes, is responsible for overseeing the Acquired Group's game development process, working with the development team to improve the fun element of games developed by the Acquired Group and identifying new business leads and opportunities. Dr. Michael Schmalz, the president of Digital Extremes and the brother of Mr. James Schmalz, is responsible for formulating the Acquired Group's corporate and business strategies and for its day-to-day operation and management. Mr. Sinclair, the creative director of Digital Extremes, is responsible for providing direction for the development team of *Warframe*. Mr. Pettypiece, the chief financial officer of Digital Extremes since 2014, is responsible for managing the corporate finances and overseeing the information technology team and analytics team of the Acquired Group. The Acquired Group possesses a stable management team that is able to coherently plan and execute the Acquired Group's strategic corporate goals. The Acquired Group's management team believes that it has developed a cohesive and collegial culture to inspire and facilitate collaboration, which the Acquired Group believes will help in attracting, retaining, and motivating its innovative game development team to drive its fast business growth. The Acquired Group also believes that having a stable management team enables it to leverage the strong and stable interpersonal relationships that the members of its management team have established with the Acquired Group. Please see the section headed "Directors and Senior Management of the Subject Companies – (A) Directors and Senior Management of the Acquired Group" for further details of the biographies of the Acquired Group's management team on page 194 of this circular.

STRATEGIES

The Acquired Group aims to execute the following strategies to further increase the number of players and improve monetisation of its games.

Continue to expand the Acquired Group's game portfolio

The Acquired Group aims to continue to develop more fun and exciting PC and home-gaming console game titles and to diversify its game portfolio into broader genres (in addition to its current focus on sci-fi adventure and fantasy types of games) to capture broader segments of the game population around the world. The Acquired Group aims to do so by leveraging the talent of its team and its streamlined game development and optimisation process as supported by the aforementioned Evolution Engine by continuing to invest in its in-house game development and by hiring more game development staff. The Acquired Group will continue to seek out promising game development teams with the goal of expanding its game development capacity.

As at the Latest Practicable Date, the Acquired Group was in the process of developing one new first-person competitive shooter game. As at the Latest Practicable Date, this new game title was in its development/beta testing phase with an expected commercialisation date in the second quarter of 2017. Please see the section headed "– Game Development and Publishing – Monetisation Mode – Game Pipeline" for details on page 135 of this circular.

Continue to explore business opportunities with other game development studios

The Acquired Group plans to explore business opportunities with other game development studios to expand its game portfolio and geographic coverage. While the Acquired Group substantially develops the main content and almost all aspects of its video games at its games studio, it outsources certain steps of production, and sometimes the development of the whole game, to third parties with specific expertise under the work-for-hire model. The Acquired Group intends to selectively invest in or enter into strategic alliances with complementary game development studios to broaden its game genres and player reach. The Acquired Group may also acquire intellectual property or invest in or enter into strategic alliances with third-party development studios to publish its games. The Acquired Group believes that such investment and/or formulation of strategic alliances will help broaden its game genres and complement its development capabilities. As at the Latest Practicable Date, the Acquired Group had not identified any investment or opportunities for any strategic alliance.

Deepen market penetration and accelerate player monetisation

The Acquired Group intends to solidify its game distribution arrangements and explore opportunities for new business relationships to deepen the market penetration of its existing and future games. In addition to utilising its own game portal *warframe.com* as a proprietary distribution channel for the Acquired Group to promote and distribute the game, the Acquired Group plans to strengthen its existing relationships with major third-party distribution channels for *Warframe*. In particular, the Acquired Group intends to continue to market and promote its existing and future games through leading and popular third-party international distribution channel providers in less penetrated East Asian markets such as Japan, Indonesia, and Singapore.

The Acquired Group also intends to explore and accelerate monetisation by expanding its paying player base, so as to increase the revenue generated from *Warframe*. In particular, the Acquired Group plans to increase the types of in-game virtual items and promotional sales and introduce attractive new virtual items and new game features and other premium service offerings. In order to expand its game portfolio, the Acquired Group also plans to launch a new video game that it believes has strong monetisation potential in the second quarter of 2017. To enhance game monetisation, the Acquired Group will continue to improve the quality of the games, introduce new game features, services, and virtual items, launch additional in-game promotions and other activities in order to stimulate player interest and drive in-game purchases and the number of rounds of games they play. Please see the section headed "– Game Development and Publishing – Monetisation Mode – Game Pipeline" for details on page 135 of this circular.

Continue to strengthen game development, and invest in leading technologies

A strong game development team is crucial for the development of successful video games. In order to strengthen its game development capabilities, the Acquired Group has always attached special importance to recruiting and training quality game development personnel. The game development team of the Acquired Group makes up over 60% of its total headcount as at the end of the Latest Practicable Date. The Acquired Group plans to recruit and retain more game development personnel with rich experience in game development. The Acquired Group will also continue its effort in refining and optimising the Evolution Engine to further enhance the Acquired Group's game development capability and efficiency. In order to meet the needs of its expanding business operation and player base and continuously optimise its game operation, the Acquired Group plans to improve its current game analytics technology, which tracks, analyses, and reports certain game data, such as in-game behaviour metrics and player activity data. The Acquired Group believes that such improvement to its game analytics technology will allow the Acquired Group to better understand the factors that influence video game players' engagement with their games, which will consequently allow the Acquired Group to make video games that offer a better gaming experience.

BUSINESS OPERATIONS

The Acquired Group is principally engaged in the development and publishing of video games for both PC and home-gaming console hardware terminals, as well as the sale of merchandise. The Acquired Group's business comprises the following three segments.

(a) *Game Development and Publishing*: Since 2013, the Acquired Group has developed video games, primarily focusing on the sci-fi adventure and fantasy shooting types of three-dimensional games for both PC and home-gaming consoles hardware terminals such as Xbox One and PlayStation 4, under the free-to-play model. In March 2013, the Acquired Group began the online distribution of its self-published title, *Warframe*.

Under the free-to-play model, players can play all basic features of the games for free. The players also have the opportunity to purchase virtual items using virtual tokens and are able to obtain these virtual tokens by paying money. The virtual tokens can be used to exchange for virtual items in the game.

During the Track Record Period, the Acquired Group generated approximately CAD23.5 million, CAD65.5 million, CAD114.6 million, and CAD114.3 million in revenue under this segment, representing approximately 80.4%, 99.4%, 99.6%, and 99.7% of its total revenue for the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, respectively.

(b) *Sales of Merchandise*: In order to take advantage of the commercial opportunities presented by the popularity generated by the Acquired Group's games and game characters, since 2014 the Acquired Group has also been engaged in marketing collectibles, apparel, and other merchandise based on *Warframe* and its characters.

During the Track Record Period, the Acquired Group generated approximately nil, CAD0.1 million, CAD0.3 million, and CAD0.2 million in revenue under this segment, representing approximately nil, 0.3%, 0.2%, and 0.2% of its total revenue for the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, respectively.

(c) *Work-for-hire*: Prior to 2013, the Acquired Group focused on developing video games for third-party publishers under the work-for-hire model. The Acquired Group has been retained by market-leading third-party publishers to develop video games on their behalf. It developed games such as *Darkness II*, *Star Trek*, and *Dark Sector* under the work-for-hire model. The Acquired Group delivered to and performed for the third-party publishers the goods and services as "works-for-hire". It received advances from publishers and contractual amounts upon successful completion of contractual milestones. Depending on the terms of engagement on a case by case basis, royalties were received from publishers after the launch of the product for certain work-for-hire projects.

During the Track Record Period, the Acquired Group generated approximately CAD5.7 million, CAD0.2 million, CAD0.2 million, and CAD0.1 million in revenue under this segment, representing approximately 19.6%, 0.3%, 0.2%, and 0.1% of its total revenue for the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, respectively.

The table below sets forth the segment revenue of the three revenue segments of the Acquired Group, namely (i) game development and publishing, (ii) sales of merchandise, and (iii) royalties received from the previous work-for-hire projects. The Acquired Group experienced significant growth during the Track Record Period. It generated revenue of approximately CAD29.2 million, CAD65.8 million, CAD115.1 million, and CAD114.7 million for the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, respectively, representing a CAGR of 98.5% from 2013 to 2015.

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Segment Revenue					
Game development and publishing	23,477,508	65,454,712	114,566,414	74,582,993	114,298,233
Sales of merchandise	–	140,626	318,665	239,390	240,028
Work-for-hire	5,728,058	229,727	195,320	94,358	136,979
Total	29,205,566	65,825,065	115,080,399	74,916,741	114,675,240

GAME DEVELOPMENT AND PUBLISHING

Game Development

The Acquired Group develops video games, primarily focusing on the sci-fi adventure and fantasy shooting types of three-dimensional games for both PC and home-gaming console hardware terminals, such as Xbox One and PlayStation 4, under the free-to-play model. Generally, all of the intellectual property relating to the games developed under this model vest in the Acquired Group itself.

Prior to 2013, the Acquired Group focused on developing video games for third-party publishers under the work-for-hire model. The Acquired Group has been retained by market-leading third-party publishers to develop video games on their behalf. It developed games such as *The Darkness II*, *Star Trek*, and *Dark Sector* under the work-for-hire model. The Acquired Group delivered to and performed for the third-party publishers the goods and services as works-for-hire.

The Darkness II

The Darkness II is the sequel to the 2007 release of *The Darkness*. *The Darkness II* is an intense first-person shooter game that puts players in the role of Jackie Estacado, don of a New York crime family and wielder of an ancient force of chaos known as The Darkness.

Star Trek

Star Trek follows the adventure of Captain James T. Kirk and the crew of the Starfleet starship USS Enterprise. The player takes control of either Kick or Spock and investigates the theft of a terraforming device from the colony of New Vulcan by the Gorn.

Dark Sector

Dark Sector thrusts players into the role of Hayden Tenno, a covert operative sent on a dangerous mission into Lasria, an Eastern European city on the brink of ruin that hides a deadly Cold War secret. In the midst of this mission, Hayden is attacked by an unknown enemy and infected by the Technocyte Virus.

In March 2013, the Acquired Group began distribution of a self-published title, *Warframe*, through various channel distributors. *Warframe* is a self-developed, multiplayer, co-op-based, third-person shooter game set in an evolving sci-fi world. In *Warframe*, players control members of the Tenno, a race of ancient warriors who have awoken from centuries of cryosleep to find themselves at war with three factions: (i) the Grineer, a race of militarised and deteriorated human clones; (ii) the Corpus, a mega-corporation with advanced robotics and laser technology; and (iii) the Infested, disfigured victims of a viral infection. To fight back, the Tenno use warframes, which are psionically controlled, biomechanical biosuits that channel their unique abilities.

Up to four players work together to complete missions, such as eliminating enemies, retrieving data from terminals, assassinating high-ranking/dangerous targets, defending an artifact, or surviving as long as possible. Prior to a mission, players prepare their Tenno for battle by equipping gear from their collected arsenal. Tenno are equipped with three weapons: a primary weapon; a secondary weapon; and a melee weapon. All equipment can be upgraded with mods that drop from enemies or given as mission rewards. There are also computer-controlled companions that can accompany Tenno on missions, each with their own powers. Players earn experience points for killing enemies and completing challenges and missions, which allow them to level up their weapons, armor, and companions.

The camera is positioned over the shoulder for third-person shooting and movement. The player can jump, sprint, slide, and roll, as well as combine techniques to quickly move throughout the level and avoid enemy shots. The game also allows players to utilise parkour techniques to evade enemies, bypass obstacles, or gain access to secret areas. Maps are generated procedurally with pre-built rooms connected together so that no levels have the same layout. New weapons, warframes, equipment, and blueprints to construct such equipment can be purchased in the market, using either credits earned in-game or Platinum, a premium virtual token that can be purchased via microtransactions in the game.

The Acquired Group provides regular updates to *Warframe* by which new weapons are launched once in a while and major update cycles at intervals ranging from approximately six weeks to three months. The Acquired Group closely monitors player preferences and market trends, which it uses to guide the overall direction of *Warframe* updates. It maintains a database of game-related data, including players' login times and transactions made in-game. The game development team strives to make a greater variety of customisable virtual items and to efficiently capture players' interest using different monetisation strategies.

As at the Latest Practicable Date, *Warframe* has been published on PC, Xbox One, and PlayStation 4. According to the Frost & Sullivan Report, *Warframe* ranked 5th on PC and 3rd on consoles in terms of total number of active users among all the major free-to-play games and ranked 18th in terms of the total number of active users among all the major games in the two weeks ended 15 February 2017. Please also see the section headed "– Awards and Recognition" for a list of awards for *Warframe* on page 157 of this circular.

Monetisation Model

The revenue under the free-to-play model is generated primarily from the sales of virtual tokens to players through microtransactions. *Warframe* is played in over 200 countries, including the United States, Canada, the United Kingdom, and Germany. As at the Latest Practicable Date, the number of registered players of *Warframe* had reached over 26 million. During the Track Record Period, the Acquired Group generated a substantial portion of its revenue from publishing *Warframe*. For the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, the Acquired Group generated approximately CAD23.5 million, CAD65.5 million, CAD114.6 million, and CAD114.3 million revenue from its game development and publishing segment, representing 80.4%, 99.4%, 99.6%, and 99.7% of its total revenue, respectively.

Under the free-to-play model, players can play all basic features of the games for free. The players also have the opportunity to purchase virtual items using virtual tokens. Players pay money for virtual tokens. The virtual tokens purchased by the players is earmarked for a particular game, can only be used to exchange for virtual items in that game, and cannot be used for any other purpose. The virtual tokens are not redeemable into cash or exchangeable into other items of value. The virtual tokens and virtual items are not refundable once purchased by the players according to the Acquired Group's standard terms and conditions.

Virtual items are non-physical items represented within the game by images, animations, or three-dimensional objects, such as weapons and characteristics that provide a player with additional or enhanced abilities within a game. Players can also buy virtual items in bundles through the webpage of the Acquired Group or buy "Prime Access" bundled together with virtual tokens. Prime Access is a rotating promotion programme that includes the latest premium virtual items in bundles at a discounted rate made available for purchase on *warframe.com*. Prime Access offers instant access to the latest Prime Warframes and Prime Gear.

The Acquired Group strives to sell virtual items in *Warframe* through a rapid and constant iteration process with loops of monetisation features in the game. The Acquired Group provides regular updates to *Warframe* by which new weapons are launched once in a while and major update cycles at intervals ranging from approximately six weeks to three months, such that new virtual items and new tool sets are constantly being offered to players to refresh and maintain the popularity of the game.

The Acquired Group has sole discretion in determining the price of in-game virtual tokens. The Acquired Group sets a base USD price for virtual tokens and then converts that price to other currencies using foreign exchange rates and pricing recommendations from distribution partners. The Acquired Group also introduces a coupon system where players can receive discounts on their purchases of virtual tokens. The analytics team regularly reviews how players purchase items when they receive coupons in each country. Different coupons are available for different international markets.

The Acquired Group also adopts consistent pricing strategies for virtual items in their games published on its website and the international distribution channels. The prices of different virtual items in the Acquired Group's games may vary widely. The Acquired Group determines the price of each virtual item generally based on an analysis of certain benchmarks, such as the perceived advantage that the virtual item brings to the player's character, the expected level of demand for the virtual item, and whether certain virtual items shall be considered rare pieces as part of the game strategies. Players purchase virtual tokens, the standard price of which is 75 units of virtual tokens for US$4.99, and the prices of individual virtual items vary widely from 10 units to 800 units of virtual tokens. There has not been a material fluctuation of the price range and the Acquired Group believes that the price range would not be subject to a material fluctuation.

Game Pipeline

The Acquired Group closely monitors player preferences and market trends and develops innovative video games. As at the Latest Practicable Date, the Acquired Group was in the process of developing a first-person competitive shooter game for PC. It is currently at its development/beta testing phase and is estimated to be commercialised in the second quarter of 2017. According to the Frost & Sullivan Report, since the first FPS game was released in 1992, shooting games have always been one of the most popular game genres.

Similar to the style with *Warframe*, the Acquired Group intends to incrementally build up the games and follow that with a rapid and constant iteration process. Furthermore, the Acquired Group pays attention to players' likes and dislikes as their first priority. The Acquired Group has devised processes to survey players in the thousands on a daily basis and to display, on dashboards as live daily data, their feelings about the games and whether they would recommend them to other players. Such information is valuable in developing new games.

Development Teams

The Acquired Group's game development activities are team-based. As at 30 September 2016, the Acquired Group had approximately 175 game development personnel with varied educational and professional backgrounds. The Acquired Group sets up separate teams for different game development projects. Each development team is responsible for a game's development and operation, as well as the continuous enhancement of the games it has developed, including ongoing monitoring, problem-solving, and development and release of upgrades. Certain numbers of development personnel remain unchanged in the entire game development process, providing constant updates and patches to support existing games, while some others may be assigned to work on other development projects in the pipeline.

While it substantially develops the main content and almost all aspects of its video games at its games studio, the Acquired Group outsources certain tasks of production. From time to time, the Acquired Group procures external resources that do not exist within its games studio, such as a composer and voice actors and specialised service providers. It also engages third-party game developers to develop video games on its behalf under a work-for-hire arrangement. Under this work-for-hire arrangement, all graphics images, software, source-code documentation, and deliverables created by the third-party game developer vest in the Acquired Group, except for all pre-existing intellectual property of the third-party game developer. Please see the section headed "– Suppliers – External Game Content Contributors" for further details on page 147 of this circular.

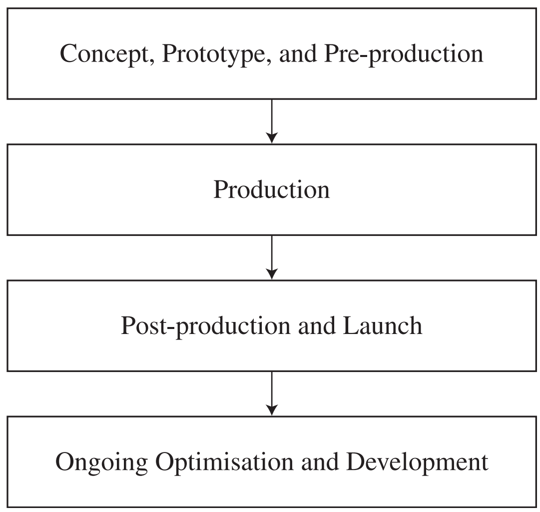
Technology Engines and Tools

The Acquired Group has built a proprietary game development engine and tools that are central to its game development process. The Evolution Engine is the game development engine that was developed by the Acquired Group in-house that offers a variety of tools and processes to help developers make games more efficiently and cost effectively. The Evolution Engine is the base technology upon which all of the Acquired Group's games are built. The Evolution Engine also functions as a debugging facility and has a built-in bug database.

The Acquired Group believes that the Evolution Engine represents a significant competitive advantage as it is developed by in-house engineers who can customise, maintain, and update the engine in order to add new features, such as the setting up of in-game environments. The Evolution Engine is also tailored to apply rapid and constant iteration so that the game *Warframe* can be as self-sufficient as possible.

Development and Optimisation Process

The Acquired Group has strong in-house game development capabilities. The game development process can be divided into four general phases. The initial phase usually takes 12 to 24 months, while the final phase is ongoing until a game is phased out. Throughout the process, the Evolution Engine, as the Acquired Group's proprietary game development engine, plays a crucial role in executing its innovative game development ideas. The Acquired Group also closely monitors each game's development process to be confident that its games will be well received among the gaming community.



Concept, Prototype, and Pre-production

During the concept phase, the Acquired Group starts creating an overall concept by designing and drawing visuals of how the game should look. The Acquired Group also establishes the primary gameplay mechanics and establishes the initial game story or narrative background. When a concept is formed, the fine-tuning of such a concept takes place at this initial phase. In pre-production, the aim is to produce a comprehensive technical design document and art design documents that outline all the major game systems and create a resource plan for how the project will progress. An alpha prototype, which is a small, polished segment of the game, may also be included in the pre-production phase at the discretion of the team. This version of the game would demonstrate the look and feel of the game to a near-final standard.

This phase usually takes three to six months and concludes when the Acquired Group is satisfied with the overall design and feasibility of the game and the resource plan to create it.

Production

At this phase, the main content, including all of the various elements and details of the game, is created. The Acquired Group may call in external resources that do not exist within its game studio, such as music composers and voice actors, if those resources are not available internally.

This phase usually takes 12 to 16 months and concludes with a beta game launch or retail launch as appropriate. The Acquired Group invites certain players to conduct focus testing in terms of gauging their valuable feedback on the games to be released. This group of community players typically consists of hand-picked and trusted players that the Acquired Group has collaborated with in the past. Players' data is captured, and the product is fine-tuned based on players' likes and dislikes.

Post-production and Launch

Although there are marketing and public relations activities undertaken prior to launch, it becomes more important at this phase for the social media, community management, and content marketing teams of the Acquired Group to promote the title and manage the community. The Acquired Group uses a group of community players as a sounding board to whom it gives early access of the games to be released. This phase also includes the development of additional updates and downloadable content, managing regularly scheduled in-game events and following up on bug-fixing and post-launch game refinements. The game will be officially launched at this phase.

Ongoing Optimisation and Development

This is the "live" phase, which involves the management of the game through the rest of its game life cycle. Some games will lend themselves to ongoing updates that can extend the game for many years. In general, post-development content will be created for a game as long as it generates a positive return on investment.

During the ongoing optimisation and development phases, the content and features of the games are continuously being developed and updated to enhance existing players' in-game experiences and to attract new players. New virtual items are made available on a regular basis to stimulate players' interest in the game. The continuous development and updates of the games are therefore significant factors contributing to the games' sustainability and growth, as the number of players often experiences boosts immediately after substantial game updates.

Since the initial launch of *Warframe*, the Acquired Group has been making update releases at approximately weekly intervals (though some of the more substantial updates take longer to release), which include significant in-game changes such as new virtual items, tool sets, environments, and cut scenes. Minor weekly updates to the games are also released that include weekend events, new items for sale, bug fixes, and other improvements.

Through ongoing game optimisation and development, the Acquired Group not only maintains its existing player base and revenue stream but can also expand its player base and revenue stream by attracting new players through such game updates and by leveraging its cooperation with the third-party distribution channels.

The Acquired Group keeps track of performance when a game is in live operation and continues to work on the live development of the games in order to constantly update and optimise the games and retain the user base. Updates and optimisation will sometimes be based on what the players are looking for and sometimes on data the Acquired Group collects. The Acquired Group dedicates effort to knowing the players' experiences by establishing general community forums, forums specific to a game title, or online live chats with players in order to collect qualitative and quantitative feedback.

Game Publishing

During the Track Record Period, the Acquired Group published its games through (i) the webpage of the Acquired Group, serving as its proprietary distribution channel and allowing players to access its games via direct access to its website, and (ii) international distribution channels owned by third-party channel distributors. As at the Latest Practicable Date, the Acquired Group maintained its strongest distribution coverage in North America and Europe. *Warframe* has been distributed through third-party international channel distributors, third-party PRC publishers, and its proprietary distribution channel in March 2013, September 2015, and March 2013, respectively.

The table below sets forth the revenue generated from the three distribution channels during the Track Record Period.

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD	*%*	*CAD*	*%*	*CAD*	*%*	*CAD*	*%*	*CAD*	*%*
							(Unaudited)			
Distribution Channels										
International Distribution Channels	14,049,863	59.8	52,593,928	80.4	94,026,845	82.1	62,685,256	84.1	98,017,272	85.8
PRC publishers	–	0.0	–	–	3,306,401	2.9	854,686	1.1	1,767,448	1.5
Proprietary distribution channel	9,427,645	40.2	12,860,784	19.6	17,233,168	15.0	11,043,051	14.8	14,513,513	12.7
Total	23,477,508	100	65,454,712	100	114,566,414	100	74,582,993	100	114,298,233	100

The table below sets forth the revenue generated from the hardware terminals during the Track Record Period.

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD	*%*	*CAD*	*%*	*CAD*	*%*	*CAD* (Unaudited)	*%*	*CAD*	*%*
Hardware Terminals										
PC	20,984,073	89.4	37,163,893	56.8	62,496,921	54.6	38,019,564	51.0	52,485,839	45.9
Home-gaming consoles	2,493,435	10.6	28,290,819	43.2	52,069,493	45.4	36,563,429	49.0	61,812,394	54.1
Total	23,477,508	100	65,454,712	100	114,566,414	100	74,582,993	100	114,298,233	100

During the Track Record Period, the Acquired Group generated the majority of its revenue from third-party international distribution channels, including Steam, PlayStation 4, and Xbox One. For the years ended 31 December 2013, 2014, and 2015, and for the nine months ended 30 September 2016, the Acquired Group generated approximately CAD14.0 million, CAD52.6 million, CAD94.4 million, and CAD98.0 million revenue from royalties received from third-party international channel distributors, representing approximately 59.8%, 80.4%, 82.1%, and 85.8% of its total revenue, respectively.

Third-Party International Channel Distributors

In addition to its own marketing effort, the Acquired Group also markets and promotes its games through leading and popular third-party international channel distributors, namely Valve, Sony, and Microsoft, where each of them hosts thousands of video games and maintains a massive player base. Through the third-party international channel distributors, the Acquired Group enables *Warframe* to be available on these international distribution channels in addition to its own proprietary distribution channel and to be immediately exposed to a massive player base in addition to its own player base. The PC version, PlayStation 4 version, and Xbox One version of *Warframe* were launched in March 2013, November 2013, and September 2014, respectively.

Third-party channel distributors provide distribution channels for the Acquired Group to offer and publish its games. For each game that is published on the third-party international distribution channels, the Acquired Group typically enters into a standard agreement with them, granting them the right to operate, promote, distribute, use, and sell the game in specified and authorised territories. The third-party distributors are responsible for collecting payments from players and sharing revenue generated from the games with the Acquired Group by deducting an agreed percentage from the revenue generated from the game. The agreed percentage is negotiated on a game-by-game basis and may vary from game to game and channel to channel, factoring in a number of factors, including, but not limited to, the country or region where the game is being published, the scale of the third-party distribution channels, and their marketing expenses. The international channel distributor pays the Acquired Group the net sales on a monthly-to-quarterly basis. During the Track Record Period, the Acquired Group had not experienced any issues with payments from third-party international publishers as the Acquired Group can audit payment reports received from them against its own sales reports.

The Acquired Group has established and maintained long-term business relationships with these third-party distributors. In general, under the agreements:

- the Acquired Group provides the third-party distributors with content updates and ongoing technical and other support for the operations of the games;

- the Acquired Group owns and maintains the relevant intellectual property rights to its games and is granted a non-exclusive, non-transferable, personal licence to use the trademark of the third-party distributors solely in connection with marketing of the games;

- the Acquired Group has the sole discretion to sell in-game content for virtual token; however, the purchase of virtual tokens by the players shall be made through the channel distributors; and

- payments from the third-party distributors are settled on a monthly-to-quarterly basis, and the third-party distributors usually deliver to the Acquired Group a detailed statement covering the total revenue generated from publishing the games. Each of the Acquired Group and the third-party distributors is generally entitled to keep its own record of the sales of the games and to engage a certified public accountant or accounting professional to audit or inspect the other party's record by serving a certain days' prior written notice.

As at 30 September 2016, none of the directors, the directors of the Acquired Group or its associates, or any shareholders of the Acquired Group (who or which to the knowledge of the directors owned more than 5% of the Acquired Group's issued share capital) had any interest in any of their five largest third-party distributors.

Third-Party PRC Distributors

In April 2014 and December 2014, respectively, the Acquired Group granted an exclusive licence to two leading PRC publishers, one of which is a fellow subsidiary of Perfect Online, with the right to operate the PC version of *Warframe* in the PRC and certain rights to the Chinese language version of *Warframe* in the PRC on home-gaming consoles.

The Acquired Group grants to each of the PRC publishers an exclusive right and licence to publish, sell, distribute, advertise, and promote *Warframe* on PC and home-gaming consoles, respectively. The intellectual property rights in *Warframe* remain the sole property of the Acquired Group. The PRC publishers will pay the Acquired Group a share of the net revenue arising in connection with the sale, marketing, or other distribution of *Warframe*. The PC version and the home-gaming console version of *Warframe* were launched in the PRC in September 2015 and November 2015, respectively.

Proprietary Distribution Channel

The Acquired Group's own game portal *warframe.com* is an online website allowing players to download the game, purchase virtual tokens, and engage in *Warframe*-related activity via the players' community platform. Each of the Acquired Group's registered users can log into his or her account on the website and perform various transactions such as browsing, accessing and downloading the games, purchasing in-game virtual items, and contacting customer service. The Acquired Group also provides online forums for the players to exchange information and comments about the games. For each of the games, the Acquired Group creates a dedicated webpage that provides detailed game information as well as links that allow players to enter the game or download client software for the game.

Payment Channels

Players can purchase virtual tokens on the Acquired Group's own website through their player accounts with the Acquired Group, which can be used to exchange for virtual items offered in such games. The Acquired Group cooperates with third-party online payment service providers, and players can credit their game accounts through these payment service providers.

In general, under the agreements with third-party online payment service providers, the payment service providers are responsible for transaction and payment processing and order management. They bill and collect payment from players of *Warframe*. Pursuant to the revenue-sharing arrangement, the payment service providers are entitled to an agreed percentage of revenue and remit the net sales to the Acquired Group on a monthly basis. The agreement has a fixed term that can be renewed unless either party provides prior written notice of an intention not to renew. The parties have the right to terminate the agreement for cause. The Acquired Group has maintained a relationship with its major payment service provider for two years.

Game Analytics

The Acquired Group closely monitors and captures player preferences and market trends in order to develop innovative games of interest to players. Its game analytics engine tracks, analyses, and reports certain game data. The Acquired Group is a game developer and a game publisher. As a game developer, it has access to in-game behaviour metrics and player activity data. As a game publisher, it has access to player demographics, sources of traffic, and advertising efficiency data of all games beta-tested or published on its own website. It performs a correlation analysis of player demographics, paying patterns, and in-game behaviour to generate insights into player behaviour and preferences that are used by its game development studios to develop and optimise its games. Data collected is a critical resource for ensuring game quality, maximising success, understanding player behaviour, enhancing the quality of the player experience, and optimising the monetisation potential.

For its self-developed games, the Acquired Group maintains a database that tracks the number and price of each virtual tokens package sold, as well as player behaviour in response to the launch of a virtual item. When a purchase is made on a third-party distribution channel, it generally communicates on a real-time basis to the Acquired Group's servers that a purchase has been made, including information such as the virtual tokens package purchased, purchase date, and player account. The Acquired Group then provides the virtual tokens to the player's account, based on the virtual tokens package he or she purchased.

SALES OF MERCHANDISE

In order to take advantage of the commercial opportunities presented by the popularity generated by the Acquired Group's games and game characters, the Acquired Group has begun marketing collectibles, apparel, and other merchandise based on *Warframe* and its characters. The Acquired Group conducts sales of these collectibles, apparel and merchandise through its proprietary online store at *store.warframe.com*.

MARKETING AND PROMOTION

The Acquired Group implements various marketing measures to promote its games. As at the Latest Practicable Date, it has a publishing team of 21 employees. Managing player relationships is the primary responsibility of its marketing team. The team is grouped into three smaller teams: (i) social media; (ii) player community; and (iii) direct marketing.

Social Media

The Acquired Group maintains a web team responsible for online advertisements through the utilisation of various social networking media, such as Twitch, Facebook, and YouTube, to promote its games.

These social media allow the Acquired Group to communicate with its players through texts, pictures, voice, and videos about its games and provide updates about its existing game. The Acquired Group periodically arranges for meetings between its game developers and community managers to talk about its games' new features and future updates. It streams out videos on YouTube from its game development team, showing gameplay to players approximately three times per week. The Acquired Group also pays for advertising space in the virtual stores on these social media platforms to increase its visibility on social media.

Player Community

The player-community team is engaged in community-building work. The Acquired Group keeps close contact with enthusiastic players of its game whom it considers to be its "fans". The Acquired Group encourages such players to have in-depth discussions on its forums, share their love of the games by uploading screenshots and videos of the games to Twitch and YouTube on verified fansites and channels, and then share such fansite links in its forums. Players give a lot of improvement ideas. They will voice likes and dislikes. The Acquired Group also has forums for its fans to discuss the game among themselves and to initiate live chats with other players from time to time. The Acquired Group continuously improves the game based on feedback from its fans and makes the game more appealing to them, thereby creating a solid core player base for the game. As a result of their increasing interest in the game, its fans often refer more of their friends to the game and invite them to play.

Direct Marketing

The Acquired Group regularly conducts advertising and marketing campaigns by attending game conventions to fully expose its game to the market, where the development team has direct interaction with players. In 2016 it hosted a game conference, TennoCon, in London, Ontario, which attracted over 1,000 participants. TennoCon included interactive panels, giveaways, and activities focused on three major themes: Learn, Play, and Connect. Panels were hosted by game developers and well-known Twitch and YouTube broadcasters.

TECHNOLOGY AND NETWORK INFRASTRUCTURE

The Acquired Group has built a robust technology and network infrastructure to support its overall business operation and system maintenance. Its operation and maintenance infrastructure was built through its own development efforts, as well as hardware and software acquired from third parties.

The Acquired Group has technical support teams to maintain its current technology infrastructure, to ensure the stability of its operations, and to monitor its servers to avoid any breakdown and fix any technical problems when they arise.

Infrastructure

The Acquired Group has built a network infrastructure to fully support its operations. As at 30 September 2016, it maintained approximately 50 servers, which operate as a database to store the information of its players and collect the players' behaviours and preferences over the course of their gameplay.

Data Backup and Recovery

Player data is contained in a centralised data centre, maintained by its information technology department. In addition, the Acquired Group has in place a data back-up system through which its player data is stored in various secured systems to reduce any risk of data loss or leakage. Its data system ensures that back-up servers are connected into the network within minutes once the master servers experience technical difficulties. Its operation and maintenance system closely and constantly monitors the usage of resources such as the central processing unit, memory, and network; repairs common technical issues; and alerts relevant game development teams of unusual technical difficulties. As a result, the game operations are stable.

Anti-attack System

The Acquired Group has engaged a third-party security company to protect itself from distributed denial of service (**DDoS**) attacks. Generally the attacks come in short bursts, focusing on logins. The security company acts as an Internet traffic filter to provide protection services and mitigate any DDoS impact on players' abilities to log into their player accounts. All communications coming to the servers of the Acquired Group are directed to such security company first, which filters out any potential illegitimate information, such as cheating within games or any kind of activities engaged by the Acquired Group's players that are in violation of its game policies, and allows for the proper internet traffic to flow to their servers. With the help of the security company, the Acquired Group is able to mitigate these attacks with minimal impact on its games.

During the Track Record Period, the Acquired Group had not experienced any material network disruptions or incidents of hacker attacks to its websites.

CUSTOMERS

The Acquired Group's customers are the players of its video games. Its consumers are typically young to middle-aged males. As at 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, the number of registered players has reached approximately 5 million, 12 million, 20 million, and 26 million, representing a CAGR of approximately 55.3% from 2013 to 2015.

As at the Latest Practicable Date, the game is distributed and played in over 200 countries across North America, Europe, and Asia. While the players are primarily English-speaking, the Acquired Group has localised its game into 14 different languages, including German, French, Chinese, and Japanese.

The analytics department of the Acquired Group tracks and analyses the players' behaviours, including login and logout information. The analytics department also monitors player discussion forums for players' feedback.

As at the Latest Practicable Date, the Acquired Group maintains a customer service department with 26 employees providing customer services in 14 different languages, including German, French, Chinese, and Japanese. The players send us messages and create tickets to have their problems resolved. During the Track Record Period, the Acquired Group had not received any material customer complaints.

For the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, the revenue attributable to the five largest customers accounted for less than 30% of the revenue of the Acquired Group.

None of the Directors, their respective associates, or Shareholders who own 5% or more of the total issued Shares had an interest in any of the Acquired Group's five largest customers during the Track Record Period. Each of the five largest customers is an independent third party to the Company.

SUPPLIERS

The Acquired Group's suppliers primarily include: (i) third-party distributors; (ii) third-party payment channels; (iii) external game content contributors; and (iv) content delivery service providers.

In general, the Acquired Group selects the third-party suppliers based on their qualifications, past collaborative experiences, competitive pricing, financial stability, timeliness of delivery, and service quality. It also conducts evaluation against each supplier from time to time to determine whether the services provided by each supplier can best satisfy the needs of the Acquired Group.

Third-Party Distributors

In addition to its own marketing effort, the Acquired Group also markets and promotes its games through leading and popular third-party international channel distributors, namely Valve, Sony, and Microsoft, where each of them hosts thousands of video games and maintains a massive player base. Through the third-party international channel distributors, the Acquired Group enables *Warframe* to be available on these international distribution channels in addition to its own proprietary distribution channel. Please refer to the section headed "– Game Development and Publishing – Game Publishing – Third-Party International Channel Distributors" for further details on page 140 of this circular. All of the Acquired Group's international channel distributors are independent third parties.

The Acquired Group typically enters into legally binding agreements with its third-party international distributors for their provision of distribution services. Typically, the international channel distributors receive the gross revenue from the sale of any virtual tokens and virtual items and pay to the Acquired Group the net sales after deducting a certain agreed percentage from the gross revenue on a monthly basis.

During the Track Record Period, there were no material breaches of these agreements.

The Acquired Group did not experience any disruption of distribution services during the Track Record Period. Given that there are many third-party channel distributors in the video games market, the Acquired Group believes that such services can be obtained from alternative distributors, if required, at prices comparable to those charged by its current distributors.

Third-Party Payment Channels

Players can purchase virtual tokens on the Acquired Group's own website through their player accounts with the Acquired Group, which can be used to exchange for virtual items offered in such games. The Acquired Group cooperates with third-party online payment service providers and players can credit their game accounts through these payment service providers. Please refer to the section headed "– Game Development and Publishing – Game Publishing – Proprietary Distribution Channel – Payment Channels" for further details on page 142 of this circular.

External Game Content Contributors

While it substantially develops the main content and almost all aspects of its video games at its games studio, the Acquired Group outsources certain tasks of production. From time to time, the Acquired Group procures external resources that do not exist within its games studio, such as a composer, orchestra, voice actors and specialised service providers. The Acquired Group selects its external game content contributors based on a number of factors, including areas of specialisation, quality of work, and delivery schedule. The relevant intellectual property created by external game content contributors belongs to either the third-party publisher under the work-for-hire model or the Acquired Group under the owned-IP model. All of its outsourcing service providers are independent third parties. The Acquired Group typically enters into legally binding outsourcing agreements with terms typically based on hours worked or for a specific asset delivery.

In general, under the outsourcing service agreements:

- outsourcing service providers submit their work products to the Acquired Group in accordance with the prescribed timetable and quality requirements by the Acquired Group;

- the Acquired Group reviews the work products and requests for further revisions to ensure all work products are satisfactory for its quality requirements;
- the Acquired Group generally pays the outsourcing service providers one-off fees after the execution of agreements or makes periodic payments to the outsourcing service providers;
- outsourcing service providers agree not to delegate any obligations to third parties without the consent of the Acquired Group;
- outsourcing parties agree to keep certain information confidential, including documentary information and technical information; and
- the outsourcing service agreements are generally entered into on a project basis, are not subject to renewal, and may be terminated in the event of a material breach, such as the outsourcing service provider's failure to turn over the work products according to the timetable or quality standards, and in some cases the Acquired Group is entitled to terminate such agreements at any time subject to payment for the work products that it has accepted.

As at 30 September 2016, the major external game content contributors had maintained a working relationship with the Acquired Group for over four years on average. None of the Directors, their respective associates, or Shareholders who own 5% or more of the total issued Shares had an interest in any of the Acquired Group's major external game content contributors during the Track Record Period. Each of the major external game content contributors is an independent third party to the Company.

Apart from outsourcing certain aspects of game development to third parties, the Acquired Group also outsources the development of the whole game to third parties with specific expertise under a work-for-hire model when the Acquired Group does not have sufficient internal resources.

Development expenditures include payments made to independent software developers under development agreements. The Acquired Group enters into legally binding agreements with third-party developers that require advance payments for game development and production services. In exchange for advance payments, the Acquired Group receives the exclusive publishing and distribution rights to the finished game title. These agreements allow the Acquired Group to recover the payments from the developers, earned on the subsequent retail sales of such software, net of any agreed upon costs. After the Acquired Group fully recovers the development expenditures, the Acquired Group and the developer will share the revenue at an agreed rate.

Content Delivery Service Provider

The Acquired Group has engaged a content delivery network provider for its content delivery needs, which primarily involves delivering game installation and update files to end consumers. Under the terms of the agreement, payment is made on a monthly basis. The agreement is for a term of 12 months and subject to renewal. The Acquired Group has maintained relationship with its content delivery service provider for approximately three years. This content delivery service provider is an independent third party.

The Acquired Group did not experience any material disruption of content delivery network services during the Track Record Period. Given that there are many content delivery network service providers in the video games market, the Acquired Group believes that such services can be obtained from alternative content delivery network service providers, if required, at prices comparable to those charged by its current content delivery network service provider.

For the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, the purchases attributable to the five largest suppliers accounted for approximately CAD5.9 million, CAD16.0 million, CAD27.8 million, and CAD23.8 million, representing approximately 32.6%, 53.7%, 56.4%, and 59.3% of the cost of revenue, respectively.

For the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, the purchases attributable to the largest supplier accounted for approximately CAD4.0 million, CAD7.2 million, CAD13.1 million, and CAD10.1 million, representing approximately 22.1%, 24.1%, 26.6%, and 25.1% of the cost of revenue, respectively.

As at 30 September 2016, the five largest suppliers had maintained a working relationship with the Acquired Group for over 3 years on average.

As at the Latest Practicable Date, the Acquired Group had not encountered any material disruption to its business as a result of failure to obtain services from its suppliers.

None of the Directors, their respective associates, or Shareholders who own 5% or more of the total issued Shares had an interest in any of the Acquired Group's five largest suppliers during the Track Record Period. Each of the five largest suppliers is an independent third party to the Company.

During the Track Record Period, there has not been any material breach of the respective agreements entered into between the Acquired Group and its five largest suppliers.

COMPETITION

The Acquired Group has over 20 years of game development experience and is one of the world's leading external independent developers that primarily focuses on the sci-fi adventure and fantasy shooting types of three-dimensional games for both PC and home-gaming console hardware terminals, such as Xbox One and PlayStation 4, under the free-to-play model.

According to the Frost & Sullivan Report, competition in the video game industry is fierce. Moreover, the video game industry is comprised of a large number video game developers, and therefore the global market of video game developers is relatively fragmented, while the publishers' market is highly concentrated with a few major players, with the top 10 publishers, such as Microsoft, Tencent, and Sony, taking up over 50% of the market share in the game publishing segment in 2015.

The Acquired Group primarily competes with other video game developers, such as Bungie and Rocksteady. The Acquired Group also anticipates fierce competition from emerging video game developers and publishers that intend to enter into the video game industry. The Acquired Group and its existing and potential competitors may have different competitive edges in terms of finances, technology, marketing resources, user base, relationships with industry participants, diverse portfolios of video and other types of games, and development experience.

While the Acquired Group faces a diverse group of existing and potential competitors, the Acquired Group competes primarily on the utility of the games, marketing budgets, marketing events, and collaboration between games media and large publishers that favour certain developers.

According to the Frost & Sullivan Report, there are both opportunities and threats in the video game industry. For instance, the development of new technologies, such as virtual reality and augmented reality, is driving the future development of the video game industry on the one hand, but investment by the game developers in these new technologies may subject developers to a variety of risks, such as high operating cost and late return on such investment, on the other hand.

In terms of entry barriers, according to the Frost & Sullivan Report, the entry barriers of the PC and console games industry are higher than those entry barriers in the mobile gaming industry. This is favourable to the Acquired Group given its current focus on PC and console games. According to the Frost & Sullivan Report, entry to the video game industry generally requires (i) a high level of research and development capability of the game developers and publishers to provide the players with excellent content, elaborate production, stable programming, and a smooth running experience, and (ii) a large amount of capital for recruiting high-end talents and constructing infrastructure so as to develop and operate high-quality video games. New entrants also need to compete with large video game companies, which have control over resources such as user information and promotional channels.

Please see the section headed "Industry Overview Relating to the Subject Companies" for details of the video game industry on page 66 of this circular.

INTELLECTUAL PROPERTY

The Acquired Group recognises the importance of intellectual property rights to its businesses and is committed to the development and protection of its intellectual property. It relies on copyright, trademark, and other intellectual property laws, as well as confidentiality and assignment agreements with its employees, channel distributors, contractors, and others to protect its intellectual property.

The Acquired Group primarily relies on trade secret laws for protection of its source code. Employees and contractors are generally bound by industry-standard confidentiality and intellectual property assignment provisions. The Acquired Group only allows certain engineers based on their roles and responsibilities to have access to the source code files for their game engines, software tools, common modules, and their other key software applications. Centralised management prevents any particular game development personnel or team from obtaining access to all source code of a game and thereby decreases the risk of losing key technologies as the result of employee turnover or theft.

The Acquired Group uses a form of employment agreement that contains standard terms covering confidential information and intellectual property rights. Under the employment agreement, its employees covenant and agree that confidential information, including business and technical information of the Acquired Group, is subject to trade secret protection and that the employees shall hold such information in strict confidence, take all necessary precautions against unauthorised disclosure of such information, and not use or disclose to any person, firm, or corporation and to return such information following termination of employment. These covenants continue to apply after the employee's employment with the Acquired Group ends. In addition, trade secret laws also protect against employees misappropriating source code and other valuable intellectual property of the Acquired Group.

In addition, the employment agreement includes intellectual property assignment clauses, whereby the employees agree that the Acquired Group is and shall be the sole owner of all property rights in any and all such intellectual property, and the employees assign and agree to assign all right, title, and interest in such intellectual property to the Acquired Group. The employees agree to sign any documentation required to assign or apply for or register any patents, copyright, or other proprietary interests required or requested by the Acquired Group.

The Acquired Group also uses a standard independent contractor agreement for all of its independent contractors. The standard agreement sets forth provisions regarding confidentiality and ownership of developed works, whereby consultants acknowledge that they will not use confidential information other than for the performance of their duties under the agreement, nor will they disclose such confidential information unless required by law, and they will keep such information confidential. In addition, it is expressly specified in the agreement that all deliverables, results, and proceeds of consultants' services are deemed a "work-for-hire" under U.S. copyright law (and similarly designated for Canadian copyright law). The Acquired Group owns any such deliverables, results, and proceeds in perpetuity in any form, including all copyrights, patents, and trademarks.

As at the Latest Practicable Date, the Acquired Group has six registered trademarks for its independently developed properties, including trademarks for its flagship game *Warframe* in multiple jurisdictions. The Company currently holds the registered trademarks DARK SECTOR, DIGITAL EXTREMES, EVOLUTION ENGINE, LOTUS (Design), PARIAH, and WARFRAME in a number of jurisdictions. All of these trademarks are registered in Canada and the United States. WARFRAME has the broadest international coverage, having been registered in Canada, China, Europe, Japan, Turkey, and the United States. Please see the section headed "Appendix IV – General Information – 10. Intellectual Property Rights of the Subject Companies" for details on page IV-6 of this circular. However, some secondary aspects of the *Warframe* property, such as possibly the distinctive names of in-game character classes, have not been trademarked. In addition, the Acquired Group has not registered trademarks in all of the locations in which it distributes its games. In Canada, the owner of an unregistered trademark has rights in the trademark, and registration is not required in order to obtain such rights. However, in order to assert a claim of infringement in respect of an unregistered trademark in Canada, the owner has to prove the existence of goodwill in the trademark, deception of the public due to misrepresentation, and actual or potential harm.

The Acquired Group has no registered copyrights. Under the laws of Canada, copyright registration is not needed for ownership and protection. Ownership of a copyright work exists at the moment of creation. The Acquired Group can rely on Canadian copyright law to protect its copyrights in Canada. As at the Latest Practicable Date, the Acquired Group is not aware of any counterfeit versions of its games on the market necessitating an active copyright filing policy.

As at the Latest Practicable Date, the Acquired Group has 51 registered domain names, including *digitalextremes.com* and *warframe.com*. The Acquired Group generally renews its domain name registrations every one-to-three years. Under normal circumstances, the renewal of the domain name registrations take effect immediately after the payment of renewal fees, and the renewal year/expiration date is updated in due course. If any of the domain name registrations cannot be renewed for whatever reason, the domain name will expire, and the registrar may deregister the relevant domain name.

As at the Latest Practicable Date, the Acquired Group has not registered or filed for any patent application for its inventions. The directors of the Acquired Group consider that keeping its inventions as trade secrets is a better way to protect its intellectual properties in these inventions, taking into account the following factors: (i) the relevant invention will be required to be disclosed to the public in order for the Acquired Group to obtain patent protection, in such case that the patent has not been obtained by the Acquired Group may not be subject to any legal obligation in copying and using the inventions deposed; (ii) obtaining a patent is a time-consuming and costly endeavour; and, (iii) prior to the patent being issued, the application is also made public during the prosecution period, which means that, prior to patent protection being obtained, which is not certain, any one is free to copy the invention, including competitors. Please see the section headed "Appendix IV – General Information – 10. Intellectual Property Rights of the Subject Companies" for details of the material intellectual property rights on page IV-6 of this circular.

Despite the Acquired Group's efforts to protect its intellectual property, other video game developers and publishers may copy its ideas and designs, and other third parties may infringe on its intellectual property rights. Moreover, litigation may be necessary in the future to enforce its intellectual property rights. Please see the section headed "Risk Factors Relating to the Subject Companies – Risks Relating to the Business of the Subject Companies – Unauthorised use of the Subject Companies' intellectual property by third parties, and the expenses incurred in protecting their intellectual property rights, may adversely affect their business" on page 47 of this circular.

The directors of the Acquired Group believe that it is common to rely on trade secrets to protect intellectual properties in the video gaming industry.

During the Track Record Period and up to the Latest Practicable Date, the Acquired Group has not been made aware of any material dispute or any other threatened legal proceedings of intellectual property rights with third parties.

EMPLOYEES

As at the Latest Practicable Date, the Acquired Group had approximately 242 full-time employees. They are primarily based in Canada with five employees based in the United States. The following table sets forth the number of the employees of the Acquired Group by function and by geographic location as at the Latest Practicable Date:

	Number of Employees	% of Total Employees
Game development	152	62.8%
Game publishing	21	8.7%
Game analytics	24	9.9%
Customer service	26	10.7%
General and administration	19	7.9%
Total	242	100.0%

The level of competition amongst employers in Canada for skilled personnel is high. The goal of the Acquired Group is to hire top-tier talent and give it plenty of autonomy in a friendly and collaborative working environment. Since 2010, the Acquired Group has been consecutively recognised six times as one of Canada's Top 100 Employers from Mediacorp Canada Inc.

Each new recruit generally has to undergo a six-month probation period. The Acquired Group provides orientation and continuous on-the-job training to its employees. The orientation process covers subjects such as corporate culture and policies, work ethics, major game development, and employee benefits. The Acquired Group conducts annual performance reviews.

Employees of the Acquired Group are entitled to a health and wellness programme, including life insurance, disability, medical and dental plans, and fitness subsidies. In addition to "lunch & learn" internal trainings where employees attend presentations from other departments, employees receive reimbursement for trainings they want to attend. The Acquired Group organises various activities in order to maintain a positive morale, including free lunches, sports, board games, and other company-wide events approximately on a bi-weekly basis.

Employees of the Acquired Group do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements. During the Track Record Period, the Acquired Group generally maintained a good working relationship with its employees. As at the Latest Practicable Date, no significant labour disputes that adversely affected or were likely to have an adverse effect on the operations of its business had occurred. The directors of the Acquired Group believe that it has not experienced a high rate of turnover or attrition since its inception.

The Acquired Group enters into standard employment contracts with most of its executive officers, managers, and employees. These contracts typically include a confidentiality provision effective indefinitely after the termination of their employment with the Acquired Group.

The Acquired Group is required under the applicable laws to make contributions to the Canada Pension Plan and Employment Insurance at specified percentages of the salaries, bonuses, and certain allowances of their employees, up to a maximum amount specified by the local government from time to time. The total amount of contributions it made for the Canada Pension Plan and Employment Insurance for the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, were approximately CAD0.7 million, CAD0.6 million, CAD0.8 million, and CAD0.7 million, respectively. The Acquired Group incurred staff costs of approximately CAD12.7 million, CAD14.2 million, CAD14.9 million, and CAD12.3 million for the years ended 31 December 2013, 2014, and 2015, and the nine months ended 30 September 2016, representing approximately 54.4%, 36.3%, 23.9%, and 24.8% of the total expenses of the Acquired Group, respectively. Profit-sharing bonuses are generally discretionary and based on the overall performance of the Acquired Group's business.

INSURANCE

The Acquired Group maintains insurance policies covering various aspects of its operations, including commercial general liability insurance, property insurance, and errors and omissions insurance. The directors of the Acquired Group believe that the coverage it obtained is adequate and consistent with market practices in Canada for its business and operations.

During the Track Record Period, the Acquired Group did not experience any insurance claims in relation to its business.

TAXATION

The Acquired Group is entitled to certain Ontario Interactive Digital Media Tax Credits, which are tax credits for scientific research and development activities in Canada, from Ontario Media Development Corporation. Please see the section headed "Management Discussion and Analysis of the Acquired Group – Discussion of Selected Consolidated Statements of Financial Position Items – Tax Credits Receivables" for details on page 220 of this circular.

PROPERTIES

The Acquired Group leases two properties in Canada and in the United States in connection with its business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for the Acquired Group's operations.

As at the Latest Practicable Date, the Acquired Group leased two properties with a gross floor area of approximately 74,600 sq. ft., with a lease expiry date of 30 June 2024 in the case of the lease located in London, Ontario, and a lease expiry date of 30 September 2017 in the case of the lease located in California, United States. As at the Latest Practicable Date, the Acquired Group did not own any property.

LEGAL PROCEEDINGS AND COMPLIANCE

The Acquired Group may be subject to legal proceedings, investigations, and claims relating to the conduct of its business from time to time. It may also initiate legal proceedings in order to protect its contractual and property rights.

The Acquired Group is not currently a party to, nor is it aware of, any material legal, arbitral, or administrative proceedings, investigations, or claims. Further, it has not encountered any material claim, complaint, or dispute in relation to the operations of its games during the Track Record Period or the subsequent period up to the Latest Practicable Date.

The Acquired Group has not experienced any non-compliance that is likely to have a material adverse effect on its business, financial condition, or results of operations. During the Track Record Period and the subsequent period up to the Latest Practicable Date, the Acquired Group has complied with applicable laws and regulations in all material respects and is not subject to any material administrative penalties for any non-compliance with the applicable laws.

RISK MANAGEMENT

The Acquired Group has established control systems over various aspects of its operations and is constantly monitoring the effectiveness of its risk management system, including the following:

- a formal policy with whistleblowing programme and exception reporting mechanism have been established covering processes of reporting, investigating and handling wrongdoing behaviour. Anonymous reporting channel has been implemented;

- policies and procedures have been formally documented to formulate key business processes, include (i) contract negotiation, management and approval, (ii) policy regarding game content and compliance, (iii) intellectual property management policy and procedures, and (iv) source code policy. All above-mentioned policies have been published in the intranet and could be accessed to by all employees;

- the information technology supporting team performs backup daily and remote backup weekly to preserve business data. Backup status emails are sent automatically to information technology supporting team. Information technology supporting team performs daily health check on the status of server room and servers;

- all database user creation and access right authorisation have to be reviewed and approved by their lead manager through emails or oral authorisations and centrally maintained by the information technology supporting team; and
- certain information technology related measures such as firewall and physical security to the servers to protect sensitive data are in place.

LICENCES, PERMITS AND APPROVALS

During the Track Record Period and the subsequent period up to the Latest Practicable Date, no licences, approvals, or permits from government authorities that are material to the Acquired Groups business operations in Canada were required.

AWARDS AND RECOGNITION

During the Track Record Period, the Acquired Group received various awards and recognition in respect of the quality and popularity of its operations and games, which include the following:

Award/Recognition	Award Date	Awarding Institution/ Authority	Operations and Games
Fastest Growing Tech Company	2015	Deloitte	Digital Extremes Ltd.
Canada's Top 100 Employers	2015, 2016	Mediacorp Canada Inc.	Digital Extremes Ltd.
Canadian HR Team of the Year	2014	HR Awards	Digital Extremes Ltd.
Top Employer for Young People	2013	Mediacorp Canada Inc.	Digital Extremes Ltd.
Financial Post Ten Best Companies to Work For	2013	Financial Post/Mediacorp Canada Inc.	Digital Extremes Ltd.
Entrepreneur of the Year	2016	Ernst & Young	Digital Extremes Ltd.
Best Free to Play Game	2014	MMOBomb	*Warframe*
Best Free to Play of the Year	2013	Incgamers.com	*Warframe*
Best Community, Best Expansion, Favourite Action	2015	MMO Readers' Choice Awards	*Warframe*

SALES TO SANCTIONED COUNTRIES

The United States and other jurisdictions or organisations, including the EU, the UN, and Australia, have comprehensive or broad economic sanctions targeting the Sanctioned Countries. During the Track Record Period, the virtual items of the Acquired Group were sold through channel distributors and payment processors to end users around the world, including countries subject to comprehensive economic sanctions and certain international sanctions prohibiting dealing with persons on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the UN, or Australia.

As advised by the Sanctions Legal Advisers, based on the following procedures conducted by them, the eventual delivery of add-on gaming products of the Acquired Group to end users in Sanctioned Countries during the Track Record Period does not implicate the application of any International Sanctions laws on the Group, or any person or entity, including the Group's investors, the Shareholders, the Stock Exchange, HKSCC, and HKSCC Nominees:

(a) reviewed documents provided by the Group that evidence the eventual delivery of the Acquired Group's add-on gaming products to Sanctioned Countries during the Track Record Period; and

(b) reviewed the list of the customers of the Acquired Group to whom such sales of products have been made during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that none of the customers of the Acquired Group are on such lists.

In relation to the eventual delivery of the products of the Acquired Group to end users in Sanctioned Countries during the Track Record Period, the Acquired Group has not been notified that any sanctions will be imposed on it. None of the contracting parties are specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the UN, or Australia and, therefore, would not be deemed to be sanctioned targets. Further, the sales of the Acquired Group do not involve industries or sectors that are currently subject to specific sanctions by the United States, the EU, the UN, or Australia and, therefore, are not deemed to be prohibited activities under the relevant sanctions laws and regulations. The Directors undertake not to enter into prohibited activities under the relevant sanctions laws and regulations that would expose the Group, or any person or entity, including the Group's investors, the Shareholders, the Stock Exchange, HKSCC, or HKSCC nominees, to risk of being sanctioned.

The Group will continue to evaluate and monitor the existing and ongoing business of the Acquired Group with distributors and payment processors in respect of the Sanctioned Countries, and all the customers of the Acquired Group, in order to control the exposure to sanction risks. In assessing whether to continue the existing and ongoing business and whether to embark on new business opportunities connected with any Sanctioned Country, the Group will takes into account: (i) whether the relevant business activities involve any industries or sectors that are subject to any International Sanctions; (ii) whether the counterparties to the relevant transactions have become subject to any International Sanctions; (iii) the size and value of the business activities as a percentage of the total revenue; and (iv) the potential risk to of continuing such activities.

The Group's Undertakings and Internal Control Procedures

The Group undertakes to the Stock Exchange:

(a) that it will not use any future funds raised through the Stock Exchange to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Sanctioned Countries or any other government, individual, or entity sanctioned by the United States, the EU, the UN, or Australia, including, without limitation, any government, individual, or entity that is the subject of any OFAC-administered sanctions;

(b) that it has no present intention to undertake any future business that would cause it, the Stock Exchange, HKSCC, HKSCC Nominees, or the Shareholders and investors to violate or become a target of sanctions laws of the United States, the EU, the UN, or Australia. Further, it undertakes to the Stock Exchange that it would under no circumstances use any future funds raised through the Stock Exchange, directly or indirectly, to finance or facilitate any projects or businesses in the Sanctioned Countries;

(c) to disclose on the respective websites of the Stock Exchange and the Group if it believes that the transactions the Group entered into in a Sanctioned Country or with a Sanctioned Person would put the Group or the Shareholders and investors at risk of being sanctioned; and

(d) to disclose in its annual reports or interim reports its efforts on monitoring its business exposure to sanctions risk; the status of future business, if any, in the Sanctioned Countries and with Sanctioned Persons; and its business intention relating to the Sanctioned Countries and with Sanctioned Persons. If it were in breach of such undertakings to the Stock Exchange, it risks the possible delisting of the Shares on the Stock Exchange.

To monitor the Group's exposure to sanction risks and to ensure compliance with the undertakings to the Stock Exchange, the Group has adopted the internal control measures as described below:

- To further enhance its existing internal risk management functions, the Board will authorise and task its chief executive officer, financial controller, and vice chairman with establishing and supervising a risk management committee. The responsibilities of the risk management committee would include, among others, monitoring its exposure to sanctions law risks and its implementation of the related internal control procedures and reporting to the Board of any issues. Its risk management committee will monitor its exposure to sanctions law risks and will report to the Board as soon as practicable after each such meeting;

- It will evaluate relevant sanctions risks prior to determining whether it should embark on any business opportunities in Sanctioned Countries and with Sanctioned Persons. According to its internal control procedures, the risk management committee needs to review and approve all relevant business transaction documentation from customers or potential customers from Sanctioned Countries and with Sanctioned Persons. In particular, the risk management committee will review the information (such as identity, nature of business, and other customer information) relating to the counterparty to the contract along with the draft business transaction documentation. The risk management committee will check the counterparty against the various lists of restricted parties and countries maintained by the United States, the EU, the UN, or Australia, including, without limitation, any government, individual, or entity that is the subject of any OFAC-administered sanctions, lists of which are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in a Sanctioned Country or a Sanctioned Person. If any potential sanctions risk is identified, it will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions law matters;

- In order to ensure its compliance with those undertakings to the Stock Exchange, the Directors will continuously monitor any funds raised through the Stock Exchange to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Sanctioned Countries or Sanctioned Persons;

- The risk management committee will periodically review its internal control policies and procedures with respect to sanctions law matters. As and when the risk management committee considers necessary, it will retain external international legal counsel with necessary expertise and experience in sanctions law matters for recommendations and advice; and

- If necessary, it will arrange external international legal counsel to provide training programmes relating to the sanctions laws to the Directors, its senior management, and other relevant personnel to assist them in evaluating the potential sanctions risks in the daily operations of the Acquired Group. It will also arrange its external international legal counsel to provide current lists of Sanctioned Countries and Sanctioned Persons to the Directors, senior management, and other relevant personnel, who will, in turn, disseminate such information throughout its domestic operations and overseas offices and branches.

Taking into consideration the internal control measures set out above, the Directors are of the view that these measures will provide a reasonably adequate and effective framework to assist the Group in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders, investors, and the Group.

OVERVIEW

The Target Group is principally engaged in the development of AAA video games compatible with different hardware terminals, including PC and Xbox One home gaming console, under two distinct business models, namely, work-for-hire and owned-IP, as well as the provision of game-hosting and support services.

The Target Group is predominantly engaged and specialised in developing competitive multiplayer combat video games for different hardware terminals under the work-for-hire model. Under the work-for-hire model, the Target Group is retained by market-leading third-party publishers to develop video games. The Target Group delivers to and performs for the third-party publishers the services as "work for hire". The Target Group has historically developed or co-developed sequels to most popular video games including the sequels *Wolfenstein: Enemy Territory*, *Doom 3* (multiplayer), *Enemy Territory Quake Wars*, *Batman: Arkham Origins* (multiplayer), *Gears of War: Ultimate Edition*, and, most recently, *Gears of War 4.*

Under the owned-IP model, the Target Group develops video mobile games that focus on free-to-play and competitive multiplayer video games on mobile and PC, including *RAD Soldiers* and *Dirty Bomb.* Under the owned-IP model, generally all the intellectual property relating to the games developed vest in the Target Group itself (save for licensed third party middleware such as engines and tools).

The Target Group is also engaged in the provision of back-end services, client and server software development, as well as support of online connected computer games. The Target Group manages back-end services and provides game-hosting and support services for other game studios. Under this segment, the Target Group offers four products as consulting services, namely, (i) expertise in shipping connected games, covering both client and back-end, (ii) design consulting and analysis of online features, including matchmaking, progression and game economies and monetisation, (iii) analysis of player feedback through net promoter score, and (iv) game launch planning and post-launch support.

COMPETITIVE STRENGTHS

The Target Group believes that the following competitive strengths are key to its continued success.

The Target Group possesses strong in-house game development with a proven track record of successful game titles and a strong pipeline.

Anchored by the Target Group's core game development talent, many of whom have been with the Target Group since its inception, the Target Group has established leading game development expertise. The Target Group is principally engaged in the development of AAA video games across multiple platforms, including home-gaming consoles and PC within three distinct business segments, namely, (i) work-for-hire, (ii) owned-IP, and (iii) the provision of game-hosting and support services to other game publishers. In terms of its game development business, the Target Group is predominantly engaged and specialised in developing competitive multiplayer video games across different hardware platforms under the work-for-hire model and free-to-play competitive multiplayer video games under the owned-IP model. The Target Group has over 15 years of experience in developing competitive multiplayer video games for console and PC platforms including games with AAA quality. During the Track Record Period, the Target Group played a key role in the development of three game titles, including *Gears of War: Ultimate Edition* under the work-for-hire model, and developed three game titles such as *Dirty Bomb*, *Tempo*, and *RAD Soldiers* under the owned-IP model. In the past 15 years, it has developed 11 game titles in total. Please see the section headed "– Game Development – Work-For-Hire" and "– Game Development – Owned-IP" for details of the Target Group's game development business and its existing game titles on pages 167 to 173 of this circular. The Target Group believes that its track record of launching popular games under both the work-for-hire and owned-IP models and proven ability to update and optimise games helps create and enhance the visibility of games developed by the Target Group, and ensures it receives more work engagement. The Target Group also closely monitors player preferences and market trends and develops innovative video games. As at the Latest Practicable Date, the Target Group was in the process of developing seven new games under both work-for-hire and owned-IP models. Please see the section headed "– Game Development – Game Pipeline" for details on page 173 of this circular.

The Target Group's technology infrastructure help ensure quality game development.

During the Track Record Period, the Target Group primarily used technologies and tools commonly used in the game development industry for its game development. The Target Group also uses middleware solutions for which it has obtained the respective licences to help develop, upgrade, and optimise its own games. The use of such middleware (including game engines) allows the Target Group to ensure consistency in development quality, reduce its development costs, and minimise its reliance on any particular development personnel. In terms of hardware, the Target Group keeps its equipment up-to-date and maintains its competitiveness. Leveraging its technology infrastructure, the Target Group achieved fast and quality game development in the past and believes that it can continue to do so in the future. For further information on the Target Group's technology infrastructure, please refer to the paragraphs headed "– Game Development – Technology Engines and Tools".

The Target Group possesses an experienced management team with extensive operational experience and industry knowledge

The management team of the Target Group has extensive operational experience in the game development industry. Mr. Wedgwood, one of the three founders and chief executive officer of the Target Group, is responsible for overseeing all of Splash Damage's game titles, ranging from blockbuster intellectual properties such as the *Gears of War*, which the Target Group developed under the work-for-hire model, to game titles such as *Dirty Bomb*, which the Target Group developed under the owned-IP model.

Mr. van Meer, one of the three founders and the chief technology officer of the Target Group, is responsible for providing guidance on the technology and programming efforts at Splash Damage and Fireteam. Mr. van Meer was the lead programmer of the Target Group's first game title developed under the work-for-hire model, the BAFTA-nominated *Wolfenstein: Enemy Territory*, and he was named as one of "*Develop Magazine*'s 30 Under 30" in 2008. In 2012, Mr. van Meer started Fireteam to provide back-end solutions for video game companies.

Mr. Jolly is one of the three founders and chief marketing officer of the Target Group. Mr. Jolly was responsible for overseeing the creative and artistic elements of game development when he first founded Splash Damage but later went on to supervising the marketing and public relation teams when Splash Damage was in the process of developing its first title under the owned-IP model. In 2012, Mr. Jolly started Warchest, which is engaged in, among other things, the publishing of the Target Group's owned-IP game titles. As the chief marketing officer, Mr. Jolly now works across the multiple titles that the Target Group has in development, and he also oversees all efforts concerning the external perception of the Target Group's brands and intellectual property.

Mr. Jenkins, the chief operating officer of the Target Group, has over 23 years of experience in the game development industry; he has extensive experience in the development and publishing of video games. Mr. Morris, the head of production of the Target Group, has around 20 years of experience in the video games industry. Mr. Morris is primarily responsible for the continuous fine tuning and improvement of the Target Group's production processes. Mr. Farrow, the chief financial officer of the Target Group, is responsible for supervising the finance function of the Target Group's business, including establishing and managing the finance team and improving the Target Group's growth, financial strategy, and governance. Mr. Farrow has over 10 years of experience in finance. The Target Group possesses a stable management team that is able to coherently plan and execute the Target Group's strategic plans.

The Target Group believes that its collegial corporate culture founded on core values of friendship, trust, and teamwork will help attract, retain and motivate its game development team and publishing team. Please see the section headed "Directors and Senior Management of the Subject Companies – (B) Directors and Senior Management of the Target Group" for details of the biographies of the Target Group's management team on page 196 of this circular.

STRATEGIES

The Target Group aims to execute the following strategies to further improve its game development, as well as game-hosting and support services businesses:

Continue to expand the Target Group's game development business under the work-for-hire model.

The Target Group is retained by third-party publishers to develop video games on behalf of such third-party publishers under the work-for-hire model. Under the work-for-hire model, the Target Group has developed "blockbuster" sequels to several popular video games, including *Wolfenstein Enemy Territory*, *Doom 3 (multiplayer)*, *Enemy Territory Quake Wars*, *Batman: Arkham Origins (multiplayer)*, *Gears of War: Ultimate Edition* and most recently *Gears of War 4.* The Target Group believes that working with these renowned publishers is integral to maintaining its reputation as a renowned developer and thereby growing its customer base. Given its experience in the work-for-hire business segment, the Target Group aims to continue to cooperate with third-party publishers to develop more fun and exciting video games for the PC and console platforms. For example, Project C, code name for one of the Target Group's upcoming titles under the work-for-hire model, is a third person action game. Moving forward, the Target Group also plans to recruit and retain more experienced game development talent, particularly to support a number of new projects within its work-for-hire business segment. For details of the Target Group's game pipeline, please refer to the paragraphs headed "– Game Development – Game Pipeline". In addition to maintaining its existing business relationships with certain third-party publishers, the Target Group also aims to expand its work-for-hire business by establishing and developing business relationships with third-party publishers in the PRC.

Expand the Target Group's owned-IP business segment by leveraging its game development talents and experience under the work-for-hire model

Given its experience in the game development market as aforementioned, the Target Group aims to develop more video games under the owned-IP model by leveraging its game development talents and strengths as evidenced from its success within the work-for-hire business segment. The Target Group will also leverage on the Acquired Group's experience in developing *Warframe* to further its own growth using the owned-IP model. The Target Group believes that the expansion of its owned-IP game development business can help diversify the Target Group's revenue sources and improve the Target Group's revenue-generating capability. In contrast to the work-for-hire model, where the Target Group generally generates revenue by receiving development fees by instalments from third-party publishers based on milestone dates in line with the executed development agreement and agreed milestone schedule, the Target Group will enjoy greater control over its revenue sources by developing video games under the owned-IP model. For example, the Target Group will have the sole discretion in determining the price of in-game virtual items for games that it developed under the owned-IP model and published independently. Specifically, the Target Group plans to continue to drive monetisation by improving its in-game monetisation mechanisms through, for example, frequently updating its games with new features and contents and introducing new, attractive virtual items. This will enable the Target Group to enhance player experiences while optimising its monetisation capability. The Target Group believes that this will complement its relatively stable revenue stream generated from its work-for-hire business segment. The Target Group currently has two owned-IP video games in development, namely *Dirty Bomb* (commercial release) and Project F. *Dirty Bomb* is a free-to-play multiplayer first person shooter game playable available in PC version, and its open beta version is available to the public in June 2015. Project F is a strategy game developed by the Target Group under the owned-IP model. It is expected to be commercialised in the second quarter of 2017. For details of the Target Group's game pipeline, please refer to the paragraphs headed "– Game Development – Game Pipeline".

Further develop and expand the Target Group's game-hosting and support services business

In addition to its focus on game development, the Target Group is also engaged in the provision of online services and back-end support of video games. The Target Group manages and operates the back-end server and provides game-hosting and support services for other game studios. The Target Group also offers game consulting services to other game studios. During the Track Record Period, the Target Group generated approximately GBP 0.1 million, GBP 0.6 million, GBP 0.8 million, and GBP 0.3 million revenue under this segment for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively, representing approximately 3.4%, 11.7%, 4.9%, and 3.7% of its total revenue during the same periods. Moving forward, the Target Group plans to further develop and expand its game-hosting and support services by actively redeploying its internal resources to service the clientele in this segment. For the purpose of providing such game-hosting and support services, the Target Group owns and operates an online network infrastructure platform, *www.fireteam.net*, which provides a full suite of features for games to be online and operate as a service. In addition, the Target Group's gameplay analysis system is capable of collecting various game metrics, which can be used for the purposes of reporting as well as key performance indicator analysis. In order to meet the growing needs of its game-hosting and support services business, the Target Group plans to improve its current gameplay analysis technology which tracks, analyses, and reports certain game data that the Target Group collects as game developer and game publisher. The Target Group believes that such improvement to its gameplay analysis technology will allow the Target Group to provide better game consulting services to its customers. For further information on the Target Group's game-hosting and support services business, please refer to the paragraphs headed "– Game-Hosting and Support Services".

BUSINESS OF THE TARGET GROUP

The Target Group is principally engaged in the following three business segments:

(a) *Work-For-Hire*: Under the work-for-hire model, the Target Group is retained by market-leading third-party publishers to develop video games. The Target Group delivers to and performs for the third-party publishers the services as "work-for-hire". The Target Group has historically developed sequels to popular video games, including *Wolfenstein: Enemy Territory*, *Doom 3* (multiplayer), *Enemy Territory Quake Wars*, *Batman: Arkham Origins*, *Gears of War: Ultimate Edition*, and, most recently, *Gears of War 4*. Under the work-for-hire model, the third-party publishers own intellectual property rights in the deliverables delivered by the Target Group, except for pre-existing and proprietary intellectual property and modifications and improvement thereto of the Target Group or any technological developments made.

During the Track Record Period, the Target Group generated approximately GBP 1.2 million, GBP 4.7 million, GBP 13.8 million, and GBP 8.0 million revenue under this segment, representing approximately 79.7%, 86.8%, 87.8%, and 88.8% of its total revenue for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively.

(b) *Owned-IP*: Under the owned-IP model, the Target Group develops video games that focus on free-to-play and competitive multiplayer video games. The Target Group has also developed free-to-play titles on mobile and PC, including *RAD Soldiers* and *Dirty Bomb*. Under the owned-IP model, generally all the intellectual property relating to the games developed vest in the Target Group itself (save for licensed third party middleware such as engines and tools).

During the Track Record Period, the Target Group generated approximately GBP 0.2 million, GBP 0.1 million, GBP 1.2 million, and GBP 0.7 million revenue under this segment, representing approximately 16.9%, 1.5%, 7.3%, and 7.5% of its total revenue for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively.

(c) *Game Hosting and Support Services*: The Target Group is also engaged in the provision of online services, back-end support of video games, client and server software development, as well as support of online connected computer games. It manages back-end services and provides game-hosting and support services for other game studios.

During the Track Record Period, the Target Group generated approximately GBP 0.1 million, GBP 0.6 million, GBP 0.8 million, and GBP 0.3 million revenue under this segment, representing approximately 3.4%, 11.7%, 4.9%, and 3.7% of its total revenue for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively.

The table below sets forth the revenue of the three operating segments of the Target Group, namely, (i) work-for-hire, (ii) owned-IP, and (iii) game-hosting and support services.

				Six months ended	
	Year ended 31 March			30 September	
Segment revenue	**2014**	**2015**	**2016**	**2015**	**2016**
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Work-For-Hire	1,194,399	4,699,200	13,829,696	4,724,296	7,965,713
Game-Hosting and Support Services	51,200	633,962	765,203	395,137	332,022
Owned-IP	252,595	79,598	1,157,219	686,456	669,720

GAME DEVELOPMENT

Work-For-Hire

The Target Group is predominantly engaged and specialised in developing competitive multiplayer video games for PC and home-gaming consoles under the work-for-hire model. During the Track Record Period, the Target Group is retained by market-leading, third-party publishers to develop video games. Such publishers hired the Target Group as an external game development studio to work with them due to the expertise of the studio in developing multiplayer competitive games. The Target Group has built stable relationships with these world's leading publishers and focuses on "blockbuster" intellectual properties. The Target Group believes that working with these renowned publishers is integral to maintaining its reputation as a renowned developer capable of delivering high-quality game titles and thereby growing its customer base.

The Target Group has over 15 years of experience in developing competitive multiplayer video games for console and PC platforms at AAA quality. Possessing this cross-platform ability is important, as the Target Group has the ability to develop any game title on multiple hardware terminals and to diversify its sources of income and growth. Since its inception, the Target Group has delivered AAA-quality games under its work-for-hire model and has consistently honed its development skills in order to maintain its competitive advantage and brand recognition. Video games developed by the Target Group using "blockbuster" intellectual property under the work-for-hire model have an average Metacritic score of over 80 out of 100, implying a high quality of work, which is a key factor in attracting new business and talent while retaining existing customers.

The Target Group has developed three released game titles under the work-for-hire model during the Track Record Period and 11 game titles over the past 15 years. The table below sets forth the games developed or co-developed by the Target Group under the work-for-hire model during the Track Record Period:

	Game Title	Role of the Target Group in Game Development	Platform	Project Initiation Date	Launch Date
1.	Gears of War 4	Developer	Xbox One, PC	Sep 2015	Q4 2016
2.	Gears of War: Ultimate Edition	Developer	Xbox One, PC	May 2014	Q3 2015
3.	Batman: Arkham Origins	Developer for multiplayer mode	PC, PlayStation 3, Xbox 360	February 2012	Q4 2013

Under the work-for-hire model, the third-party publishers pay development fees to the Target Group for developing the games by instalment on milestone dates in line with the executed development agreement and agreed milestone schedule, taking into consideration the scale of the game development project, the development time required, and the level of difficulty in developing the games. Subject to the terms and conditions under certain contracts, royalties may be received from third-party publishers typically on a monthly or quarterly basis after the launch of the games, to the extent that the Target Group is entitled to in accordance with the contracts with the respective customers.

In general, under the work-for-hire game development agreements:

- the duration of the agreement may last for one to two years or more depending on the scale of the game development project and subject to extension;
- the Target Group undertakes to develop video games and provide relevant services in accordance with the milestone arrangement and specifications specified in the agreement;
- the third-party publisher typically makes milestone payments to the Target Group on approximately a monthly;
- all intellectual property developed under the game development project shall be the sole property of the third-party publishers, except for all pre-existing intellectual property of the Target Group and certain modifications and improvements thereto;
- the Target Group is subject to a non-compete undertaking not to develop games of the same game content during and within period following the termination or expiry of the game development agreement;

- the Target Group may receive royalties from the third-party publishers under the launch of the games depending on the terms of the agreement; and
- the Target Group may be engaged to provide after-sale service, including providing additional content and improvements.

During the Track Record Period, the Target Group generated approximately GBP 1.2 million, GBP 4.7 million, GBP 13.8 million, and GBP 8.0 million revenue under this segment, representing approximately 79.7%, 86.8%, 87.8%, and 88.8% of its total revenue for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively.

Owned-IP

Under the owned-IP model, the Target Group primarily develops free-to-play and competitive multiplayer video games. Generally, all the intellectual property relating to the games developed under this model vest in the Target Group itself (save for licensed third party middleware such as engines and tools). The Target Group believes that its expansion into the owned-IP segment, which started in 2015, will allow it to diversify its revenue sources and achieve economies of scale in the multiplayer cooperative and competitive market.

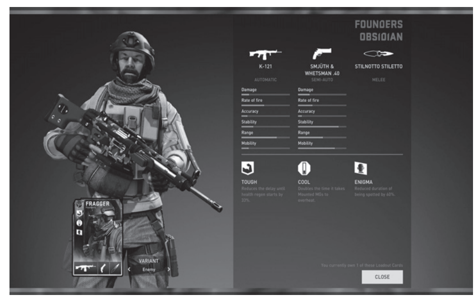
The table below sets forth the games developed by the Target Group under the owned-IP model during the Track Record Period:

	Game Title	Publisher	Platform	Launch Date
1.	Dirty Bomb (beta version)	Nexon America, Inc[(1)]	PC (Steam)	Q2 2015
2.	Tempo	Warchest Limited	Mobile (Apple Store)	Q1 2015
3.	RAD Soldiers	Warchest Limited	Mobile (Apple store) & Browser (Chrome Store)	Q4 2012

(1) On 17 January 2017, the Target Group and Nexon America Inc., a corporation organized under the laws of the State of Delaware, United States of America ("**Nexon America**"), entered into an agreement, pursuant to which the exclusive right and license to maintain, publish, operate, and distribute *Dirty Bomb* shall end, and the Target Group shall have such rights after the termination date. Please refer to the section headed "– Game Publishing – Third-Party International Distributor" for details on page 179 of this circular.

Dirty Bomb

The open beta version of *Dirty Bomb* has been available to the public since June 2015. It is a free-to-play multiplayer first person shooter set in near-contemporary London after a series of suspected dirty bombs lead to a mass exodus from the city. In *Dirty Bomb*, players take a combat role that suits his/her preferred playing and pursue military objectives as part of a coordinated team. It is a multiplayer video game in which players can play and interact with each other online. As at the Latest Practicable Date, *Dirty Bomb* is available in PC version in over 100 countries.

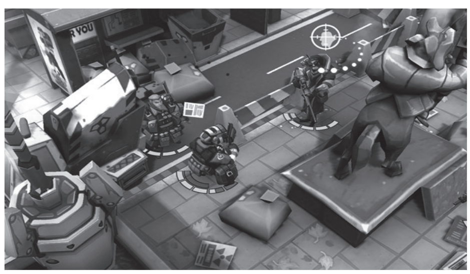


Tempo

Launched in February 2015 as a pay-to-play game for iOS, *Tempo* is a cinematic action game that delivers quality gaming experience. It allows casual gamers to experience epic combat on the streets of London in a prequel story-line to the events of *Dirty Bomb*. As at the Latest Practicable Date, the mobile version of *Tempo* is available for download globally on the Apple App Store.

RAD Soldiers

RAD Soldiers is a free-to-play turn-based strategy game for mobile on the Apple App Store and browser on the Google Chrome Store. It was launched in December 2012. *RAD Soldiers* is set in London shortly after reports that mysterious rockets land, leading to a city-wide evacuation. Players manage a team of mercenaries hired by shadowy figures to battle for control of the Rockets and to reap their mysterious rewards. Players must assemble a unique squad of collectible mercenaries with customisable weapons, outfits, and abilities then engage in tactical combat on a turn-based battlefield, either offline against AI opponents or online against other players. As at the Latest Practicable Date, the mobile version of *RAD Soldiers* is available for download globally on the Apple App Store.



Virtual Items

Under the Owned-IP model, the primary source of revenue is generated from the licence of *Dirty Bomb* to its third-party publisher, Nexon America. The Target Group also generates revenue from the sales of virtual items in its video game by offering new and attractive virtual items based on the data generated from its data analysis on players' preferences. In the games, players can play all the basic features of the games for free. The players may also purchase virtual items using virtual tokens in-game. Virtual items are non-physical items represented within the game by images, animations, or three-dimensional objects, such as weapons and characteristics that provide a player with additional or enhanced visuals within a game. The Target Group also initiates various promotions to increase in-game spending and the number of active users.

The Target Group has the sole discretion in determining the price of in-game virtual items for games that it publishes. It determines the price of each virtual item generally based on an analysis of certain benchmarks, such as the desirability for the virtual item, the scarcity of the virtual items, and the price of similar virtual items offered in other video games. The prices of virtual items in the Target Group's, games vary widely. For free-to-play games, the prices of individual virtual items vary widely from approximately GBP0.7 to GBP28.0. There has not been a material fluctuation of the price range and the Target Group believes that the price range would not be subject to a material fluctuation. The Target Group adjusts the pricing of certain virtual items based on consumption patterns and other factors and provide discounts for virtual items under certain circumstances such as promotions.

During the Track Record Period, the Target Group generated approximately GBP 0.2 million, GBP 0.1 million, GBP 1.2 million, and GBP 0.7 million revenue under this segment, representing approximately 16.9%, 1.5%, 7.3%, and 7.5% of its total revenue for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively.

Game Pipeline

The Target Group closely monitors player preferences and market trends. It strives to take advantage of its understanding of player preferences and market trends in building up its popularity of games, as well as designing features of individual games. As at the Latest Practicable Date, the Target Group was in the process of developing new games under both work-for-hire for third-party publishers and owned-IP models. Under the work-for-hire projects, the Target Group is generally paid for the costs of development on a milestone basis.

The following table sets forth certain information relating to the games in the Target Group's pipeline.

Title	Type	Feature/Theme	Hardware Terminals	Status	Estimated Commercialisation Date
Project A	Work-for-hire	Third Person Shooter	Console and/or PC	Concept	Q4 2018
Project B	Work-for-hire	Strategy	Console and/or PC	Concept	Q2 2019
Project C	Work-for-hire	Third Person Action	Console and/or PC	Production	Q3 2017
Project D	Work-for-hire	Action Strategy	Console and/or PC	Pre-production	Q1 2018
Project E	Work-for-hire	Third Person Shooter	Xbox One & PC	Live Support	Q4 2016-Q3 2017
Project F	Owned-IP	First Person Shooter	PC	Beta	Q2 2017
Project G	Owned-IP	Strategy	PC	Pre-production	Q3 2017

Development Teams

The Target Group's game development activities are team-based. As at the Latest Practicable Date, the Target Group had 181 game development personnel. It sets up separate teams for different game development projects. A typical game project lasts for approximately one to two years and involves approximately 40 to 60 game development personnel, depending on the type and scale of the project. The development team is responsible for games development, as well as the continuous enhancement of the games the team has developed, including ongoing monitoring, problem-fixing, and development and release of upgrades.

While the Target Group substantially develops the main content and almost all aspects of its video games at its games studio, the Target Group also outsources certain aspects of game development, such as art and graphic design, audio/music production, translation, and quality assurance testing to third parties, when there is a temporary shortage of internal resources for such work from time to time.

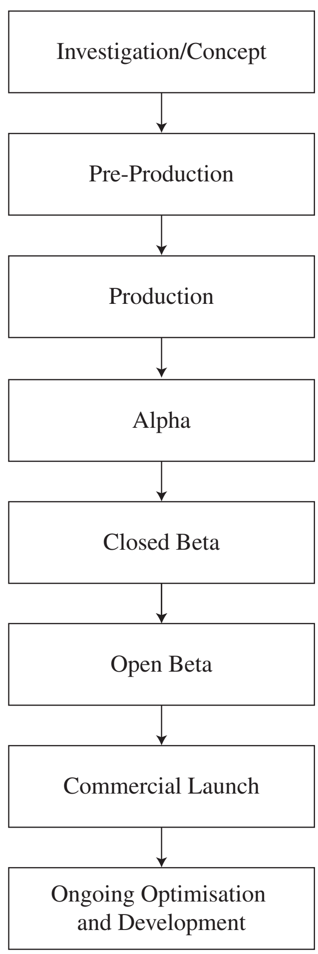
Technology Engines and Tools

During the Track Record Period, the Target Group primarily used technologies and tools for its game development that are comparable to industry norm. The Target Group also obtained licences to use source codes from third parties to help it develop, upgrade, and optimise its own games, including map editors, special effects editors, animation editors, and tasks editors, which are tailored to their own game development needs.

In terms of hardware, the Target Group has been leasing high-end and up-to-date computers in the market. By entering into leasing agreements with leasing providers, the Target Group minimises its capital expenditure on computers while keeping the computer equipment up to date. In general, the Target Group keeps its equipment up to date and maintains its competitiveness.

Development and Optimisation Process

The Target Group has strong in-house game development capabilities. The game development process of the Target Group can be divided into six general stages before a commercial launch, as set forth below. Throughout the process, the Target Group' proprietary gameplay analysis technology play a crucial role in supporting its core decision-making. The Target Group also closely monitors each game's development process to make sure that the costs of a game development project does not exceed its approved budget.



Investigation/Concept

At this initial stage, core gameplay concepts are defined for the experience. Competitive analysis is conducted to formulate the business case for the project. Once agreed, this defines the overall vision and business goals for the game. A detailed design for the game is completed along with initial scope and resource planning. Deliverables typically include a detailed game design document, art design, audio design, technical design document, and risk assessment. This phase usually takes approximately three to six months.

Pre-Production

The development team works on prototyping core features to ensure technical feasibility, gameplay concepts and production pipelines. This phase typically ends with a "vertical slice" completed to near-final quality designed to prove the core game experience. Creating near-final assets at this relatively early phase in development allows the team to test and verify assumptions on processes, gameplay experiences, and timings required to create a full game at a later stage. These learnings are then applied in the production phase to ensure more accurate planning. This phase usually takes approximately three to six months.

Production

The development team focuses on completing writing of all code and creation of all content required to complete a full game. The team scales to its largest size to support this production goal. Large video games can be in production for years. External game content contributors and software developers are typically engaged in the production phase to supplement the team's output as needed. This phase usually takes approximately six to twelve months.

Alpha

The game is code and content complete with a version available for quality assurance testing. The game is playable from start to finish. This phase usually takes approximately three to six months.

Closed Beta

The game is released to a group of chosen end users to test game balance and the infrastructure required to run the game as a service. Aspects of testing include: (i) back-end systems; (ii) authentication systems; and (iii) business intelligence. Players are usually required to sign a non-disclosure agreement restricting them from disclosing information about the unfinished experience. Closed beta is often used as a marketing tool to generate hype for a product in development. This phase usually takes approximately three to six months.

Open Beta

The game is released to the public to continue game balancing and polish. The experience is typically as polished as a final product. This allows the developer to make further changes to the game to fine tune the game and improve the player's experience. Removing a beta tag from a game is often a marketing event celebrating the end of major tuning and balancing. This phase usually takes approximately three to twelve months depending on the game. Certain players are able to spend money during this beta phase.

Commercial Launch

This is the point where the game is officially launched and all players can spend money within a game.

Ongoing Optimisation and Development

This is the "live" phase of a game development, where the Target Group is separately engaged for ongoing optimisation and development after the relevant game has been launched.

During the ongoing optimisation and development stages, the content and features of the games are continuously being developed and updated to enhance existing players' in-game experience and to attract new players. New virtual items and features are made available on a regular basis to stimulate players' interest in the game. The continuous development and update of the games is therefore a significant factor contributing to the game's sustainability and growth, as the number of players often experiences boosts immediately after substantial game updates.

GAME-HOSTING AND SUPPORT SERVICES

The Target Group also provides game-hosting and support services to its customers. It closely monitors and captures players' preferences and market trends in order to develop innovative games that are interesting to players. It also offers real-time game consulting services to other game publishers and studios and provides them with proprietary game reporting.

As a consultancy service provider, the Target Group is engaged in the provision of online services and back-end support of video games. It owns and operates a back-end services platform, *www.fireteam.net*, which provides a suite of features for games to be online and operate as a service. This includes back-end servers, player data, item economy and inventory, store offer systems, and consumer satisfaction surveys. The Target Group's main source of revenue under this segment is generated through the provision of four products as consulting services, namely, (i) expertise in shipping connected games, covering both client and back-end, (ii) design consulting and analysis of online features, including matchmaking, progression and game economies and monetisation, (iii) analysis of player feedback through net promoter score, and (iv) game launch planning and post-launch support. These could be integration of customised solutions into a game back-end or assisting in the redevelopment or developing new online services platforms for different games on multiple platforms and in various genres.

The Target Group is capable of collecting game statistics, which can be used for the purposes of reporting as well as key performance indicator analysis. The gameplay analysis technology tracks, analyses, and reports certain game data that the Target Group has as game developer and game publisher. As game developer, the Target Group has access to in-game behaviour metrics and player activity data. As game publisher, the Target Group also has access to player demographics, sources of traffic, and advertising efficiency data of all beta-tested games or published on its own website. The Target Group performs a correlation analysis of player demographics, playing patterns, and in-game behaviour to generate insights into player behaviour and preferences, which can be used by its game development studios to develop and optimise its games. Such a proprietary gameplay analysis technology is a critical resource for ensuring game quality, maximising success, understanding player behaviour, enhancing the quality of the player experience, and optimising the player's engagement monetisation potential.

During the Track Record Period, the Target Group generated revenue by providing consultancy services to third parties. The table below sets forth the games consulted or hosted by the Target Group during the Track Record Period:

	Game Title	Role of the Target Group in Game Development	Platform	Expected Launch Date
1.	Project E	Online and Multiplayer feature development, including but not limited to Crossplay, LAN support, error handling and robustness.	PC, Xbox One	Q4 2016 – Q3 2017
2.	Project H	Risk assessment and consultancy, matchmaking and party system, improvement of integration with Xbox One Live	PC, Xbox One	Q4 2015
3.	Project A	Matchmaking and party system, improvement of integration with Xbox One Live	Xbox One	Q4 2018
4.	Project I	Backend services and consultancy, including integration with proprietary authentication systems, custom virtual item system, cross-platform unlocks.	PC, Xbox 360, PS3, iOS, Android	Q4 2013

Revenue for provisioned online services and support is recognised at a monthly rate for a certain usage level and at a predetermined rate when the actual usage is beyond that level. In general, under the game-hosting and support services agreements, the service fee is based on a charge-out rate agreed with the client based on the level of usage or expected usage of the game in terms of requests per second on the servers. Then the Target Group bills for support costs at an agreed hourly rate with the customers during negotiations and based on expected number of hours required for support during implementation and live operations of the relevant game.

During the Track Record Period, the Target Group generated approximately GBP 0.1 million, GBP 0.6 million, GBP 0.8 million, and GBP 0.3 million revenue under this segment, representing approximately 3.4%, 11.7%, 4.9%, and 3.7% of its total revenue for the years ended 31 March 2014, 2015, and 2016, and for the six months ended 30 September 2016, respectively.

GAME PUBLISHING

Self-Publishing

The Target Group is also engaged in the publishing of its self-developed games, namely, *Tempo* and *RAD Soldiers*. It is primarily responsible for the creation and the preparation of marketing materials, as well as the implementation of various marketing measures to promote its games. Please refer to the section headed "– Marketing and Promotion" for further details on page 180 of this circular.

Third-Party International Distributor

During the Track Record Period, the Target Group engaged Nexon America to publish and distribute its video game *Dirty Bomb*. Under the agreement entered into with Nexon America, the Target Group granted an exclusive licence to Nexon America to publish, operate, and distribute *Dirty Bomb*. Nexon America shall manage the distribution of the game and game software to players. It shall also provide and manage the server system and other network equipment necessary for the operation of the game. It also manages the billing systems, payment collection, and administrative functions of the game. On 17 January 2017, the Target Group and Nexon America entered into an agreement, pursuant to which the exclusive right and license to maintain, publish, operate, and distribute *Dirty Bomb* shall end, and the Target Group shall have such rights after the termination date. An initial payment of US$500,000 was paid by the Target Group to Nexon America upon execution of the agreement and a further US$500,000 shall pay to Nexon America after the transition and migration of *Dirty Bomb*. In addition, Nexon America is entitled to revenue sharing throughout the life of *Dirty Bomb*.

The Target Group had also entered into standard agreements with international channel distributors for mobile devices in order to make available its games on their distribution channels. Pursuant to the terms of the agreements, the Target Group authorised the international channel distributors to market, solicit, and obtain orders on its behalf for its games from end-users. The international channel distributors shall provide hosting service to the Target Group in order to allow for the storage of and end-user access to the games. The international channel distributors shall issue invoices for the purpose price payable by end-users for the games.

MARKETING AND PROMOTION

Under the work-for-hire model, Mr. Wedgewood and Mr. Jolly are primarily responsible for conducting business development activities with the support of the senior management team. The video games producers assist in devising project management plans. The marketing and branding team produces and delivers to publishers monthly video updates of the relevant work-for-hire projects to identify the advances and milestones achieved and/or changes made. The Target Group does not directly engage in any substantial sales and marketing work targeting the game players. Such sales and marketing work is almost entirely managed by publishers.

Under the owned-IP model, as at the Latest Practicable Date, the Target Group has a marketing and branding team of seven employees dedicated to promoting and marketing its games to the players. The team comprises the chief marketing officer, the brand manager, the community manager, a videographer, a copywriter, and a media artist. The Target Group intends to expand its marketing and branding team as it focuses more on developing owned-IP video games.

The Target Group implements various marketing measures to promote its games under the owned-IP model, including word-of-mouth referrals by fans of its games, marketing campaigns, and utilisation of social networking media. The Target Group keeps close contact with enthusiastic players of its games whom it considers as its fans. The Target Group encourages such players to have in-depth discussion on its forums, share their game experiences by uploading screenshots of Twitch and YouTube videos about the games in verified fansite and channels, and then share such fansite links in their forums. Before commercialising a new game, the Target Group invites its fans to participate in closed and open beta testing of the game and keeps close contacts with them to obtain their feedback. The Target Group has a specific group of community fans who are given early access to games. These fans are trusted, hand-picked individuals who act as a sounding board for the Target Group, and who can help at focus-testing the games. The Target Group also has forums for its fans to discuss the game among themselves. It continuously improves its games set up based on feedback from its fans and makes its games more and more appealing to them and thereby creates a solid-core player base for its games. As a result of their increasing interest in its games, its fans often refer the game to more of their friends and invite them to play its games.

When a new game becomes ready for commercialisation, the Target Group initiates advertising and marketing campaigns by attending large game shows, where it arranges interviews and panel sessions to introduce the new game to the market. The Target Group also cooperates with third-party marketing service providers to market its games.

The Target Group also utilises various social networking media, such as Twitch, Facebook, Instagram, and YouTube, to promote its games. These social media platforms allow them to communicate with its players through texts, pictures, voice, and video about its new games and provide updates about its existing games. The Target Group produces and presents videos for its video games regularly for publication on these social media from time to time. The Target Group also arranges for its game developers and community managers to talk about its existing games and potential games to publish on these social networking media from time to time. It also cooperates with third-party platform providers to gain visibility of their portal website to market and promote its games.

TECHNOLOGY AND NETWORK INFRASTRUCTURE

The Target Group has built a robust technology and network infrastructure to support its overall business operation and system maintenance. Its operation and maintenance infrastructure is built through its own development efforts, as well as hardware and software acquired from third parties.

The Target Group currently has technical support teams to maintain its current technology infrastructure, to ensure the stability of its operations, and to monitor its servers to avoid any breakdown and fix any technical problems when they arise.

Infrastructure

The Target Group maintains a network infrastructure to support its operations. It maintains servers that serve as a database for storing the information of its players and collecting the players' behaviours and preferences during their playing of the games. Owing to the demanding and evolving requirements of the development environment, the Target Group's strategy has been to lease equipment to enable regular rotation of equipment and the agility to adapt quickly. The Target Group leases several core technology groups, including networking hardware such as switches, core switches, and wireless networking servers and storage systems. In addition, PC monitors and art tablets are also leased. The Target Group also uses subscription-based cloud technologies for additional servers and storage capacity.

Data Backup and Recovery

The Target Group has a disaster recovery plan and backs up its data onsite and offsite. It repairs common technical issues, and alerts relevant game development teams of unusual technical difficulties. As a result, the game development and operations of the Target Group are stable. The Target Group also has procedures in place when its servers do not function or there is a power outage.

During the Track Record Period and up to the Latest Practicable Date, the Target Group had not experienced any material network disruptions to its hosting of games. As with most video games companies, the Target Group is the subject of regular hacking attempts such as socially engineers Trojans, unpatched software, phishing attacks, network travelling worms, and advanced persistent threats. The Target Group employs detection and prevention methodologies to defend against attacks and to immediately isolate suspected infected or hacked servers. As at the Last Practicable Date, the Target Group had not been subject to any material breaches leading to network disruptions.

Player Service

For owned-IP games, the Target Group provides quality player service and is responsive to the needs of its players. Players may submit inquires, feedback, or complaints to the Target Group via proprietary in-game technology with the information of the incident, the unexpected result, and expected assistance via its in-game help menus. In addition, the Target Group conducts text analysis on feedback received in order to identify and address key areas of concern. The Target Group also collects feedback and answers questions from its players in relation to its games posted on open forums.

As to reported bugs found in the games, the Target Group will report to the development department, who will be responsible for resolving the reported issues, and it will inform the complaining player about the updates. For those players who provide negative feedback of the games on any platform, the Target Group will aim to reach out to such players to seek their opinions to help further improve the games. The Target Group also closely monitors social media for feedback on how its game updates are performing. During the Track Record Period, the Target Group had not received any material complaints from its players and had not made any financial compensation.

CUSTOMERS

Under the work-for-hire model, the Target Group's customers are its business-to-business ("**B2B**") clients primarily based in North American and Europe, while the consumers are the game's players but not its customers under owned-IP model. Customers pay the Target Group for developing video games or co-developing video games with them, while consumers use the content of the video games. Each of these customers operates a distinct business model. The Target Group primarily works with market-leading publishers in order to be associated with "blockbuster" game titles.

Typically, the Target Group enters into written legally binding contracts with its customers that last for the duration of the relevant project, which is approximately two years on average. The duration of the contact may be longer if there is a live support component when the relevant video game is launched. The game development fee is determined taking into account a number of factors, including the technical requirements, number of employees required, and the game development schedule. Payment is usually made on milestone basis and the time interval between each milestone is approximately four to five months. During the Track Record Period, there had not been any material breach of the terms and conditions of the contracts entered into between the Acquired Group and its five largest customers.

For the years ended 31 March 2014, 2015, and 2016, and the six months ended 30 September 2016, the revenue attributable to the five largest customers accounted for approximately 100%, 100%, 99.7%, and 99.9% of the total revenue, respectively.

For the years ended 31 March 2014, 2015, and 2016, and the six months ended 30 September 2016, the revenue attributable to the largest customer accounted for approximately 79.7%, 87.9%, 63.0%, and 44.5% of the total revenue, respectively.

As at 30 September 2016, the five largest customers had maintained a working relationship with the Target Group for over three years on average. During the Track Record Period, the Target Group had not received any material customer complaints.

None of the Directors, the Target Group's directors and their respective associates, or any Shareholders who own 5% or more of the total issued Shares had an interest in any of the Target Group's five largest customers during the Track Record Period. Each of the five largest customers is an independent third party to the Company or the Target Group.

Under the owned-IP model, the Target Group's customers are the game players, who are the consumers of the video games. Its consumers are typically young to middle-aged males.

SUPPLIERS

The Target Group's suppliers primarily include (i) external game content contributors and (ii) server providers.

In general, the Target Group selects the third-party suppliers based on their qualification, past collaborative experience, competitive pricing, financial stability, timeliness of delivery, and service quality. It also conducts evaluation against each supplier from time to time to determine whether the services provided by such supplier can best satisfy the needs of the Target Group.

External Game Content Contributor

While the Target Group substantially develops the main content and almost all aspects of its video games at its games studio, the Target Group also outsources certain aspects of game development to third parties, such as two-dimensional or three-dimensional art, graphic design, audio creation, translation, programming and quality assurance, where the relevant aspect requires expertise not internally available or when there is a temporary shortage of internal resources for such work from time to time. The Target Group selects its external game content contributors based on a number of factors, including areas of specialisation, quality of work, and delivery schedule. As at 30 September 2016, the major external game content contributors had maintained a working relationship with the Target Group for over two years on average. All of its external game content contributors are independent third parties.

The Target Group typically enters into legally-binding agreements with terms depending on the nature of the project. In general, under the outsourcing service agreements:

- outsourcing service providers provide development proposals to the Target Group and submit their work products to the Target Group in accordance with the prescribed timetable and quality requirements by the Target Group;

- the Target Group reviews the work products and requests for further revisions to ensure all work products are satisfactory for their quality requirements;

- the Target Group generally pays the outsourcing service providers one-off fees after the execution of agreements or makes periodic payments to them as per a milestone schedule;

- the external game content contributor assigns the intellectual property rights in the products to the Target Group; and

- the outsourcing service agreements are generally entered into on a project basis and may be terminated in the event of a material breach, such as the outsourcing service provider's failure to turn over the work products according to the timetable or quality standards, and, in some cases, the Target Group is entitled to terminate such agreements at any time subject to payment for the work products that it has accepted.

Server Provider

The Target Group engages a web services provider to provide a range of services, including servers, elastic cloud compute, data storage, and storage gateway. The Target Group typically makes its monthly payment to web services provider and on a cost-plus basis. The Target Group accepted an online legally-binding written customer agreement on the internet and is able to choose from a range of service offerings offered by the server provider. The contract will remain in effect until terminated by either party. Payment is made on a monthly basis.

For the years ended 31 March 2014, 2015, and 2016, and the six months ended 30 September 2016, the purchases attributable to the five largest suppliers accounted for less than 30% of the cost of revenue of the Target Group.

As at 30 September 2016, the five largest suppliers had maintained a working relationship with the Target Group for over two years on average.

As at the Latest Practicable Date, the Target Group had not encountered any material disruption to its business as a result of failure to obtain services from its suppliers.

None of the Directors, the Target Group's directors and their respective associates, or any Shareholders who own 5% or more of the total issued Shares had an interest in any of the Target Group's five largest suppliers during the Track Record Period. Each of the five largest suppliers is an independent third party to the Company or the Target Group.

During the Track Record Period, there has not been any material breach of the respective agreements entered into between the Target Group and its five largest suppliers.

COMPETITION

Despite that several of the Target Group's competitors charge competitively for their game development services, only a few developers directly compete with the Target Group by specialising in the co-development of competitive, multiplayer video games under the work-for-hire model. For this reason, the Target Group believes that it is very well-positioned in the market. The Target Group has over 15 years of game development experience and is one of the world's leading external independent game developers that specialises in developing competitive multiplayer video games including games at AAA quality for market-leading publishers under the work-for-hire model.

According to the Frost & Sullivan Report, competition in the global game development market is intense, due to a fragmented market that comprises of a large number of game developers. On this basis, it was observed that the entry barriers for the PC and console games markets are generally higher than the entry barriers for the mobile game market. This is generally advantageous to the Target Group given its focus on the development of PC and console games. In contrast to the game developers' market, the Frost & Sullivan Report suggests that the game publishers' market is highly concentrated with a few major players, where the top 10 publishers, such as Microsoft, Tencent, and Sony, represented over 50% of the market share in game publishing market in 2015.

The Target Group primarily competes with other video games developers such as Rocksteady, and other small to medium sized free-to-play game publishers. The Target Group also anticipates competition from emerging game developers and publishers that intend to enter into the video games industry. The Target Group and its existing and potential competitors may have different competitive edges in terms of financial, technological, and marketing resources, user base, relationships with industry participants, degree of game portfolio diversification, and development experience and resources. The Target Group believes that its game development and game publishing businesses complement each other and help diversify certain business risks. For example, certain video game publishers which compete with the Target Group's game publishing business are also customers of the Target Group's game development business under the work-for-hire model.

While the Target Group faces a diverse group of existing and potential competitors under the owned-IP model, the Target Group competes primarily on its abilities to develop highly engaging video games, to attract and retain paying players by anticipating and satisfying player demands, to acquire new video game players through marketing and advertising efforts, and to ensure the stability of the game operation systems through its technology infrastructure. The Target Group also competes broadly for the leisure time and attention of casual game players through other forms of media and entertainment, such as mobile games.

According to the Frost & Sullivan Report, there are both opportunities and threats in the global video games industry. For instance, the development of new technologies, such as virtual reality and augmented reality, is driving the future development of video game industry on the one hand, but investment by the game developers on these new technologies may subject developers to a variety of risks, such as high operating cost and late return on such investment on the other hand.

In terms of entry barriers, according to the Frost & Sullivan Report, entry into the video games industry generally requires (i) a high level of research and development capability of the game developers and publishers to provide the players with excellent content, elaborate production, stable programme, and smooth running experience; and (ii) a large amount of capital for recruiting high-end talents and constructing infrastructure so as to develop and operate high-quality video games. New entrants also need to compete with large game publishers, which have control over resources such as user information and promotional channels.

INTELLECTUAL PROPERTY

Under the work-for-hire model, graphic images, software source-code documentation, and deliverables created by the Target Group vest in the publishers, except for pre-existing and proprietary intellectual property and modifications and improvement thereto of the Target Group.

Under the owned-IP model, the Target Group recognises the importance of intellectual property rights to its businesses and is committed to the development and protection of its intellectual property. It relies on copyright, trademark, and other intellectual property law, as well as confidentiality and licence agreements with its employees, platform providers, payment services providers, and others to protect its intellectual property rights.

All employees are generally required to enter into a standard employment contract, which includes a clause acknowledging that all inventions, trade secrets, developments, and other processes generated by them on its behalf are the Target Group's property and assigning to the Target Group any ownership rights that they may claim in those works. These contracts typically also include non-compete and confidentiality provisions effective during and up to six months after the termination of their employment with the Target Group.

As at the Latest Practicable Date, the Target Group owned over 50 registered domain names. It generally renews its domain name registrations regularly and applications for their renewal are made at such time as the Target Group considers appropriate. Under normal circumstances, the domain name renewals take effect immediately after the payment of renewal fees, provided that the renewal fees are paid before the expiry date of the domain name. However, it should be noted that the ability to renew a domain name is not guaranteed by all registrars. If domain name registrations cannot be or is not renewed for whatever reason, the registration will expire, the Target Group will no longer have any rights in relation to that domain name, and a third party may be able to acquire that domain name.

As at the Latest Practicable Date, the Target Group had 30 registered trademarks in the UK, Canada, the U.S., and the EU, Japan, and South Korea.

As at the Latest Practicable Date, the Target Group had no registered patents.

The Target Group protects the source code for its games and maintains stringent control over who can access the source code. The Target Group employs methods such as internally limiting access to source code, structuring confidentiality agreements built into employment contracts, physical server access restrictions, and negotiating stringent non-disclosure agreements with all third parties/guests.

Please refer to the section headed "Appendix IV – General Information – 10. Intellectual Property Rights of the Subject Companies" for details of the material intellectual property rights of the Target Group on page IV-6 of this circular.

Despite the Target Group's efforts to protect its intellectual property, other video game developers and publishers may possibly copy its ideas and designs and third parties to obtain and use intellectual property that it owns or licences without its consent. Moreover, litigation may be necessary in the future to enforce its intellectual property rights. Please see the section headed "Risk Factors Relating to the Subject Companies – Risks Relating to the Business of the Subject Companies – Unauthorised use of the Subject Companies' intellectual property by third parties, and the expenses incurred in protecting their intellectual property rights, may adversely affect their business" for details on page 47 of this circular. Unauthorised use of its intellectual property by third parties, and the expenses incurred in protecting its intellectual property rights, may adversely affect its business.

During the Track Record Period and up to the Latest Practicable Date, the Target Group was not involved in any material dispute or any other pending legal proceedings of intellectual property rights with third parties.

EMPLOYEES

As at the Latest Practicable Date, the Target Group had 218 full-time employees based in London. The following table sets forth the number of the employees of the Target Group by function as at the Latest Practicable Date:

	Number of Employees	% of Total
Game development	181	83.0%
Game consulting	7	3.2%
Marketing and branding	7	3.2%
General and administration	23	10.6%
Total	218	100%

The goal of the Target Group is to hire top-tier talent and give them plenty of autonomy to conduct their work in a friendly and collaborative working environment.

The Target Group recruits graduates from universities or experienced personnel from within the video gaming industry or gaming-adjacent industries such as the technology, film and animation industries. Each new recruit has to undergo a three-month probation period.

The Target Group has a full learning and development programme. The Target Group arranges courses for its employees covering soft skills, such as recognising mental health issues, how to cope with stress, how to recognise harassment or prejudice, and difficult skills, specifically the skills that relate to the job they are performing. In addition, its senior employees are encouraged to hold training sessions where they exchange and share on-the-job knowledge. Employees are also given opportunities to attend external conferences so that they may gather information on new techniques and tools and bring these to the Target Company.

The Target Group believes that its culture, track record, benefits package, "blockbuster" titles, and brand recognition, are advantages that attract qualified candidates. The Target Group participates in various employee benefit plans, including pensions, private healthcare, gym membership, optical and dental subsidies, and flexible working hours. The Target Group is required under the applicable laws to make contributions to the employee pension plans at specified percentages of the salaries.

Employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements. During the Track Record Period, the Target Group maintained a good working relationship with its employees. As at the Latest Practicable Date, no significant labour disputes that adversely affected or were likely to have an adverse effect on the operations of its business had occurred.

Employees of the Target Group are eligible to receive discretionary bonuses (which include discretionary contractual schemes). The Target Group is piloting a scheme in which it shares one per cent of its total revenue for each quarter with employees who have worked for the Target Group for 12 full months and are not working their notice period. Further, certain employees of the Target Group are eligible to receive a share of royalties received in respect of a certain game they have worked on. The Target Group also grants share options to its employees to incentivise their contributions to its growth and development.

The Target Group incurred staff costs of approximately GBP4.5 million, GBP4.9 million, GBP7.0 million, and GBP4.6 million for the years ended 31 March 2014, 2015, and 2016, and, for the six months ended 30 September 2016, representing approximately 300.2%, 90.4%, 44.7%, and 51.0% of the total revenue of the Target Group for those periods, respectively. The total amount of contributions they made for employee benefit plans for the years ended 31 March 2014, 2015, and 2016, and, for the six months ended 30 September 2016 were approximately GBP68,000, GBP82,000, GBP144,000, and GBP108,000, respectively.

The Target Group believe that they have not experienced a high rate of turnover or attrition since their inception. To further reduce the turnover rate, the employees attend meetings with their managers and discuss their development, performance, and growth path on a regular basis.

INSURANCE

The Target Group maintains insurance policies covering various aspects of its operations, including building insurance, employer's liability insurance, public liability insurance, business interruption insurance, cyber insurance, travel insurance, and professional indemnity insurance.

The Target Group believe that the coverage of the insurance obtained by it is adequate and consistent with market practices in the UK for its business and operations.

During the Track Record Period, the Target Group did not experience any material insurance claims in relation to its business.

TAXATION

The Target Group companies are required to pay and/or account for various taxes and social security payments under English law, including corporation tax, employment taxes and employee social security contributions through the "pay as your earn" (PAYE) system, employer social security contributions, and value-added tax (VAT).

VAT

In general, the Target Group may reclaim VAT paid on supplies in relation to customers, as these are located outside the UK on a B2B basis, there is no VAT payable, so the company is a net reclaim. The Target Group passed an inspection conducted by the UK tax authority, HMRC, into the Target Group's VAT approximately 18 months ago.

Employment

There are certain taxes relating to employment for which the Target Group is responsible, including employer social security contributions at a rate of approximately 13.8%, and PAYE liability, which requires income tax and employee social security contributions to be deducted from employees' salaries at source and accounted for by the relevant employer in the Target Group to HMRC.

Corporation Tax

Generally, the Target Group has been able to reclaim the corporation tax it pays due to enhanced reliefs for which it is eligible, such as research and development credits and cultural tax relief (which is available in the video game industry). However, as the Target Group grows and becomes more financially successful, it may become a corporation tax payer due to enhanced profitability outpacing the credits obtained.

The Target Group is eligible to claim small and medium-sized enterprise research and development tax relief, in respect of up to a maximum of 80% of relevant core expenditure incurred. For the years ended 31 March 2014, 2015, and 2016, and, for the six months ended 30 September 2016, the Target Group received research and development tax relief in the amount of GBP178,000, GBP102,000, GBP184,000, and GBP122,000.

The Target Group is eligible to claim video game tax relief (VGTR) in respect of up to a maximum of 80% of relevant core expenditure incurred. For the years ended 31 March 2014, 2015, and 2016, and, for the six months ended 30 September 2016, the Target Group received VGTR in the amount of nil, GBP935,000, GBP1,802,000, and GBP1,001,000.

Please see the section headed "Management Discussion and Analysis of the Target Group" for details on page 232 of this circular.

PROPERTIES

The Target Group leases certain properties in the UK for its business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for the Target Group's operations.

As at the Latest Practicable Date, the Target Group leased one property with a gross floor area of approximately 24,500 sq. ft., with a lease expiry date in 2028. The Target Group is also in the process of negotiating a second lease for the building adjacent to its current leasehold property, which has a gross floor area of approximately 9,500 sq. ft. As at the Latest Practicable Date, the Target Group did not own any property. The lease in relation to the property has been properly registered at the UK Land Registry.

LEGAL PROCEEDINGS AND COMPLIANCE

The Target Group may be subject to legal proceedings, investigations, and claims relating to the conduct of its business from time to time. It may also initiate legal proceedings in order to protect its contractual and property rights.

The Target Group is not currently a party to, nor is it aware of, any material legal, arbitral or administrative proceedings, investigations, or claims. Further, it has not encountered any material claim, complaint, or dispute in relation to the operations of its games during the Track Record Period or the subsequent period up to the Latest Practicable Date.

During the Track Record Period, the Target Group has not experienced any non-compliance that is likely to have a material adverse effect on its business, financial condition, or results of operations. During the Track Record Period and the subsequent period up to the Latest Practicable Date, the Target Group has complied with applicable laws and regulations in all material respects and is not subject to any material administrative penalties for any non-compliance with the applicable laws.

RISK MANAGEMENT

The Target Group has established control systems over various aspects of its operations and is constantly monitoring the effectiveness of its risk management system.

The Target Group has systems in place to maintain adequate internal control at the company level: information systems, sales payment collection, fixed assets, capital, remuneration, and contract management (including proper protection of intellectual property rights). For each area, the Target Group maintains policies providing guidelines on internal control, assigns staff to implement the policies, and has in place supervision mechanisms. It also provides trainings on implementation of the policies. There are channels in place to escalate any major risks or issues encountered across internal-control areas.

LICENCES AND PERMITS

During the Track Record Period and the subsequent period up to the Latest Practicable Date, no licences, approvals or permits from government authorities that are material to the Target Group's business operations in the UK were required.

AWARDS AND RECOGNITION

During the Track Record Period, the Target Group has received various awards and recognition in respect of the quality and popularity of its games, products and services, which include the following:

Award/Recognition	Awarding Institution/ Authority	Award Date
Best Companies – One to Watch Award	Sunday Times & Best Companies	2015
Best Companies – 2 Star Accreditation	Sunday Times & Best Companies	2016
Employer of the Year	Bromley Business Awards	2016
Business of the Year	Bromley Business Awards	2016

SALES TO SANCTIONED COUNTRIES

The United States and other jurisdictions or organisations, including the EU, the UN, and Australia, have comprehensive or broad economic sanctions targeting the Sanctioned Countries. During the Track Record Period, the Target Group engaged a Russian distributor to distribute its online game (although no sales were made to end users under the contract before it was terminated). Russia is subject to certain international sanctions prohibiting dealing with persons on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the UN, or Australia.

As advised by the Sanctions Legal Advisers, based on the following procedures conducted by them, the Target Group's contractual arrangement with the Russian distributor during the Track Record Period does not implicate the application of any International Sanctions laws on the Target Group or, following completion of the acquisition of the Target Group, the Group, or any person or entity, including the Group's investors, the Shareholders, the Stock Exchange, HKSCC, and HKSCC Nominees:

(a) reviewed documents provided by the Target Group and/or the Group that evidence the Target Group's contractual arrangement with the Russian distributor during the Track Record Period; and

(b) received written confirmation from us that neither the Target Group nor any of its affiliates has conducted during the Track Record Period any business dealings in or with any other countries or persons that are the subject of International Sanctions.

In relation to the Target Group's contractual arrangement with the Russian distributor during the Track Record Period, the Target Group has not been notified that any sanctions will be imposed on it. None of the contracting parties are specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, the UN, or Australia and therefore would not be deemed to be sanctioned targets. The Directors undertake not to enter into prohibited activities under the relevant sanctions laws and regulations that would expose our Group, or any person or entity, including the Group's investors, the Shareholders, the Stock Exchange, HKSCC, or HKSCC nominees to risk of being sanctioned.

The Group will continue to evaluate and monitor all the Target Group's customers in order to control its exposure to sanction risks. In assessing whether to continue the existing and ongoing business and whether to embark on new business opportunities connected with any Sanctioned Country, the Target Group, and/or the Group will take into account: (i) whether the relevant business activities involve any industries or sectors that are subject to any International Sanctions; (ii) whether the counterparties to the relevant transactions have become subject to any International Sanctions; (iii) the size and value of the business activities as a percentage of our total revenue; and (iv) the potential risk to the Target Group and/or the Group of continuing such activities.

The Group's Undertakings and Internal Control Procedures

For details of the internal control procedures, please refer to "Business of the Acquired Group – Sales to Sanctioned Countries – The Group's undertakings and internal control procedures".

DIRECTORS AND SENIOR MANAGEMENT OF THE SUBJECT COMPANIES

There will not be any change to the composition of the Board or the senior management of the Group following Completion. Set out below are details of the experience of the directors and senior management of the Acquired Group and Target Group.

(A) Directors and Senior Management of the Acquired Group

Biographies of the board of Directors and Senior Management

Mr. James Schmalz, aged 48, is the founder and chief executive officer of Digital Extremes, and is responsible for setting the vision and mission for Digital Extremes and monitoring the administration of goals and objectives. Mr. James Schmalz was appointed as a director of Digital Extremes on 23 December 1993, and the chief executive officer on 1 February 2009. He also served as the president of Digital Extremes from 31 December 1993 to 1 February 2009, and secretary and treasurer of Digital Extremes from 1 February 1995 to 1 February 2009. Mr. James Schmalz has about 30 years of experience in the game development industry. Prior to the establishment of the Acquired Group, Mr. James Schmalz worked as an independent game developer from 1986 to 1993. Mr. James Schmalz created his first professional game Legend of Murder published by Softdisk in 1989, then he created the sequel followed by the shareware game Solar Winds in 1992 and Epic Pinball in 1993. Mr. James Schmalz graduated from the University of Waterloo with a bachelor of applied science degree in mechanical engineering with management science option in 1992.

Dr. Michael Schmalz, aged 49, is the president of Digital Extremes, and is responsible for creating, communicating and implementing Digital Extremes' vision, mission and overall direction. Dr. Michael Schmalz was appointed as a director of Digital Extremes on 21 July 2015 and the president of Digital Extremes on 1 February 2009, and he also served as the chief financial officer of Digital Extremes. Prior to joining the Acquired Group, he was the co-founder and director of Achimota Centre for Children with Autism from 2002 to 2007, a senior engineer and partner at Richardson Engineering Ltd. and an engineer at Reinders and Associates (Barrie) Ltd. Dr. Michael Schmalz is a licensed professional engineer in the Province of Ontario and a chartered professional accountant of The Institute of Chartered Accountants of Ontario. He was also a director of Interactive Ontario Industry Association, a not-for-profit industry trade association. Dr. Michael Schmalz obtained a bachelor of applied science degree in civil engineering with options in management sciences and water resources from the University of Waterloo, a bachelor of arts degree in general French from the University of Waterloo, a master of engineering science degree from the University of Western Ontario in 1993, a master of business administration degree from Schulich School of Business, York University in 1999, a master of arts degree and a PhD degree in media studies from University of Western Ontario in 2008 and 2016 respectively. Dr. Michael Schmalz is the brother of Mr. James Schmalz.

Mr. Haitong Wang ("**Mr. Wang**"), aged 46, was appointed as the chief executive officer of the Company on 25 July 2015, and a director of Digital Extremes on 31 July 2015. Mr. Wang is responsible for setting the strategic direction and policies of Digital Extremes. Mr. Wang has over 15 years of experience in investment management and investment banking industry. Before joining the Group, Mr. Wang held a number of senior investment roles at PAG Absolute Returns, Goldman Sachs (Asia) L.L.C. and Mount Kellett Capital (Hong Kong) Limited. Prior to his investment banking career, Mr. Wang held senior managerial roles at The Royal Bank of Scotland and UBS Investment Bank. He has extensive experience in investments, corporate finance, and business development. Mr. Wang holds a master of business administration degree from the University of Chicago.

Mr. Law Kin Fat ("**Mr. Law**"), aged 49, was appointed as an executive director and the vice chairman of the Company on 28 July 2015, and a director of Digital Extremes on 31 July 2015. Mr. Law is responsible for developing the strategic objectives and is involved in major financial decisions of Digital Extremes. Mr. Law graduated from the University of Hong Kong with a bachelor degree in social sciences in 1991, and he also obtained a master of arts degree in finance and investment with Distinction from the University of Exeter in the United Kingdom in 1994. Prior to joining the Group, Mr. Law had served various positions of Deutsche Bank AG, Hong Kong Branch, Merrill Lynch (Asia Pacific) Limited, ABN AMRO Bank N.V., Hong Kong Branch, BNP Paribas Peregrine Securities Limited and J.P. Morgan Securities (Asia Pacific) Limited.

Mr. Carson Ka Chun Wong ("**Mr. Wong**"), aged 38, was appointed as a director of Digital Extremes on 27 April 2016, and is responsible for the overall strategic development and decision making of Digital Extremes. Mr. Wong has substantial experience in auditing, financial analytical and management experience in multi-national corporations and listed companies in Hong Kong. He is a member of the American Institute of Certified Public Accountants. Prior to joining the Group, Mr. Wong was an executive director of Chinese Energy Holdings Limited formerly known as iMerchants Limited (stock code: 08009) from August 2008 to February 2013, an independent non-executive director of Birmingham International Holdings Limited (stock code: 02309) from June 2012 to March 2015. He obtained a bachelor degree from the faculty of arts of Simon Fraser University in 2000, and a diploma of technology from British Columbia Institution of Technology in 2001.

Mr. Sinclair, aged 44, was appointed the creative director of Digital Extremes in 2009. Mr. Sinclair is responsible for leading the programming team in engineering Evolution Engine, the proprietary game engine of Digital Extremes, and providing direction for the development team of Warframe. Mr. Sinclair has about 20 years' experience in programming, nearly 17 years of which have been at Digital Extremes.

Mr. Pettypiece, aged 32, was appointed the chief financial officer of Digital Extremes in 2014, and is responsible for managing the corporate finances and overseeing the IT team and analytics team at the Acquired Group. Mr. Pettypiece joined the Acquired Group initially as a financial controller in 2011, and has been with the Acquired Group for over 5 years. Prior to joining the Acquired Group, Mr. Pettypiece worked at Ernst & Young for 3 years, responsible for managing clients throughout Southwestern Ontario, Canada. Mr. Pettypiece is a Chartered Professional Accountant of Toronto, Canada, and he holds a bachelor degree in management and organizational studies from the University of Western Ontario.

(B) Directors and Senior Management of the Target Group

Biographies of the Board of Directors and Senior Management

Mr. Wedgwood, aged 46, is one of the three founders and chief executive officer of the Target Group. Mr. Wedgwood was appointed the director of Splash Damage on 30 April 2001, and the director of Fireteam and Warchest on 22 September 2011. Mr. Wedgwood originally served as the lead game designer on *Wolfenstein: Enemy Territory* and *Enemy Territory: QUAKE Wars*. In his capacity as chief executive officer, Mr. Wedgwood oversees all of Splash Damage's titles including Blockbuster IPs like the *Gear of War* franchise, to their own IP *Dirty Bomb*. Mr. Wedgwood is also a speaker at the video game industry events as Game Developers Conference and D.I.C.E. Summit.

Mr. van Meer, aged 35, is one of the three founders and the chief technology officer of the Target Group. He was also appointed a director of Fireteam on 17 January 2012. As the chief technology officer, Mr. van Meer is responsible for guiding all of the technology and programming efforts of Splash Damage and Fireteam. He was the Lead Programmer on the Target Group's first title, the BAFTA-nominated *Wolfenstein: Enemy Territory*, and then became the Technical Director for *Enemy Territory: QUAKE Wars*, implementing the MegaTexture technology and directing the programming team. In 2012, Mr. van Meer started Fireteam to focus the many years of combined experience within Splash Damage to develop client and backend solutions for games. He was named as one of "Develop Magazine's 30 Under 30" in 2008.

Mr. Jolly, aged 37, is one of the three founders and the chief marketing officer of the Target Group. He was also appointed a director of Warchest on 3 January 2012. Mr. Jolly first served as the Creative Director at Splash Damage on the BAFTA-nominated *Wolfenstein: Enemy Territory* and later as the Art Director on *Enemy Territory: QUAKE Wars*. Mr. Jolly then went on to head up marketing and public relation teams, working closely with studio partners to drive campaigns, later extended to include *Batman: Arkham Origins* with Warner Brothers. In 2012, Mr. Jolly started Warchest, the publishing and own IP label of the Target Group. As the chief marketing officer, Mr. Jolly now works across the multiple titles which the Target Group has in development, including external IPs like the blockbuster *Gears of War* franchise, and their own IP *Dirty Bomb*. Mr. Jolly also oversees all efforts concerning the external perception of the Target Group's brands and IPs, be it on social media, presence at trade shows, or in general business development. Mr. Jolly graduated from the University of Abertay Dundee with a diploma of higher education in computer games technology in 2001.

Mr. Farrow, aged 33, is the chief financial officer of the Target Group. He was also appointed a director of each of Splash Damage and Warchest on 1 April 2014. Since joining the Target Group, Mr. Farrow has been instrumental in building the finance function of the business, including establishing a finance team, and improving the Target Group's growth, financial strategy and governance. Mr. Farrow has over 9 years' experience in finance. Prior to joining the Target Group in 2012, he has worked in various roles for large organizations, including The Financial Times Stock Exchange, Alternative Investment Market and other private corporations. Mr. Farrow graduated from the University of Aberdeen in 2011 with the Undergraduate Certificate in Higher Education in arts and social sciences and he went on to study in Chartered Institute of Management Accountants during his earlier career. He is also a director of Fireteam.

Mr. Jenkins, aged 42, is the chief operating officer of the Target Group and has over 21 years of industry experience in both the development and publishing of video games. Prior to joining the Target Group, Mr. Jenkins was a Senior Development Director at Electronic Arts (Canada) Inc. He has also worked at Eidos Limited, Criterion Software Limited and Kuju Entertainment Ltd. Mr. Jenkins joined the Target Group in January 2011 as the Director of Production responsible for all game development and was since appointed the chief operating officer where he now oversees all aspects of the Target Group's activities ranging from the game development teams through back-end and support services to all Studio support team operation. He was appointed a director of Splash Damage on 3 January 2012.

Mr. Morris, aged 47, is the head of production of the Target Group and has over 20 years' experience in the game development industry. Prior to joining the Target Group, Mr. Morris was Executive Producer of Microsoft Limited. Mr. Morris also worked as an Executive Producer at Electronic Arts and its subsidiary Playfish. Mr. Morris was European Development Director at THQ International Operations Limited. Mr. Morris holds a bachelor's degree in Arts in Visual Arts (Media) from the University of California, San Diego in 1992 and also obtained a Certificate of Sequential Program in Project Management from the University of California, Los Angeles, UCLA Extension, in 2005.

Save as disclosed above, no directors or members of the senior management of the Subject Companies held any directorship positions in any other listed companies within the three years immediately preceding the date of this circular, nor has he or she held any other positions with the Subject Companies or the Company.

Save as disclosed above, there is no other information relating to the relationship of any of the directors or members of the senior management of the Subject Companies with other directors or members of the senior management or any other information that should be disclosed pursuant to Rule 13.51(2) to the Listing Rules. None of the directors or members of the senior management of the Subject Companies is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Subject Companies or the Company.

Set out below is the management discussion and analysis of the Acquired Group for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2015 and 2016. The following management discussion and analysis should be read with the audited financial information, including the notes thereto, included in the Accountant's Report on the Acquired Group in Appendix II to this circular.

BUSINESS OVERVIEW OF THE ACQUIRED GROUP

The Acquired Group is principally engaged in the development and publishing of video games for both PC and home-gaming console hardware terminals, as well as the sale of merchandise. Founded in 1993, the Acquired Group focused on developing video games for third-party publishers under the "work-for-hire" model up to 2013. The Acquired Group started to focus on the development of *Warframe* in 2012. In March 2013, it began the online distribution of *Warframe*, a self-published title that is a co-op-based, third-person-shooter game set in an evolving sci-fi world on both PC and home-gaming consoles under the "free-to-play" model. During the Track Record Period, the Acquired Group generated a substantial portion of its revenue from publishing *Warframe*, which, in turn, was primarily generated from the sales of virtual tokens to its players. As at the Latest Practicable Date, *Warframe* is enjoyed by players in over 200 countries including the United States, Canada, the United Kingdom and Germany.

During the Track Record Period, the Acquired Group had experienced significant growth. It generated revenue of CAD29.2 million, CAD65.8 million, CAD115.1 million and CAD114.7 million in the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2016, respectively, representing a CAGR of 98.5% from 2013 to 2015. The net profit of the Acquired Group was CAD5.3 million, CAD20.1 million, CAD40.8 million and CAD46.6 million for the same periods, representing a CAGR of 177.5% from 2013 to 2015.

KEY FACTORS AFFECTING THE ACQUIRED GROUP'S RESULTS OF OPERATIONS

To the best of the Directors' knowledge and information, and having made all reasonable enquiries, the Directors believe that the Acquired Group's results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Development of Video Game Industry

The Acquired Group's results of operations are affected by general conditions typically affecting the video game industry, including (i) the overall economic condition; (ii) the increasing use of the Internet; (iii) the regulatory environment; and (iv) the demand for video games. The video game industry has a relatively short history and has experienced a recent rapid growth. Please refer to the section headed "Industry Overview Relating to the Subject Companies" for details. The Acquired Group's games rely on players' spending, which may, in turn, depend on their level of disposable income, perceived future earnings, and willingness to spend.

Competition Landscape and Changing Consumer Taste

The video game industry has grown rapidly in recent years, driven primarily by development of the Internet, increasing digital spending, evolvement of technology and popularity of electronic sports. The Acquired Group competes primarily on the basis of the quality and features of its games, its operational infrastructure and expertise, the strength of its product management approach, and the services it offers that enhance its players' experiences. To continue its success in this industry, the Acquired Group must anticipate and respond to changes in the competitive landscape and effectively respond to changing player interests and preferences. It is expected that players' demand for video games will continue to grow rapidly, and the Acquired Group will put more efforts in marketing and selling in the future to adopt to changing consumer taste and the competitive landscape in the video game development sector of the industry.

Ability to Offer Highly Engaging Video Games

The Acquired Group's ability to further expand its player base depends on its ability to develop and publish new games that are interesting and compelling to play. Currently, the Acquired Group has one existing self-developed game, which is also published by the Acquired Group, namely, *Warframe*. The revenue generated from game development and publishing segment contributed 80.4%, 99.4%, 99.6%, and 99.7% of its total revenue for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, respectively. To reduce its reliance on *Warframe* and expand its revenue base, the Acquired Group is in the process of developing first-person competitive shooter games for PC, Xbox One, and PlayStation 4. The Acquired Group believes that, going forward, it is in a great position to offer highly engaging video games because its management team has over 20 years of experience in providing first-person competitive shooter games and has won various awards. It will also leverage its existing capability in producing *Warframe* to launch new free-to-play games in the future.

Ability to Expand its Player Base

The size of the Acquired Group's player base reflects the popularity of its games and the basis for sustainable growth. The Acquired Group measures its player base primarily by cumulative registered players since its inception. Its cumulative registered players increased from approximately 5 million as at 31 December 2013, to approximately 26 million as at 30 September 2016. The increase was primarily driven by the enhanced player acceptance of *Warframe*, as a result of the engaging nature of *Warframe*, the superior game experience that the Acquired Group offers to its players, and its marketing and distribution efforts. The Acquired Group offers its games in multiple language versions that are equipped with localised features and services and have attracted registered players located in more than 200 countries across North America, Europe and Asia. In addition, *Warframe* is under free-to-play model, which enables the Acquired Group to quickly establish a sizable registered and active player base, opening up access to a pool of potential players to purchase its in-game virtual items using virtual tokens. The Acquired Group believes that it will be able to retain its existing players, attract new players, and maintain an active player base in the future via constant innovations and the creation of new self-owned IP video games.

Monetisation of Player Base and Expansion of Average Revenue per Paying Player

The Acquired Group generates its revenues primarily from the sales of virtual tokens to its players, which provide a player with aesthetic or enhanced abilities for their characters within a game. The Acquired Group's results of operations depend on its ability to monetise its player base, i.e., to increase both the number of paying players and average revenue per paying player. To enhance game monetisation, the Acquired Group will continue to stimulate player interest and drive in-game purchases and the number of in-game rounds they play by improving the quality of the games, introducing new game features and services and virtual items, launching additional in-game promotions, and other activities.

Business Relationships with Game Channel Distributors

During the Track Record Period, the Acquired Group distributed its video games through leading and popular third-party international channel distributors, namely Valve, Microsoft, and Sony, where each of them hosts thousands of video games and maintains a massive player base. The Acquired Group relies on these third-party international channel distributors to distribute their video games on these third-party international distribution channels record purchases and collect payments from players, maintain the security of their distribution channels to prevent cheating and other fraudulent activities, provide certain aspects of player services, and make timely payments to the Acquired Group of the Acquired Group's share of the revenues generated from the video games. For the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, 48.1%, 79.9%, 81.7% and 85.5% of the total revenue of the Acquired Group was generated by video games distributed through third-party channel distributors, respectively. Going forward, the Acquired Group's ability to expand and deepen its relationships with its game distribution platforms will significantly affect its expansion of business and results of operations. The Acquired Group is confident that it has a long-formed management team to continue to guide it in the right direction.

CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

The Acquired Group's financial statements and financial results are influenced by accounting policies, assumptions, estimates, and management judgements, which necessarily have to be made in the course of preparation of the financial statements. It makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events. Accounting policies and management's judgements for certain items are especially critical for the Acquired Group's results and financial situation due to their materiality amount.

The accounting policies set out below are of critical importance to the Acquired Group or involve the most significant estimates and judgements used in the preparation of the Acquired Group's financial statements. The Acquired Group's significant accounting policies, estimates and judgements, which are important for an understanding of its financial condition and results of operations, are set forth in detail in Note 2 to the Acquired Group's financial statements as set out in Appendix II to this circular.

Property, Plant, and Equipment

Please see Note 2.5 in the Accountant's Report on the Acquired Group in Appendix II to this circular for the Acquired Group's property, plant, and equipment accounting policies.

Intangible Assets

Please see Note 2.6 in the Accountant's Report on the Acquired Group in Appendix II to this circular for the Acquired Group's intangible assets accounting policies.

Current and Deferred Income Tax

Please see Note 2.16 in the Accountant's Report on the Acquired Group in Appendix II to this circular for the Acquired Group's current and deferred income tax accounting policies.

Share-Based Payments

Please see Note 2.18 in the Accountant's Report on the Acquired Group in Appendix II to this circular for the Acquired Group's share-based payments accounting policies.

Revenue Recognition

Please see Note 2.20 in the Accountant's Report on the Acquired Group in Appendix II to this circular for the Acquired Group's revenue recognition accounting policies.

FINANCIAL PERFORMANCE OF THE ACQUIRED GROUP

Results of Operations

Set out below is a summary of the financial results of the Acquired Group for the indicated periods, prepared in accordance with the Hong Kong Financial Reporting Standards:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD'000	*%*	*CAD'000*	*%*	*CAD'000*	*%*	*CAD'000* (Unaudited)	*%*	*CAD'000*	*%*
Revenue	29,206	100.0	65,825	100.0	115,080	100.0	74,917	100.0	114,675	100.0
Cost of revenue	(18,129)	(62.1)	(29,766)	(45.2)	(49,343)	(42.9)	(34,042)	(45.4)	(40,229)	(35.1)
Gross profit	11,077	37.9	36,059	54.8	65,737	57.1	40,875	54.6	74,446	64.9
Other income	1,350	4.6	572	0.9	368	0.3	368	0.5	–	–
Selling and marketing expenses	(2,927)	(10.0)	(6,570)	(10.0)	(6,951)	(6.0)	(5,176)	(6.9)	(4,432)	(3.9)
General and administrative expenses	(2,248)	(7.7)	(2,896)	(4.4)	(6,143)	(5.3)	(5,045)	(6.7)	(5,095)	(4.4)
Other gains/(losses), net	32	0.1	275	0.4	1,890	1.6	1,252	1.7	(1,568)	(1.4)
Finance (costs)/income, net	(175)	(0.6)	(20)	(0.0)	200	0.2	174	0.2	67	0.1
Profit before income tax	7,109	24.3	27,420	41.7	55,101	47.9	32,448	43.3	63,418	55.3
Income tax expense	(1,812)	(6.2)	(7,274)	(11.1)	(14,302)	(12.4)	(8,265)	(11.0)	(16,824)	(14.7)
Profit for the year/period attributable to the owners of the Acquired Group	5,297	18.1	20,146	30.6	40,799	35.5	24,183	32.3	46,594	40.6
Other comprehensive loss	–	–	(1)	–	(3)	–	(6)	–	1	–
Total comprehensive income for the year/period	**5,297**	**18.1**	**20,145**	**30.6**	**40,796**	**35.5**	**24,177**	**32.3**	**46,595**	**40.6**

Discussion of Selected Items in the Consolidated Statements of Comprehensive Income

Revenue

The Acquired Group's reportable operating segments can be broken down into (i) game development and publishing, (ii) sales of merchandise, and (iii) work-for-hire. The table below sets forth a breakdown of the Acquired Group's revenue by business segments for the indicated periods:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD'000	*%*	*CAD'000*	*%*	*CAD'000*	*%*	*CAD'000* (Unaudited)	*%*	*CAD'000*	*%*
Game development and publishing	23,478	80.4	65,455	99.4	114,566	99.5	74,584	99.6	114,298	99.7
Sale of merchandise	–	–	140	0.2	319	0.3	239	0.3	240	0.2
Work-for-hire	5,728	19.6	230	0.4	195	0.2	94	0.1	137	0.1
Total	29,206	100.0	65,825	100.0	115,080	100.0	74,917	100.0	114,675	100.0

The Acquired Group recognises revenue from the sales of services when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Acquired Group's activities as described below:

(i) *Game development and publishing:* Since 2013, the Acquired Group has developed video games, primarily focusing on the sci-fi adventure and fantasy shooting types of three-dimensional games for both PC and home-gaming consoles hardware terminals such as Xbox One and PlayStation 4, under the free-to-play model. In March 2013, the Acquired Group began the online distribution of its self-published title, *Warframe*. Under the free-to-play model, players can play all basic features of the games for free. The players also have the opportunity to purchase virtual items using virtual tokens and are able to obtain these virtual tokens by paying money. The virtual tokens can be used to exchange for virtual items in the game. The proceeds from the sales of virtual tokens are initially recorded in deferred revenue. Revenue is recognised over the estimated average period that paying players typically play the game. Future paying player usage patterns and behaviour may differ from the historical usage patterns and, therefore, the estimated average playing periods may change in the future.

(ii) *Sale of merchandise:* In order to take advantage of the commercial opportunities presented by the popularity generated by the Acquired Group's games and game characters, since 2014 the Acquired Group has also been engaged in marketing collectibles, apparel, and other game-character-based merchandise based on *Warframe* and its characters. Revenue from sales of merchandise is recognised when the risks and rewards of the goods have been transferred to the customer, which is usually at the date when the goods are delivered to the customer, the customer has accepted the products, and there are no unfulfilled obligations that could affect the customer's acceptance of the goods.

(iii) *Work-for-hire:* Prior to 2013, the Acquired Group focused on developing video games for third-party publishers under the work-for-hire model. The Acquired Group has been retained by market-leading third-party publishers to develop video games on their behalf. It developed games such as *Darkness II*, *Star Trek*, and *Dark Sector* under the work-for-hire model. The Acquired Group delivered to and performed for the third-party publishers the goods and services as "works-for-hire". It received advances from publishers and contractual amounts upon successful completion of contractual milestones. Depending on the terms of engagement on a case by case basis, royalties were received from publishers after the launch of the product for certain work-for-hire projects.

For the year ended 31 December 2014, the revenue of the Acquired Group amounted to CAD65.8 million, representing an increase of CAD36.6 million, or 125.3%, as compared to CAD29.2 million in the year ended 31 December 2013. Such an increase was mainly attributable to an increase of CAD42.0 million in revenue generated from game development and publishing segment. The Acquired Group's revenue from its game development and publishing segment has been generated from both home-gaming console and PC platforms. The revenue generated from the home-gaming console platform of the Acquired Group increased by CAD25.8 million in the year ended 31 December 2014, as it successfully launched the Sony PlayStation 4 version for *Warframe* in November 2013 and the Microsoft Xbox One version in September 2014, respectively. The revenue generated from the PC platform of the Acquired Group increased by CAD16.2 million in the year ended 31 December 2014, which was mainly due to an increase in the number of registered players on the PC platform from 4.5 million as at 31 December 2013, to 8.0 million as at 31 December 2014 as a result of the increase in popularity of *Warframe*.

For the year ended 31 December 2015, the revenue of the Acquired Group amounted to CAD115.1 million, representing an increase of CAD49.3 million, or 74.9%, as compared to CAD65.8 million in the year ended 31 December 2014. Such an increase was mainly attributable to an increase of CAD49.1 million in revenue generated from the game development and publishing segment. The Acquired Group's revenue generated from the home-gaming console platform increased by CAD23.8 million in the year ended 31 December 2015, which, in turn, was mainly due to the increase in revenue generated from the Xbox One platform, which was launched in September 2014 and had a full-year contribution to the Acquired Group's revenue in 2015. The Acquired Group's revenue generated from the PC platform increased by CAD25.3 million in the year ended 31 December 2015, which was mainly due to (i) an increase in the number of registered players on the PC platform from 8.0 million as at 31 December 2014, to 11.8 million as at 31 December 2015, as a result of the increase in popularity of *Warframe*, and (ii) the increase in revenue generated from two PRC publishers as a result of the Acquired Group's efforts to exploit the growth of the video game industry in the China market in 2015.

For the nine months ended 30 September 2016, the revenue of the Acquired Group amounted to CAD114.7 million, representing an increase of CAD39.8 million, or 53.1%, as compared to CAD74.9 million in the nine months ended 30 September 2015. Such an increase was mainly attributable to an increase of CAD39.7 million in revenue generated from the game development and publishing segment as a result of the increase in poplularity of *Warframe*. The Acquired Group's revenue generated from the home-gaming console platform increased by CAD25.2 million, which was mainly due to the increase in the number of registered players on the home-gaming console platform from 7.3 million as at 30 September 2015, to 11.4 million as at 30 September 2016. The Acquired Group's revenue generated from PC platform increased by CAD14.5 million, which was mainly due to the increase in the number of registered players on the PC platform from 10.6 million as at 30 September 2015 to 14.9 million as at 30 September 2016.

Cost of revenue

During the Track Record Period, the cost of revenue of the Acquired Group primarily consisted of costs that were directly attributable to the development and publishing of *Warframe*, the self-owned, free-to-play games and the development of video games via the Acquired Group's work-for-hire projects. The direct costs related to self-owned, free-to-play games included merchant revenue share with channel distributors, employee salary and benefit expenses and office rent for game development teams. The direct costs related to work-for-hire projects primarily consisted of employee salary and benefit expenses, agent fees, and office rent for game development teams.

The table below sets forth a breakdown of the Acquired Group's cost of revenue by business segments for the indicated periods:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD'000	*%*	*CAD'000*	*%*	*CAD'000*	*%*	*CAD'000* (Unaudited)	*%*	*CAD'000*	*%*
Game development and publishing	14,194	78.3	29,699	99.8	49,176	99.7	33,920	99.6	40,041	99.5
Sale of merchandise	–	–	67	0.2	167	0.3	122	0.4	188	0.5
Work-for-hire	3,935	21.7	–	–	–	–	–	–	–	–
Total	18,129	100.0	29,766	100.0	49,343	100.0	34,042	100.0	40,229	100.0

The following table sets forth the breakdown of the Acquired Group's cost of revenue by nature for the indicated periods:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD'000	*%*	*CAD'000*	*%*	*CAD'000*	*%*	*CAD'000* (Unaudited)	*%*	*CAD'000*	*%*
Salaries, wages and benefits	10,156	56.1	10,273	34.6	6,895	14.0	5,692	16.7	6,058	15.1
Merchant revenue share	5,937	32.7	16,943	56.9	31,005	62.8	20,150	59.2	30,437	75.6
Deferred cost	(1,314)	(7.2)	(355)	(1.2)	7	–	(246)	(0.7)	500	1.2
Distribution and selling charges	516	2.8	870	2.9	1,482	3.0	1,136	3.3	808	2.0
Rent and common area maintenance	563	3.1	574	1.9	592	1.2	444	1.3	465	1.2
Amortisation	624	3.4	518	1.7	470	1.0	393	1.2	417	1.0
Utilities	102	0.6	105	0.4	135	0.3	112	0.3	91	0.2
Computer services	122	0.7	194	0.7	225	0.5	153	0.4	277	0.7
Amortisation and impairment of development cost	–	–	–	–	7,563	15.3	5,509	16.2	393	1.0
Cost of merchandise	–	–	67	0.2	167	0.3	122	0.4	188	0.5
Others	1,423	7.8	577	1.9	802	1.6	577	1.7	595	1.5
Total	18,129	100.0	29,766	100.0	49,343	100.0	34,042	100.0	40,229	100.0

The cost of revenue of the Acquired Group amounted to CAD18.1 million, CAD29.8 million, CAD49.3 million and CAD40.2 million in the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, respectively.

For the year ended 31 December 2014, the cost of revenue of the Acquired Group amounted to CAD29.8 million, representing an increase of CAD11.7 million, or 64.6%, as compared to CAD18.1 million in the year ended 31 December 2013. Such an increase was mainly attributable to the shift from work-for-hire projects to the free-to-play model, which resulted in an increase of CAD11.0 million in merchant revenue share with channel distributors.

For the year ended 31 December 2015, the cost of revenue of the Acquired Group amounted to CAD49.3 million, representing an increase of CAD19.5 million, or 65.4%, as compared to CAD29.8 million in the year ended 31 December 2014. Such an increase was mainly attributable to (i) an increase of CAD14.1 million, or 83.4%, as compared to CAD16.9 million in merchant revenue share with channel distributors, which was in line with the revenue growth rate of the game development and publishing segment, and (ii) an increase of CAD7.6 million in amortisation and impairment of development expenditures associated with payment to an independent video game developer for development of a video game on both PC and console platforms. During the year ended 31 December 2015, due to the market's negative reception and poor sales performance of the game developed with said developer, the Acquired Group determined to make impairment on the developments expenditures. For more details for the amortisation and impairment of development expenditures, please refer to the section "Management Discussion and Analysis of the Acquired Group – Discussion of Selected Consolidated Statements of Financial Position Items – Development Expenditures" and Note 16 in the Accountant's Report on the Acquired Group in Appendix II to this circular.

For the nine months ended 30 September 2016, the cost of revenue of the Acquired Group amounted to CAD40.2 million, representing an increase of CAD6.2 million, or 18.2%, as compared to CAD34.0 million in the nine months ended 30 September 2015. Such an increase was mainly attributable to an increase of CAD10.2 million in merchant revenue share with channel distributors, which was in line with the revenue growth rate of the game development and publishing segment and reflected a continued expansion of the Acquired Group's business operations.

Gross profit and gross profit margin

The gross profit of the Acquired Group amounted to CAD11.1 million, CAD36.1 million, CAD65.7 million and CAD74.4 million in the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, respectively, representing gross profit margins of approximately 37.9%, 54.8%, 57.1%, and 64.9% for the same periods. Such expansion in gross profit margin of the Acquired Group during the Track Record Period was largely attributable to the Acquired Group's increasing scalability and improving operational efficiency.

The table below sets forth a breakdown of the Acquired Group's gross profit and gross profit margin by business segments for the indicated periods:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	Gross profit *(CAD'000)*	Gross profit margin *(%)*	Gross profit *(CAD'000)*	Gross profit margin *(%)*	Gross profit *(CAD'000)*	Gross profit margin *(%)*	Gross profit *(CAD'000)* (Unaudited)	Gross profit margin *(%)*	Gross profit *(CAD'000)*	Gross profit margin *(%)*
Game development and publishing	9,284	39.5	35,756	54.6	65,390	57.1	40,664	54.5	74,257	65.0
Sale of merchandise	–	–	73	51.8	152	47.6	117	49.0	52	21.7
Work-for-hire	1,793	31.3	230	100.0	195	100.0	94	100.0	137	100.0
Total	11,077	37.9	36,059	54.8	65,737	57.1	40,875	54.6	74,446	64.9

Other income

For the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, other income amounted to CAD1.4 million, CAD0.6 million, CAD0.4 million and nil, respectively. Such other income represented government grants from the Ministry of Economic Development and Growth (formerly known as the Ministry of Economic Development, Employment, and Infrastructure, "**MEDEI**") to support leading-edge investments and jobs in Ontario, which reimbursed the Acquired Group for research and development activities around its game engine, the "Evolution Engine". The total government grants that the Acquired Group received from MEDEI were CAD2.4 million with the last instalment of payment received in early 2016. Please refer to Note 2.23 in the Accountant's Report on the Acquired Group in Appendix II to this circular for details of the Acquired Group's government incentive programmes. There was no other income recorded during the Track Record Period.

Selling and marketing expenses

The following table sets forth the breakdown of the Acquired Group's selling and marketing expenses for the indicated periods:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD'000	*%*	*CAD'000*	*%*	*CAD'000*	*%*	*CAD'000* (Unaudited)	*%*	*CAD'000*	*%*
Salaries, wages and benefits	455	15.6	2,194	33.4	2,978	42.8	2,259	43.6	2,450	55.3
Advertising and promotion expenses	2,198	75.1	3,984	60.6	3,439	49.5	2,546	49.2	1,581	35.7
Amortisation	48	1.6	78	1.2	116	1.7	83	1.6	108	2.4
Others	226	7.7	314	4.8	418	6.0	288	5.6	293	6.6
Total	2,927	100.0	6,570	100.0	6,951	100.0	5,176	100.0	4,432	100.0

During the Track Record Period, the selling and marketing expenses of the Acquired Group primarily consisted of sales staff salary and benefit expenses, advertising and promotion expenses, and others. For the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, the Acquired Group incurred selling and marketing expenses of CAD2.9 million, CAD6.6 million, CAD7.0 million and CAD4.4 million, respectively, representing 9.9%, 10.0%, 6.1%, and 3.8% of its revenue for the same periods.

For the year ended 31 December 2014, the selling and marketing expenses of the Acquired Group amounted to CAD6.6 million, representing an increase of CAD3.7 million, or 127.6%, as compared to CAD2.9 million in the year ended 31 December 2013. Such an increase was mainly attributable to (i) an increase of CAD1.8 million in advertising and promotion expenses, which were mainly due to advertising campaigns to continue attracting new players for *Warframe*; and (ii) an increase of CAD1.7 million in salary of sales staff and benefit expenses because of its recruitment of additional sales staff to support the marketing and selling activities for *Warframe*.

For the year ended 31 December 2015, the selling and marketing expenses of the Acquired Group amounted to CAD7.0 million, representing a slight increase of CAD0.4 million, or 6.1%, as compared to CAD6.6 million in the year ended 31 December 2014.

For the nine months ended 30 September 2016, the selling and marketing expenses of the Acquired Group amounted to CAD4.4 million, representing a decrease of CAD0.8 million, or 15.4%, as compared to CAD5.2 million in the nine months ended 30 September 2015. Such a decrease was mainly attributable to the decrease in promotional expenses by CAD0.9 million as the Acquired Group started to carry out the promotion and advertising activities, mainly through its sales team, rather than outsourcing these activities to third parties in the second half of 2015.

General and administrative expenses

The following table sets forth the breakdown of the Acquired Group's general and administrative expenses for the indicated periods:

	Year ended 31 December						Nine months ended 30 September			
	2013		2014		2015		2015		2016	
	CAD'000	*%*	*CAD'000*	*%*	*CAD'000*	*%*	*CAD'000* (Unaudited)	*%*	*CAD'000*	*%*
Salaries, wages and benefits	1,239	55.1	1,782	61.5	5,025	81.8	4,118	81.6	3,812	74.8
Travel and entertainment fees	269	12.0	331	11.4	228	3.7	210	4.3	303	5.9
Office expenses	385	17.1	326	11.3	158	2.6	98	1.9	240	4.7
Professional and licence fees	186	8.3	191	6.6	91	1.5	91	1.8	174	3.4
Amortisation	46	2.0	67	2.3	191	3.1	163	3.2	149	2.9
Others	123	5.5	199	6.9	450	7.3	365	7.2	417	8.3
Total	2,248	100.0	2,896	100.0	6,143	100.0	5,045	100.0	5,095	100.0

During the Track Record Period, the general and administrative expenses of the Acquired Group primarily consisted of administrative staff's salary and benefit expenses, travel and entertainment expenses, office expenses, and others. For the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, the Acquired Group incurred general and administrative expenses of CAD2.2 million, CAD2.9 million, CAD6.1 million, and CAD5.1 million, respectively, representing 7.5%, 4.4%, 5.3%, and 4.4%, respectively, of its revenue for the same periods.

For the year ended 31 December 2014, the general and administrative expenses of the Acquired Group amounted to CAD2.9 million, representing an increase of CAD0.7 million, or 31.8%, from CAD2.2 million in the year ended 31 December 2013. Such an increase was largely due to the increase in administrative staff's salary and benefit expenses, which, in turn, was mainly due to the increase in the headcount of the Acquired Group's administrative staff to support the expansion of its business operations.

For the year ended 31 December 2015, the general and administrative expenses of the Acquired Group amounted to CAD6.1 million, representing an increase of CAD3.2 million, or 110.3%, as compared to CAD2.9 million in the year ended 31 December 2014. Such an increase was mainly due to an increase of CAD3.2 million in administrative staff's salary and benefit expenses, which, in turn, was attributable to the increase in compensation package of the employees as a result of the improvement in the Acquired Group's business.

For the nine months ended 30 September 2016, the general and administrative expenses of the Acquired Group amounted to CAD5.1 million, representing a slight increase of CAD0.1 million, or 2.0%, as compared to CAD5.0 million in the nine months ended 30 September 2015.

Other gains/(losses), net

During the Track Record Period, the net other gains and losses of the Acquired Group mainly represented exchange gains or losses. The Acquired Group recorded net other gains of CAD0.03 million, CAD0.3 million, and CAD1.9 million for the years ended 31 December 2013, 2014, and 2015, respectively. The Acquired Group recorded net other losses of CAD1.6 million for the nine months ended 30 September 2016.

Finance income/(cost), net

During the Track Record Period, the finance income or cost of the Acquired Group primarily consisted of interest income from the cash deposits at banks, partially offset by the interest expenses on its borrowings. The Acquired Group recorded net finance costs of CAD0.2 million and CAD0.02 million for the years ended 31 December 2013 and 2014, respectively, and recorded net finance income of CAD0.2 million and CAD0.07 million for the year ended 31 December 2015 and the nine months ended 30 September 2016, respectively. The increasing trend in the net finance income from 2013 to 2015 was mainly attributable to the improved cash position of the Acquired Group, which resulted in less utilisation of loans and generated more interest income from deposits. The decrease in finance income for the nine months ended 30 September 2016, compared to that for the nine months ended 30 September 2015, was largely attributable to a decrease in deposits, which, in turn, was mainly due to the Acquired Group's distribution of dividends of CAD48.5 million for the same period.

Income tax expenses

Income tax expenses of the Acquired Group amounted to CAD1.8 million, CAD7.3 million, CAD14.3 million, and CAD16.8 million for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, respectively, representing effective tax rate of 25.4%, 26.6%, 26.0%, and 26.5% during the same periods.

During the Track Record Period, the income tax expense of the Acquired Group consisted of corporate income tax in Canada, which is determined based on the current federal and provincial statutory corporate income tax rates for each respective year. Under the relevant income tax law in Canada, the Acquired Group was subject to corporate income tax at a statutory rate of 26.5% during the Track Record Period on the taxable income.

Profit for the year/period

As a result of the foregoing, the net profit of the Acquired Group was CAD5.3 million, CAD20.1 million and CAD40.8 million for the years ended 31 December 2013, 2014, and 2015, respectively, representing a CAGR of 177.5% from 2013 to 2015. The net profit of the Acquired Group amounted to CAD46.6 million for the nine months ended 30 September 2016, representing an increase of CAD22.4 million, or 92.6%, as compared to CAD24.2 million in the nine months ended 30 September 2015.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The Acquired Group generally financed its operations with internally generated resources and equity and/or debt financing activities. All financing methods will be considered so long as such methods are suitable and beneficial to the Acquired Group. Cash and bank deposits of the Acquired Group are denominated in CAD, USD and EUR.

Cash Flow

The Acquired Group finances its liquidity requirements primarily through cash flow generated from operating activities. Its primary uses of cash include capital expenditures on property, plant and equipment and financial investments.

The table below sets forth a summary of the Acquired Group's net cash flows for the indicated periods:

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*	*CAD'000*
				(Unaudited)	
Net cash generated from operating activities	5,981	24,482	43,462	26,291	51,414
Net cash used in investing activities	(334)	(3,606)	(6,609)	(5,487)	(623)
Net cash used in financing activities	(239)	(10,149)	(36,132)	(17,000)	(48,496)
Cash and cash equivalents at beginning of the year/period	676	6,084	16,814	16,814	17,541
Effect of foreign exchange rate changes, net	–	3	6	11	5
Cash and cash equivalents at end of the year/period	6,084	16,814	17,541	20,629	19,841

Net Cash generated from operating activities

During the Track Record Period, the primary source of the cash generated from the operating activities of the Acquired Group consisted of proceeds from the sales of virtual tokens to its players. Its primary uses of cash in operating activities are employee salary and benefits, distribution and payment channel costs, and income tax.

For the year ended 31 December 2013, the Acquired Group's net cash generated from operating activities was CAD6.0 million, which primarily reflected profit before income tax of CAD7.1 million, adjusted for non-cash items of CAD3.1 million, changes in working capital of CAD0.2 million, tax credits received of CAD3.4 million, and income tax paid of CAD1.1 million. Non-cash reconciling items primarily included CAD6.7 million in provision for tax credit receivables, partially offset by deferred credit and other liabilities of CAD2.4 million. For more details for provision for tax credit receivables, please refer to the section "Management Discussion and Analysis of the Acquired Group – Discussion of Selected Consolidated Statements of Financial Position Items – Tax Credit Receivables" and Note 27 in the Accountant's Report on the Acquired Group in Appendix II to this circular. Changes in working capital primarily included an increase in trade and other receivables of CAD1.5 million, partially offset by an increase in trade and other payables of CAD1.2 million mainly due to the expansion of the Acquired Group's business operations.

For the year ended 31 December 2014, the Acquired Group's net cash generated from operating activities was CAD24.5 million, which primarily reflected a profit before income tax of CAD27.4 million, adjusted for non-cash items of CAD4.0 million, changes in working capital of CAD3.4 million, tax credits received of CAD4.5 million, and income tax refund of CAD12,000. Non-cash reconciling items primarily included CAD5.3 million in provision for tax credit receivables. Changes in working capital primarily included an increase in trade and other receivables of CAD4.3 million due to the increase in the Acquired Group's revenue, partially offset by an increase in trade and other payables of CAD1.0 million due to the expansion of the Acquired Group's business operations.

For the year ended 31 December 2015, the Acquired Group's net cash generated from operating activities was approximately of CAD43.5 million, which primarily reflected a profit before income tax of of CAD55.1 million, adjusted for non-cash items of CAD1.5 million, changes in working capital of CAD9.6 million, tax credits received of CAD5.3 million and income tax paid of CAD8.8 million. Non-cash reconciling items primarily included CAD7.6 million in amortisation and impairment of development expenditures partially offset by CAD6.4 million in provision for tax credit receivables. For more details for the amortisation and impairment of development expenditures, please refer to the section "Management Discussion and Analysis of the Acquired Group – Discussion of Selected Consolidated Statements of Financial Position Items – Development Expenditures" and Note 16 in the Accountant's Report on the Acquired Group in Appendix II to this circular. Changes in working capital primarily included (i) an increase in trade and other receivables of CAD8.0 million due to the increase in the Acquired Group's revenue; and (ii) a decrease in trade and other payables of CAD1.6 million due to the Acquired Group's payment of accrued bonus and accrued payrolls.

For the nine months ended 30 September 2016, the Acquired Group's net cash generated from operating activities was CAD51.4 million, which primarily reflected profit before income tax of CAD63.4 million, adjusted for non-cash items of CAD5.4 million, changes in working capital of CAD5.2 million and income tax paid of CAD11.7 million. Non-cash reconciling items primarily included CAD5.0 million in provision for tax credit receivables. Changes in working capital primarily included (i) an increase in trade and other payables of CAD2.8 million due to the expansion the Acquired Group's business, and (ii) a decrease in trade and other receivables of CAD2.5 million, as the Acquired Group released version updates to *Warframe* in December 2015, which attracted players to spend more on the game.

Net Cash used in investing activities

For the year ended 31 December 2013, the Acquired Group's net cash used in investing activities was CAD0.3 million. Net cash used in investing activities was primarily attributable to CAD0.3 million in purchase of property, plant, and equipment.

For the year ended 31 December 2014, the Acquired Group's net cash used in investing activities was CAD3.6 million. Net cash used in investing activities was primarily attributable to (i) CAD2.2 million in advance of development expenditure to an independent video game developer for development of a video game, (ii) CAD1.1 million in purchase of property, plant and equipment, which primarily consisted of cash payment for computer hardware of CAD0.6 million and leasehold improvements of CAD0.4 million and, (iii) CAD1.0 million in purchase of financial assets at fair value through profit or loss, partially offset by CAD0.6 million proceeds from sales of the same.

For the year ended 31 December 2015, the Acquired Group's net cash used in investing activities was CAD6.6 million. Net cash used in investing activities was primarily attributable to (i) CAD6.0 million in advance of development expenditure to an independent video game developer for development of a video game, and (ii) CAD1.2 million in purchase of property, plant and equipment, which primarily consisted of cash payment for furniture and fixtures of CAD0.4 million, computer hardware of CAD0.4 million, and leasehold improvements of CAD0.4 million, partially offset by CAD0.4 million in proceeds from sales of financial assets at fair value through profit or loss.

For the nine months ended 30 September 2016, the Acquired Group's net cash used in investing activities was CAD0.6 million. Net cash used in investing activities was primarily attributable to (i) CAD0.3 million in advance of development expenditure to an independent video game developer for development of a video game, and (ii) CAD0.3 million in purchase of property, plant, and equipment, which primarily consisted of cash payment for computer hardware of CAD0.2 million.

Net Cash used in financing activities

For the year ended 31 December 2013, the Acquired Group's net cash used in financing activities was CAD0.2 million, which was primarily attributable to CAD0.2 million in interest payments on the loan from the shareholder.

For the year ended 31 December 2014, the Acquired Group's net cash used in financing activities was CAD10.1 million, which was mainly attributable to CAD10.0 million loan repayment to the shareholder by the Acquired Group.

For the year ended 31 December 2015, the Acquired Group's net cash used in financing activities was CAD36.1 million, which was primarily attributable to CAD36.1 million in payments of dividends to its shareholders.

For the nine months ended 30 September 2016, the Acquired Group's net cash used in financing activities was CAD48.5 million, which was primarily attributable to CAD48.5 million in payment of dividends to its shareholders.

Net Current Assets and Liabilities

As at 31 December 2013, 2014, and 2015, 30 September and 31 December 2016, the Acquired Group had net current assets of CAD5.1 million, CAD22.8 million, CAD28.3 million, CAD24.8 million, and CAD25.1 million, respectively. The following table sets forth the breakdown of current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 September	As at 31 December
	2013	2014	2015	2016	2016
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*	*CAD'000* (Unaudited)
Current assets					
Inventories	98	60	334	413	365
Tax credit receivables	11,361	12,284	13,800	19,042	20,960
Trade and other receivables	4,707	9,031	17,029	14,550	17,021
Amount due from a shareholder	–	163	–	–	–
Financial assets at fair value through profit or loss	–	534	–	–	–
Cash and cash equivalents	6,084	16,814	17,541	19,842	15,517
Total current assets	22,250	38,886	48,704	53,847	53,863
Current liabilities					
Trade and other payables	2,087	3,096	2,164	6,226	3,982
Deferred credits and other liabilities	3,170	3,705	4,129	3,104	3,867
Derivative financial instruments	40	106	–	–	–
Loan from the ultimate holding company	10,000	–	–	–	–
Income tax payables	1,881	9,219	14,099	19,715	20,866
Total current liabilities	17,178	16,126	20,392	29,045	28,715
Net current assets	5,072	22,760	28,312	24,802	25,148

As at 31 December 2014, the net current assets of the Acquired Group amounted to CAD22.8 million, as compared to the net current assets of CAD5.1 million as at 31 December 2013. The increase was mainly attributable to (i) an increase in cash and cash equivalents of CAD10.7 million, which was in line with the increase in profit of the Acquired Group; (ii) a decrease in the loan from the ultimate holding company of CAD10.0 million as it repaid such loan in 2014; and (iii) an increase in trade and other receivables of CAD4.3 million, which was in line with the increase in the revenue of the Acquired Group, partially offset by an increase in income tax payable of CAD7.3 million.

As at 31 December 2015, the net current assets of the Acquired Group amounted to CAD28.3 million, as compared to the net current assets of CAD22.8 million as at 31 December 2014. The increase was mainly attributable to (i) an increase in trade and other receivables of CAD8.0 million, which was in line with the increase in revenue of the Acquired Group; and (ii) an increase in tax credit receivables of CAD1.5 million, partially offset by an increase in income tax payable of CAD4.9 million, which was in line with the increase in profit before tax of Acquired Group.

As at 30 September 2016, the net current assets of the Acquired Group amounted to CAD24.8 million, as compared to the net current assets of CAD28.3 million as at 31 December 2015. The decrease was mainly attributable to (i) an increase in income tax payable of CAD5.6 million, which was in line with the increase in profit before tax of the Acquired Group; (ii) an increase in trade and other payables of CAD4.0 million, which, in turn, was mainly due to an increase in accrued bonuses of CAD2.6 million, which would usually be paid at the end of the year; and (iii) a decrease in trade and other receivables of CAD2.4 million, as the Acquired Group released version updates to *Warframe* in December 2015, which attracted players to spend more on the game, partially offset by (i) an increase in tax credit receivables of CAD5.2 million; and (ii) an increase in cash and cash equivalents of CAD2.3 million, which was in line with the increase in profit of the Acquired Group.

As at 31 December 2016, the net current assets of the Acquired Group remained relatively stable with a slight increase of CAD0.3 million from the net current assets of CAD24.8 million as at 30 September 2016 to the net current assets of CAD25.1 million as at 31 December 2016.

INDEBTEDNESS

Bank loans and Other Borrowings and Indebtedness Statements

The Acquired Group did not have any outstanding loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at 31 December 2016 or as at the Latest Practicable Date. The Directors have confirmed that there has not been any material change in the indebtedness commitments and contingent liabilities of the Acquired Group since 31 December 2016 and up to the Latest Practicable Date.

As at 31 December 2016, and the Latest Practicable Date, the Acquired Group did not have any definitive plan to raise external financing.

Contingent Liabilities

As at the Latest Practicable Date, the Acquired Group did not have any material contingent liabilities that would have a material adverse effect on its financial position, liquidity or results of operations.

DISCUSSION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Trade and Other Receivables

The table below sets forth the trade and other receivables of the Acquired Group as at the indicated dates:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Trade receivables	3,837	8,272	16,638	14,236
Prepayments	127	154	196	267
Accrued grant receivable from MEDTE	596	331	50	–
Commodity tax receivables	18	53	10	31
Others	129	221	135	16
	4,707	9,031	17,029	14,550

During the Track Record Period, the trade receivables of the Acquired Group primarily consisted of receivables from distribution channels, including third-party international channel distributors, third-party PRC publishers, and its proprietary distribution channel. The trade receivables of the Acquired Group as at 31 December 2013, 2014 and 2015 and 30 September 2016 were CAD3.8 million, CAD8.3 million, CAD16.6 million and CAD14.2 million, respectively. The increasing trend in the trade receivables from 2013 to 2015 was in line with the increases in revenue generated from game development and publishing segment of the Acquired Group. The trade receivables of the Acquired Group as at 30 September 2016 were lower than the trade receivables as at 31 December 2015, as the Acquired Group released version updates to *Warframe* in December 2015, which attracted players to spend more on the game.

The Acquired Group has established different credit policies for customers. The credit term is generally from 30 days to 90 days. The trade receivables from the five largest debtors as at 31 December 2013, 2014, and 2015 and 30 September 2016 represented 97.9%, 97.0%, 89.3%, and 47.0%, respectively, of total trade receivables as at the same dates. In particular, the trade receivables from its largest debtor accounted for 53.6%, 27.1%, 31.0% and 19.2%, respectively, of the total receivables that were due as at 31 December 2013, 2014, and 2015 and 30 September 2016.

The table below sets forth the aging analysis of trade receivables of the Acquired Group based on the invoice date as at the indicated dates:

				As at
	As at 31 December			**30 September**
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
1-30 days	3,772	6,453	15,117	14,186
31-60 days	59	1,296	551	–
61-90 days	1	478	865	19
Over 90 days	5	45	105	31
	3,837	8,272	16,638	14,236

As at 31 December 2013, 2014, and 2015 and 30 September 2016, the Acquired Group's trade receivables of CAD0.1 million, CAD1.8 million, CAD1.5 million and CAD0.9 million, respectively, were past due but not impaired. These relate to certain customers with no history of credit default and who are in continuous business relationships with the Acquired Group. The aging analysis of these trade receivables, which are past due but not impaired based on the due date, is as follows:

				As at
	As at 31 December			**30 September**
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
1-30 days	26	1,261	550	830
31-60 days	15	462	860	1
61-90 days	9	13	64	1
Over 90 days	5	30	30	28
	55	1,766	1,504	860

Based on past experience, the management of the Acquired Group believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality, and the balances are still considered fully recoverable. The Acquired Group's trade receivables outstanding as at 30 September 2016 were CAD14.2 million, of which 99.7%, had been collected as at the Latest Practicable Date.

The average turnover days of the trade receivables of the Acquired Group, which are calculated using the average of opening and closing balance trade receivables for a period divided by the revenue of the period and multiplied by the number of days in the period, were 49.4 days, 33.6 days, 39.5 days, and 36.7 days, respectively, for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016.

Tax Credit Receivables

During the Track Record Period, the tax credit receivables of the Acquired Group were comprised of Ontario Interactive Digital Media Tax Credit ("**OIDMTC**") receivables, Ontario Co-operative Education Tax Credit ("**OCETC**") receivables, and withholding tax receivables. The OIDMTC receivables from Ontario Media Development Corporation ("**OMDC**") are based on eligible Ontario labour expenditures and eligible marketing and distribution expenses claimed by the Acquired Group with respect to interactive digital media products. The OCETC is a refundable tax credit available to employers who hire students enrolled in a co-operative education programme at an Ontario university or college.

The tax credit receivables of the Acquired Group were CAD11.4 million, CAD12.3 million, CAD13.8 million and CAD19.0 million as at 31 December 2013, 2014, and 2015 and 30 September 2016, respectively. Such increasing trend in tax credit receivables of the Acquired Group during the Track Record Period was largely attributable to the increase in the OIDMTC receivables.

The table below sets forth the tax credit receivables of the Acquired Group as at the indicated dates:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
OCETC receivables	–	–	34	62
OIDMTC receivables	11,300	12,076	13,124	18,062
Withholding tax receivables	61	208	642	918
	11,361	12,284	13,800	19,042

The table below sets forth the movement of tax credit receivables of the Acquired Group from OMDC during the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016 as follows:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Opening balance	7,975	11,300	12,076	13,124
Credited to employee benefit expenses	6,730	5,264	6,354	4,938
Cash received from OMDC	(3,405)	(4,488)	(5,306)	–
Closing balance	11,300	12,076	13,124	18,062

Development Expenditures

During the Trade Record Period, the development expenditures of the Acquired Group mainly represented payment to an independent video game developer for development of a video game on both PC and console platforms. The Acquired Group entered into a written agreement in December 2014 to provide the independent video game developer with advance payments for development of a video game on both PC and console platforms in exchange for exclusive publishing rights to the game. As at 31 December 2014, a total of USD1.9 million (equivalent to CAD2.2 million) had been advanced, with the remaining USD4.9 million (equivalent to CAD6.0 million) advanced during the year ended 31 December 2015. No further advances are contractually required.

As at 31 December 2014 and 2015 and 30 September 2016, the development expenditures of the Acquired Group were CAD2.2 million, CAD0.6 million and CAD0.4 million, respectively. During the year ended 31 December 2015, due to the market's negative reception and poor sales performance of the game developed with said developer, the Acquired Group determined to make impairment on the developments expenditures.

The table below sets forth the amortisation and impairment of the Acquired Group's development expenditures during the Trade Record Period:

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Amortisation and impairment of development expenditures	–	–	7,563	393

Trade and Other Payables

The table below sets forth the trade and other payables of the Acquired Group as at the indicated dates:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Trade payables	628	923	740	210
Dividend payables	–	–	612	1,916
Other payables and accruals	1,459	2,173	812	4,100
	2,087	3,096	2,164	6,226

The table below sets forth the aging analysis of trade payables of the Acquired Group based on the invoice date as at the indicated dates:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Current-30 days	464	662	734	207
31-60 days	69	88	6	1
61-90 days	–	173	–	1
Over 90 days	95	–	–	1
	628	923	740	210

During the Track Record Period, the trade payables primarily consisted of payables to service providers and equipment suppliers. The Acquired Group's trade payables outstanding as at 30 September 2016 were CAD210,000, of which CAD209,000, or 99.5%, had been settled as at the Latest Practicable Date.

Dividend payables of the Acquired Group primarily consisted of dividends declared but not distributed.

During the Track Record Period, the other payables and accruals of the Acquired Group mainly consisted of accrued payables for invoices received in subsequent periods, accrued bonuses, and accrued payroll. The increase in other payables and accruals as at 30 September 2016 as compared to 31 December 2015, was mainly attributable to the increase in accrued bonuses, which will be paid to the employees at the end of 2016.

Derivative Financial Instruments

During the Track Record Period, the Acquired Group's revenue was mainly generated in USD, whereas its operating costs and expenses were mainly denominated in CAD. So as to better manage its foreign currency exposures, the Acquired Group bought USD/CAD forward foreign currency contracts in the years ended 31 December 2013 and 2014, where the Acquired Group would pay a notional principal amount of USD in exchange for a specified amount of CAD. As at 31 December 2013 and 2014, the derivative financial instruments of the Acquired Group were valued at CAD0.04 million and CAD0.1 million, respectively. The Acquired Group had no derivative financial instruments as at 31 December 2015 and 30 September 2016.

Deferred Credits and Other Liabilities

During the Track Record Period, the deferred revenue of the Acquired Group was comprised of proceeds from the sales of virtual tokens through its video game that is being recognised through profit and loss over the average estimated paying player life. Deferred lease inducements of the Acquired Group represented the unamortised value of inducements received from the Acquired Group's landlord for its new office lease, which commenced on 1 July 2011. The deferred lease inducements are being amortised over the term of the lease. The current portion of deferred lease inducements refers to the value of the free rent to be amortised over the next 12 months from the date of the consolidated statement of financial position.

The table below sets out the deferred credits and other liabilities of the Acquired Group as at the indicated dates:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Current deferred credits and other liabilities				
Deferred revenue	2,976	3,511	3,930	2,905
Deferred lease inducements	195	194	200	199
	3,171	3,705	4,130	3,104
Non-current deferred credits and other liabilities				
Deferred lease inducements	1,464	1,669	1,470	1,321

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2013, 2375249 Ontario Ltd., a previous shareholder of the Acquired Group, extended a loan to the Acquired Group in the amount of CAD10.0 million, which had been fully settled as at 31 December 2014. The loan was unsecured, repayable on demand, and bearing interest at the Canadian bank's prescribed rate plus 2% per annum.

For the year ended 31 December 2014, the Acquired Group extended a loan to 2375249 Ontario Ltd. in the amount of CAD0.2 million, which had been fully settled as at 31 December 2015. The loan was unsecured, interest-free, and repayable on demand.

COMMITMENTS

As at 31 December 2013, 2014, and 2015 and 30 September 2016, the Acquired Group had no significant capital commitments.

As at 31 December 2013, 2014, and 2015 and 30 September 2016, the operating lease commitments of the Acquired Group amounted to CAD3.7 million, CAD4.6 million, CAD3.4 million and CAD2.4 million, respectively. The operating lease commitment was mainly related to office lease.

The table below sets forth the total future minimum lease payments under non-cancellable operating leases in which the Acquired Group is a lessee as at the indicated dates:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Land and buildings:				
Not later than 1 year	859	1,223	1,245	1,371
Later than 1 year and not later than 5 years	3,478	4,796	4,710	6,095
Later than 5 years	3,121	5,214	4,055	4,190
	7,458	11,233	10,010	11,656

CAPITAL EXPENDITURES

During the Track Record Period, the Acquired Group's capital expenditures were comprised of the purchase of property, plant and equipment primarily computer equipment, and the purchase of intangible assets, primarily software. The following table sets forth the capital expenditures of the Acquired Group for the periods indicated:

	For the year ended 31 December			For the nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD'000	*CAD'000*	*CAD'000*	*CAD'000*
Purchase of property, plant and equipment	344	1,100	1,249	292
Purchase of intangible assets	155	63	81	137
Total	499	1,163	1,330	429

As at the Latest Practicable Date, the Acquired Group had no committed capital expenditures.

CAPITAL STRUCTURE

As at 31 December 2013, 2014, and 2015 and 30 September 2015 and 2016, the total liabilities of the Acquired Group amounted to CAD18.6 million, CAD17.8 million, CAD22.1 million, and CAD30.4 million, respectively, and the total equity attributable to owners of the Acquired Group amounted to CAD5.9 million, CAD26.0 million, CAD30.1 million, and CAD26.9 million, respectively.

The Acquired Group had no bank loans as at 31 December 2013, 2014 and 2015 and 30 September 2016. The loan from 2375249 Ontario Ltd. amounted to CAD10 million as at 31 December 2013, which had been settled as at 31 December 2014. As at 31 December 2016, being the latest practicable date for the purpose of the indebtedness statement of the Acquired Group, material sources of liquidity of the Acquired Group were cash and cash equivalents in the amount of CAD15.5 million. As at 31 December 2016, the Acquired Group had no borrowings.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, 2014, and 2015 and 30 September 2016, the Acquired Group had a total of 181, 206, 238, and 242 employees, respectively. Remuneration for employees is determined in accordance with performance, professional experiences, and the prevailing market conditions. Management of the Acquired Group reviews the Acquired Group's employee remuneration policy and arrangement on a regular basis. Total staff costs of the Acquired Group for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016 amounted to CAD12.7 million, CAD14.2 million, CAD14.9 million, and CAD12.3 million, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 September 2016, the Acquired Group had not entered into any off-balance sheet arrangement.

MATERIAL ACQUISITION, DISPOSALS, SIGNIFICANT INVESTMENT, AND FUTURE PLANS OF MATERIAL INVESTMENTS

During the Track Record Period, the Acquired Group did not have material acquisition, disposals, significant investment, or future plans of material investments.

PLEDGE OF ASSETS

As at 31 December 2013, 2014, and 2015 and 30 September 2016, the Acquired Group did not have any pledge of assets.

GOVERNMENT INCENTIVE PROGRAMMES

During the Track Record Period, the Acquired Group participated in two government incentive programmes and is entitled to (i) certain OIDMTC from the OMDC; and (ii) grants from the MEDEI.

In respect of the OIDMTC, these are tax credits to subsidise the Acquired Group's digital media content creation, based on the Acquired Group's eligible Ontario labour expenditures. Tax credits from OMDC are reflected as a reduction in expenditures and eligible marketing and distribution expenses. For the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, the Acquired Group recognised tax credits from OMDC as part of a reduction in employee benefit expenses, amounting to CAD6.7 million, CAD5.3 million, CAD6.4 million, and CAD4.9 million, respectively.

In respect of the grant from MEDEI, this grant is part of MEDEI's Strategic Jobs and Investment Fund. The fund is a discretionary grant and loan programme designed to support leading-edge investments and jobs in Ontario that reimburse the Acquired Group for research and development activities around its game engine, the "Evolution Engine". The primary purpose of this grant for the Acquired Group is to develop and refine its Evolution Engine. The Acquired Group's investment in the Evolution Engine is intended to reduce the cost of game development by automating certain programming functions, which allows continuous testing, editing efficiencies and test-driven code development, etc., all of which will help reduce development time and increase the quality of the Acquired Group's current and future games. The MEDEI programme allows for certain expenses beyond labour expenditures, such as capital and intangible asset purchases and recruitment costs, etc. The Acquired Group has recognised government grants from MEDEI as part of other income, amounting to CAD1.4 million, CAD0.6 million, CAD0.4 million and nil, respectively, for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016.

The tax credits and grant income amounts from the OMDC and MEDEI programmes are calculated based on certain expenses relating to the development of the Acquired Group's digital media products and Evolution Engine, which have been incurred by the Acquired Group and subsequently approved by the OMDC or MEDEI under the respective programmes. The Acquired Group has no history of repaying any of the tax credits or grants received from OMDC and MEDEI and does not expect to make any repayment to OMDC and MEDEI.

FOREIGN EXCHANGE EXPOSURE

The Acquired Group's revenue is mainly denominated in USD, whereas its operating costs and expenses are mainly denominated in CAD. To better manage its foreign currency exposures, the Acquired Group bought USD/CAD forward foreign currency contracts in the years ended 31 December 2013 and 2014, where the Acquired Group would pay a notional principal amount of USD in exchange for a specified amount of CAD. In the year ended 31 December 2015, the Acquired Group stopped purchasing such contracts, and, ever since then, the Acquired Group has not hedged transactions undertaken in foreign currencies, but if manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currency exposures. For the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, the Acquired Group recorded exchange gains/(loss) of CAD0.1 million, CAD0.2 million, CAD1.9 million, and CAD(1.6) million, respectively.

The Acquired Group used foreign exchange forward contracts as derivative instruments to protect against foreign currency exchange rate risks for the years ended 31 December 2013, 2014, and 2015. As at 31 December 2013, 2014, and 2015 and 30 September 2016, the outstanding amounts of the Acquired Group's USD forward contract recorded as derivative financial instruments liabilities were CAD0.04 million, CAD0.1 million, nil, and nil, respectively.

KEY FINANCIAL RATIOS

The following table sets forth the major financial ratios of the Acquired Group as at the dates or of the indicated periods:

	As at or for the year ended 31 December			As at or for the nine months ended 30 September
	2013	2014	2015	2016
Current ratio *(time)* [(i)]	1.30	2.41	2.39	1.85
Quick ratio *(time)* [(ii)]	1.29	2.41	2.37	1.84
Return on equity *(%)* [(iii)]	89.8	77.4	135.6	231.1
Return on total assets *(%)* [(iv)]	21.6	46.0	78.2	108.5

Notes:

(i) Current ratio is equal to current assets divided by current liabilities, as at the end of the period.

(ii) Quick ratio is equal to current assets less inventories and divided by current liabilities.

(iii) Return on equity represents net income divided by total equity at the end of the period and multiplied by 100%.

(iv) Return on total assets represents net income divided by total assets at the end of the period and multiplied by 100%.

(v) Ratios are calculated on an annualised basis.

Current Ratios

The current ratios of the Acquired Group were 1.30, 2.41, 2.39, and 1.85 as at 31 December 2013, 2014, and 2015 and 30 September 2016, respectively. The current ratio of the Acquired Group increased from 1.30 as at 31 December 2013 to 2.41 as at 31 December 2014 due to the increases in cash and cash equivalents and trade and other receivables, which were in line with the increases in Acquired Group profit and revenue.

Quick Ratios

The Acquired Group only had small amounts of inventories, accounting for less than 1% of its current assets for each period during the Track Record Period. Therefore, the Acquired Group's quick ratios were substantially the same as its current ratio. See the subsection headed "– Current Ratio" above.

Return on Equity

The return on equity of the Acquired Group decreased from 89.8% for the year ended 31 December 2013 to 77.4% for the year ended 31 December 2014, primarily due to the significant increase in total equity, which, in turn, was mainly due to an increase in retained earnings as a result of the increase in profit. The return on equity of the Acquired Group increased from 77.4% for the year ended 31 December 2014, to 135.6% for the year ended 31 December 2015, and further increased to 231.1% for the nine months ended 30 September 2016, due to the significant increase in profit compared with relatively steady retained earnings as a result of payment of dividends to the shareholders.

Return on Total Assets

The return on total assets of the Acquired Group was 21.6%, 46.0%, 78.2%, and 108.5% for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016, respectively. Such increasing trend in the return on total assets of the Acquired Group during the Track Record Period was mainly due to the significant increase in profit.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which the Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this circular, there has been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospectus of the Acquired Group since 30 September 2016, the date of the latest audited consolidated financial statements of the Acquired Group.

DIVIDEND

The board of directors of the Acquired Group is responsible for approving dividend payments, if any. Whether it pays a dividend and in what amount is based on its results of operations, cash flows, financial condition, the cash dividends it receives from its subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by it and other factors that its directors deem relevant.

Dividends declared by the Acquired Group to its shareholders amounted to CAD10.0 million, nil, CAD36.7 million, and CAD49.8 million, respectively, for the years ended 31 December 2013, 2014, and 2015 and the nine months ended 30 September 2016.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Acquired Group or any of the companies comprising the Acquired Group in respect of any period subsequent to 30 September 2016, and up to the date of this circular. On 4 October 2016, the Acquired Group declared dividends in the amount of CAD12.0 million, which are to be paid to its shareholders on the date as the shareholders may determine. Save for that, no dividend or distribution has been declared or made by the Acquired Group or any of the companies comprising the Acquired Group in respect of any period subsequent to 30 September 2016.

Set out below is the management discussion and analysis of the Target Group for the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2015 and 2016. The following management discussion and analysis should be read with the audited financial information, including the notes thereto, included in the Accountant's Report on the Target Group in Appendix I to this circular.

BUSINESS OVERVIEW OF THE TARGET GROUP

The Target Group is principally engaged in the development of AAA video games compatible with different hardware terminals, including PC and Xbox One home-gaming consoles, under two distinct business models, namely, work-for-hire and owned-IP, as well as the provision of game-hosting and support services.

The Target Group is predominantly engaged and specialised in developing competitive multiplayer video games for different hardware terminals under the work-for-hire model. Under the work-for-hire business model, the Target Group is retained by market-leading third-party publishers, to develop video games. The Target Group has historically developed sequels to several of the world's popular videos game including *Wolfenstein: Enemy Territory*, *Doom 3* (multiplayer), *Enemy Territory Quake Wars*, *Batman: Arkham Origins*, *Gears of War: Ultimate Edition*, and most recently *Gears of War 4*. 79.7%, 86.8%, 87.8% and 88.8% of the revenue of the Target Group was contributed by the work-for-hire segment for each of the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016, respectively. Under the owned-IP model, the Target Group develops video mobile games that focus on free-to-play and competitive multiplayer video games on mobile and PC including *RAD Soldiers* and *Dirty Bomb*. Under the owned-IP model, generally all the intellectual property relating to the games developed vest in the Target Group itself (save for licensed third party middleware such as engines and tools). The Target Group is also engaged in the provision of back-end services, client and server software development, as well as support of online connected computer games. The Target Group manages back-end services and provides game-hosting and support services for other game studios.

The Target Group experienced significant growth during the Track Record Period. It generated revenue of GBP1.5 million, GBP5.4 million, GBP15.8 million and GBP9.0 million in the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016, respectively, representing a CAGR of 224.6% from the year ended 31 March 2014 to the year ended 31 March 2016. The Target Group narrowed its net loss from GBP4.2 million for the year ended 31 March 2014 to GBP0.5 million for the year ended 31 March 2015 and turned around to record a net profit of GBP6.5 million for the year ended 31 March 2016 and GBP3.5 million for the six months ended 30 September 2016.

KEY FACTORS AFFECTING THE TARGET GROUP'S RESULTS OF OPERATIONS

To the best of the Directors' knowledge and information, and having made all reasonable enquiries, the Directors believe that the Target Group's results of operations have been, and are expected to continue to be, affected by several factors, which primarily include the following:

Development of Video Game Industry

The Target Group's results of operations are affected by general conditions typically affecting the global video game industry, including (i) the overall economic condition; (ii) the increasing use of the Internet; (iii) the regulatory environment; and (iv) the demand for video games. The video game industry has a relatively short history and has experienced a recent, rapid growth. Please refer to the section headed "Industry Overview Relating to the Subject Companies" for details.

Competitive Landscape and Changing Consumer Taste

The video game industry has grown rapidly in recent years, driven primarily by development of the Internet, increasing digital spending, evolvement of technology, and popularity of electronic sports. The Target Group competes primarily base on the quality and features of its games, its operational infrastructure and expertise, the strength of its product management approach, and the services it offers that enhance its players' experiences. To continue its success in this industry, the Target Group must anticipate and respond to changes in the competitive landscape and effectively respond to changing player interests and preferences. It is expected that players' demand for video games will continue to grow rapidly, and the Target Group will put more efforts in marketing and selling in the future to adopt to changing consumer taste and the competitive landscape in the video game development sector of the industry.

Business Relationship with Key Customers

During the Track Record Period, the Target Group relied heavily on three key customers for the work-for-hire projects. For the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, the Target Group's revenue generated from the work-for-hire projects with the three key customers have collectively accounted for 3.4%, 98.4%, 92.4% and 92.3% of its total revenue, respectively. The Target Group has maintained a stable relationship with the key customers, and its ability to expand and deepen its relationships with its key customers, would significantly affect the expansion of business and results of operations. The Target Group is confident that its management and talented staff can grow its business in the work-for-hire segment.

CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

The Target Group's financial statements and financial results are influenced by accounting policies, assumptions, estimates, and management judgements, which necessarily must be made during of preparation of the financial statements. It makes estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events. Accounting policies and management's judgements for certain items are especially critical for the Target Group's results and financial situation due to their materiality amount.

The accounting policies set out below are of critical importance to the Target Group or involve the most significant estimates and judgements used in the preparation of the Target Group's financial statements. The Target Group's significant accounting policies, estimates, and judgements, which are important for an understanding of its financial condition and results of operations, are set forth in detail in Note 2 to the Target Group's financial statements as set out in Appendix I to this circular.

Property, Plant and Equipment

Please see Note 2.5 in the Accountant's Report on the Target Group in Appendix I to this circular for the Target Group's property, plant, and equipment accounting policies.

Intangible Assets

Please see Note 2.6 in the Accountant's Report on the Target Group in Appendix I to this circular for the Target Group's intangible assets accounting policies.

Current and Deferred Income Tax

Please see Note 2.15 in the Accountant's Report on the Target Group in Appendix I to this circular for the Target Group's current and deferred income tax accounting policies.

Share-Based Payments

Please see Note 2.17 in the Accountant's Report on the Target Group in Appendix I to this circular for the Target Group's share-based payments accounting policies.

Revenue Recognition

Please see Note 2.19 in the Accountant's Report on the Target Group in Appendix I to this circular for the Target Group's revenue recognition accounting policies.

FINANCIAL PERFORMANCE OF THE TARGET GROUP

Results of Operations

Set out below is a summary of the financial results of the Target Group for the indicated periods that were prepared in accordance with the Hong Kong Financial Reporting Standards:

	Year ended 31 March						Six months ended 30 September			
	2014		2015		2016		2015		2016	
	GBP'000	*%*	*GBP'000*	*%*	*GBP'000*	*%*	*GBP'000* (Unaudited)	*%*	*GBP'000*	*%*
Revenue	1,498	100.0	5,413	100.0	15,752	100.0	5,806	100.0	8,967	100.0
Cost of revenue	(599)	(40.0)	(2,017)	(37.3)	(3,508)	(22.3)	(1,379)	(23.8)	(2,801)	(31.2)
Gross profit	899	60.0	3,396	62.7	12,244	77.7	4,427	76.2	6,166	68.8
Other income	71	4.7	175	3.2	116	0.7	86	1.5	3	–
General and administrative expenses	(4,678)	(312.3)	(4,436)	(82.0)	(6,216)	(39.5)	(2,436)	(42.0)	(3,148)	(35.1)
Finance income/(costs), net	(55)	(3.7)	(79)	(1.5)	(124)	(0.8)	(27)	(0.5)	(1)	–
(Loss)/profit before income tax	(3,763)	(251.2)	(944)	(17.4)	6,020	38.2	2,050	35.3	3,020	33.7
Income tax (expense)/credit	(421)	(28.1)	411	7.6	457	2.9	(138)	(2.4)	451	5.0
(Loss)/profit and total comprehensive (loss)/income attributable to owner of the Target Group for the year/period	(4,184)	(279.3)	(533)	(9.8)	6,477	(41.1)	1,912	32.9	3,471	38.7

Discussion of Selected Items in the Combined Statements of Comprehensive Income

Revenue

The Target Group's reportable operating segments can be broken down into (i) work-for-hire; (ii) owned-IP; and (iii) game-hosting and support services. The Target Group's income from work-for-hire, owned-IP and game-hosting and support services is primarily derived from the operations of Splash Damage, Warchest, and Fireteam, respectively. The table below sets forth a breakdown of the Target Group's revenue by business segments for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2014		2015		2016		2015		2016	
	GBP'000	*%*	*GBP'000*	*%*	*GBP'000*	*%*	*GBP'000* (Unaudited)	*%*	*GBP'000*	*%*
Work-for-hire	1,194	79.7	4,699	86.8	13,830	87.8	4,724	81.4	7,965	88.8
Owned-IP	253	16.9	80	1.5	1,157	7.3	687	11.8	670	7.5
Game-hosting and support services	51	3.4	634	11.7	765	4.9	395	6.8	332	3.7
Total	1,498	100.0	5,413	100	15,752	100.0	5,806	100.0	8,967	100.0

The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities as described below:

(i) *Work-for-hire:* Under the work-for-hire segment, the Target Group is retained by market-leading third-party publishers to develop video games. Contract execution payments, received in advance of services being rendered at the beginning of each contract are recognised as deferred income. Advances received from publishers are recognised as revenue, based on a percentage-of-completion basis. Royalties are recognised when received from publishers on a quarterly basis after the launch of the product.

(ii) *Owned-IP:* Under the owned-IP segment, the Target Group develops video games that focus on free-to-play competitive multiplayer video games on mobile and PC, including *RAD Soldiers* and *Dirty Bomb*. The Target Group grants rights of the self-developed games to licensed operators and shares game revenue with them. Licence fees received before the launch of the games or the beta version of the games are recognised as deferred revenue and subsequently recognised as revenue on a straight-line basis over the contract term. Royalties are calculated monthly based on a pre-determined sharing percentage of net sales calculated as gross proceeds after deducting the applicable taxes, distribution cost and returns of the licensed operators.

(iii) *Game-hosting and support services:* The Target Group is also engaged in the provision of online services, back-end support of video games, client and server software development, as well as support of online connected computer games. It manages back-end services and provides game-hosting and support services for other game studios. Revenue is recognised at a monthly rate for certain usage levels, and at a predetermined rate when the actual usage is beyond that level.

The Target Group experienced significant growth in revenue during the Track Record Period. It generated revenue of GBP1.5 million, GBP5.4 million, GBP15.8 million, and GBP9.0 million in the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, respectively, representing a CAGR of 224.6% from the year ended 31 March 2014, to the year ended 31 March 2016. 79.7%, 86.8%, 87.8%, and 88.8%, respectively, of the Target Group's revenue was contributed by the work-for-hire segment for the same periods.

For the year ended 31 March 2015, the revenue of the Target Group amounted to GBP5.4 million, representing an increase of GBP3.9 million, or 260.0%, compared to GBP1.5 million for the year ended 31 March 2014. This increase was mainly a result of an increase of GBP3.5 million in revenue that was generated from the work-for-hire segment, which, in turn, was due to an additional revenue of GBP4.7 million generated from two new game development projects.

For the year ended 31 March 2016, the revenue of the Target Group amounted to GBP15.8 million, representing an increase of GBP10.4 million, or 192.6%, compared to GBP5.4 million for the year ended 31 March 2015. This increase was mainly a result of an increase of GBP9.1 million in revenue that was generated from the work-for-hire segment, which, in turn, was mainly due to (i) an increase of GBP7.4 million in revenue that was generated from game development projects for two key customers based on the percentage-of-completion of the projects; and (ii) additional revenue of GBP1.7 million that was generated from one new game development project. For the year ended 31 March 2016, revenue generated from the owned-IP segment of the Target Group amounted to GBP1.2 million, representing an increase of GBP1.1 million following the launch of the beta version of *Dirty Bomb* under WarChest's own IP title in June 2015.

For the six months ended 30 September 2016, the revenue of the Target Group amounted to GBP9.0 million, representing an increase of GBP3.2 million, or 55.2%, as compared to GBP5.8 million in the six months ended 30 September 2015. This increase was mainly a result of an increase of GBP3.3 million in revenue that was generated from the work-for-hire segment, which in turn was mainly due to (i) an increase of GBP2.4 million in revenue that was generated from game development projects for three key customers based on the percentage-of-completion of the projects; and (ii) additional revenue of GBP0.8 million that was generated from two new game development projects.

Cost of revenue

During the Track Record Period, the cost of revenue of the Target Group primarily consisted of salaries and pensions of game development employees, subcontractor charges, and commissions.

The table below sets forth a breakdown of the Target Group's cost of revenue by business segments for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2014		2015		2016		2015		2016	
	GBP'000	*%*	*GBP'000*	*%*	*GBP'000*	*%*	*GBP'000* (Unaudited)	*%*	*GBP'000*	*%*
Work-for-hire	513	85.6	1,779	88.2	3,243	92.4	1,225	88.8	2,584	92.3
Owned-IP	63	10.5	24	1.2	49	1.4	21	1.5	83	2.9
Game-hosting and support services	23	3.9	214	10.6	216	6.2	133	9.7	134	4.8
Total	599	100.0	2,017	100	3,508	100.0	1,379	100.0	2,801	100.0

The table below sets forth a breakdown of the Target Group's cost of revenue by nature for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2014		2015		2016		2015		2016	
	GBP'000	*%*	*GBP'000*	*%*	*GBP'000*	*%*	*GBP'000* (Unaudited)	*%*	*GBP'000*	*%*
Production salaries	287	48.0	1,619	80.2	3,212	91.6	1,267	91.9	2,560	91.4
Pension	5	0.8	48	2.4	77	2.2	42	3.0	77	2.8
Subcontractor charges	277	46.2	326	16.2	213	6.0	66	4.8	163	5.8
Commission payable	30	5.0	24	1.2	6	0.2	4	0.3	1	–
Total	599	100.0	2,017	100	3,508	100.0	1,379	100.0	2,801	100.0

The cost of the revenue of the Target Group amounted to GBP0.6 million, GBP2.0 million, GBP3.5 million, and GBP2.8 million in the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, respectively, among which 85.6%, 88.2%, 92.4%, and 92.3%, respectively, was contributed by the work-for-hire segment for the same periods. Cost of revenue associated with salaries and pensions of game development employees accounted for 48.8%, 82.6%, 93.8%, and 94.2% of the cost of revenue of the Target Group for each of the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016.

The increasing trend in the Target Group's cost of revenue during the Track Record Period was mainly attributable to the increases in salaries and pensions of the Target Group's game development employees because of its recruitment of additional game development employees to support the Target Group's new projects.

Gross profit and gross profit margin

The gross profit of the Target Group amounted to GBP0.9 million, GBP3.4 million, GBP12.2 million, and GBP6.2 million in the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, respectively, representing gross profit margins of 60.0%, 62.7%, 77.7% and 68.8% for the same periods. Such an increasing trend in the gross profit margin of the Target Group from the year ended 31 March 2014, to the year ended 31 March 2016, was largely attributable to the improvement in the gross profit margin of the work-for-hire segment as the Target Group started to achieve economies of scale. The gross profit margin of the Target Group decreased from 76.2% % for the six months ended 30 September 2015, to 68.8% for the six months ended 30 September 2016, mainly due to an increase in cost of revenue as a result of the increase in the headcount of the Target Group's game development employees.

The table below sets forth a breakdown of the Target Group's gross profit and gross profit margin by business segments for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2014		2015		2016		2015		2016	
	Gross profit *(GBP'000)*	Gross profit margin *(%)*	Gross profit *(GBP'000)*	Gross profit margin *(%)*	Gross profit *(GBP'000)*	Gross profit margin *(%)*	Gross profit *(GBP'000)* *(Unaudited)*	Gross profit margin *(%)*	Gross profit *(GBP'000)*	Gross profit margin *(%)*
Work-for-hire	681	57.0	2,920	62.1	10,587	76.6	3,499	74.1	5,381	67.6
Owned-IP	190	75.1	56	70.0	1,108	95.8	666	96.9	587	87.6
Game-hosting and support services	28	54.9	420	66.2	549	71.8	262	66.3	198	59.6
Total	899	60.0	3,396	62.7	12,244	77.7	4,427	76.2	6,166	68.8

Other income

For the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, other income amounted to GBP71,036, GBP175,106, GBP116,378, and GBP2,599, respectively. All of such income was mainly derived from the rental income from a sublease of an office to a third party, which started in November 2013, and terminated in November 2015.

General and administrative expenses

The following table sets forth a breakdown of the Target Group's general and administrative expenses for the indicated periods:

	Year ended 31 March						Six months ended 30 September			
	2014		2015		2016		2015		2016	
	GBP'000	*%*	*GBP'000*	*%*	*GBP'000*	*%*	*GBP'000* (Unaudited)	*%*	*GBP'000*	*%*
Employee benefit expenses	634	13.6	1,486	33.5	2,885	46.4	1,171	48.0	1,423	45.2
Equipment lease rentals	254	5.4	304	6.9	365	5.9	177	7.3	304	9.7
Office lease rentals	363	7.8	530	12.0	546	8.8	237	9.7	279	8.9
Professional fees	136	2.9	328	7.4	891	14.3	255	10.5	240	7.6
Research and development expenses	2,404	51.4	1,204	27.1	95	1.5	2	0.1	13	0.4
Others	887	18.9	584	13.1	1,434	23.1	594	24.4	889	28.2
Total	4,678	100.0	4,436	100	6,216	100.0	2,436	100.0	3,148	100.0

During the Track Record Period, the general and administrative expenses of the Target Group primarily consisted of employee benefit expenses, office building lease costs, equipment lease costs, professional fees, research and development expenses, and others. For the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, the Target Group incurred general and administrative expenses of GBP4.7 million, GBP4.4 million, GBP6.2 million, and GBP3.1 million, respectively, representing 313.3%, 81.9%, 39.2% and 34.4% of its revenue for the same periods.

For the year ended 31 March 2015, general and administrative expenses of the Target Group amounted to GBP4.4 million, representing a decrease of GBP0.3 million, or 6.4%, compared to GBP4.7 million for the year ended 31 March 2014. This decrease was mainly attributable to a decrease of GBP1.2 million in research and development expenses as a result of the Target Group's completion of development for open beta version of *Dirty Bomb* which was launched in June 2015, partially offset by an increase of GBP0.9 million in employee benefit expanses, which, in turn, was due to the Target Group's recruitment of additional staff to support its expansion of its busines operations.

For the year ended 31 March 2016, general and administrative expenses of the Target Group amounted to GBP6.2 million, representing an increase of GBP1.8 million, or 40.9%, compared to GBP4.4 million for the year ended 31 March 2015. This increase was attributable to (i) an increase of GBP1.4 million in employee benefit expenses, which, in turn, was due to the Target Group's recruitment of additional staff to support its expansion of its business operations; and (ii) an increase of GBP0.6 million in professional fees due to the Acquisition.

For the six months ended 30 September 2016, general and administrative expenses of the Target Group amounted to GBP3.1 million, representing an increase of GBP0.7 million, or 29.2%, compared to GBP2.4 million for the six months ended 30 September 2015. This increase was attributable to an increase of GBP0.2 million in employee benefit expenses, which, in turn, was due to the Target Group's recruitment of additional staff to support its expansion of its business operations.

Net finance costs

During the Track Record Period, the net finance cost of the Target Group primarily consisted of the interest expenses on its borrowings, partially offset by interest income from its cash deposits at banks. For the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, net finance costs of the Target Group amounted to GBP55,410, GBP78,705, GBP124,281, and GBP1,446, respectively.

Income tax (expense)/credit

The Target Group recorded income tax expenses of GBP0.4 million for the year ended 31 March 2014. The Target Group recorded income tax credits of GBP0.4 million, GBP0.5 million, and GBP0.5 million for the years ended 31 March 2015, and 2016 and the six months ended 30 September 2016, respectively. The Target Group is subject to taxation in the United Kingdom. The income tax credits for the years ended 31 March 2015, and 2016 and the six months ended 30 September 2016, were mainly attributable to the research and development and video game tax relief of the Target Group available in the United Kingdom.

(Loss)/profit for the year/period

Based on the foregoing, primarily due to the increases in revenue and gross profit along with the Target Group's expansion of its business operations, the Target Group narrowed its net loss from GBP4.2 million for the year ended 31 March 2014, to GBP0.5 million for the year ended 31 March 2015, and turned around to record a net profit of GBP6.5 million for the year ended 31 March 2016, and GBP3.5 million for the six months ended 30 September 2016.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The Target Group generally finances its operations with internally generated resources and equity or debt financing activities. All financing methods will be considered so long as such methods are suitable and beneficial to the Target Group.

Cash Flow

The Target Group finances its liquidity requirements primarily through cash flow generated from operating activities and proceeds from interest-bearing bank loans and other borrowings. Its primary uses of cash include capital expenditures on intangible assets; construction-in-progress; property, plant, and equipment; and cash advanced to a director and repayment of borrowings.

The table below sets forth a summary of the Target Group's net cash flow for the indicated periods:

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*	*GBP'000*
				(Unaudited)	
Net cash generated from operating activities	1,299	993	4,505	690	2,458
Net cash (used in) investing activities	(1,333)	(851)	(1,330)	(579)	(1,616)
Net cash (used in)/generated from financing activities	(235)	(601)	(135)	177	(662)
Cash and cash equivalent and bank overdrafts at beginning of the year/period	538	269	(190)	(190)	2,850
Cash and cash equivalent and bank overdraft at end of the year/period	269	(190)	2,850	98	3,030

Net cash generated from operating activities

During the Track Record Period, the primary source of cash generated from the operating activities of the Target Group consisted of the proceeds it received from third-party publishers, licence fees and royalties for its own-IP, and service fees for its provision of game-hosting and support services. Its primary uses of cash in operating activities are employee salaries and benefits, income tax payments, and rental and property expenses.

For the year ended 31 March 2014, the Target Group's net cash generated from operating activities was GBP1.3 million, which primarily reflected loss before income tax of GBP3.8 million, adjusted for non-cash items of GBP0.4 million, changes in working capital of GBP4.8 million, income tax refunds of GBP3,000, and interest paid of GBP55,000. Non-cash reconciling items primarily included GBP0.3 million in bad debt write-offs. For more details of the bad debt write-offs, please refer to the section "Management Discussion and Analysis of the Target Group – Discussion of Selected Combined Statements of Financial Position Items – Trade and Other Receivables" and Note 15 in the Accountant's Report on the Target Group in Appendix I to this circular. Changes in working capital primarily included an increase in deferred revenue of GBP4.8 million, mainly due to the increase in license fees that the Target Group received in respect of *Dirty Bomb*.

For the year ended 31 March 2015, the Target Group's net cash generated from operating activities was GBP0.9 million, which primarily reflected a loss before income tax of GBP0.9 million, adjusted for non-cash items of GBP0.1 million, changes in working capital of GBP1.7 million, income tax refunds of GBP0.2 million and interest paid of GBP0.1 million. Non-cash reconciling items primarily included GBP0.1 million in interest expenses. Changes in working capital primarily included (i) an increase in deferred revenue of GBP1.0 million, mainly due to an increase in license fees that the Target Group received in respect of *Dirty Bomb*; and (ii) an increase in trade and other payables of GBP0.7 million, which, in turn, was mainly due to the increase in other administrative expenses.

For the year ended 31 March 2016, the Target Group's net cash generated from operating activities was GBP4.5 million, which primarily reflected profit before income tax of GBP6.0 million, adjusted for non-cash items of GBP0.7, million, changes in working capital of GBP2.1 million, income tax refunds of GBP34,000, and interest paid of GBP0.1 million. Non-cash reconciling items primarily included GBP0.5 million in the amortisation of intangible assets primarily related to game intellectual properties. Changes in working capital primarily included an increase in trade and other receivables of GBP2.2 million, which, in turn, was mainly due to the increase in the Target Group's revenue.

For the six months ended 30 September 2016, the Target Group's net cash generated from operating activities was GBP2.5 million, which primarily reflected profit before income tax of GBP3.0 million, adjusted for non-cash items of GBP0.3 million, changes in working capital of GBP1.4 million, income tax refunds of GBP0.6 million, and interest paid of GBP8,000. Non-cash reconciling items primarily included GBP0.3 million in the amortisation of intangible assets primarily related to game intellectual properties. Changes in working capital primarily included a decrease in deferred revenue of GBP1.1 million. Deferred revenue of the Target Group as at 31 March 2016 was mainly related to the licence fees for *Dirty Bomb*. Once *Dirty Bomb* generated revenue, the deferred revenue was amortised in a straight-line method.

Net cash used in investing activities

For the year ended 31 March 2014, the Target Group's net cash used in investing activities was GBP1.3 million, which was mainly attributable to GBP1.3 million in payment for additions to construction-in-process primarily relating to the development of *Dirty Bomb*, which was transferred to intangible assets in June 2015.

For the year ended 31 March 2015, the Target Group's net cash used in investing activities was GBP0.9 million, which was mainly attributable to (i) GBP0.7 million in payment for additions to construction-in-process primarily relating to the development of *Dirty Bomb*; and (ii) GBP0.1 million in cash advanced to a shareholder.

For the year ended 31 March 2016, the Target Group's net cash used in investing activities was GBP1.3 million, which was mainly attributable to (i) GBP0.9 million in payment for additions to intangible assets primarily relating to the development of *Dirty Bomb*; (ii) GBP0.3 million in cash advanced to a shareholder; and (iii) GBP0.1 million in payment for purchases of property, plants, and equipment.

For the six months ended 30 September 2016, the Target Group's net cash used in investing activities was GBP1.6 million, which was mainly attributable to (i) GBP1.1 million in cash advanced to a shareholder; and (ii) GBP0.5 million in payment for additions to intangible assets primarily relating to the development of *Dirty Bomb*.

Net cash used in financing activities

For the year ended 31 March 2014, the Target Group's net cash used in financing activities was GBP0.2 million, which was primarily attributable to GBP0.9 million in repayments of borrowings, partially offset by GBP0.6 million from new borrowings.

For the year ended 31 March 2015, the Target Group's net cash used in financing activities was GBP0.6 million, which was primarily attributable to GBP0.9 million in repayments of borrowings, partially offset by GBP0.3 million from new borrowings.

For the year ended 31 March 2016, the Target Group's net cash used in financing activities was GBP0.1 million, which was primarily attributable to GBP0.8 million in repayments of borrowings, partially offset by GBP0.7 million from new borrowings.

For the six months ended 30 September 2016, the Target Group's net cash used in financing activities was GBP0.7 million, which was primarily attributable to GBP0.7 million in repayments of borrowings.

Net Current (Liabilities)/Assets

As at 31 March 2014, 2015, and 2016, and 31 December 2016, the Target Group had net current liabilities of GBP6.2 million, GBP8.0 million, GBP2.1 million, GBP0.6 million, respectively. As at 30 September 2016, the Target Group recorded net current assets of GBP1.1 million. The table below sets forth a breakdown of current assets and current liabilities as at the dates indicated:

	As at 31 March			As at 30 September	As at 31 December
	2014	**2015**	**2016**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*	*GBP'000*
					(Unaudited)
Current assets					
Trade and other receivables	514	534	2,718	2,763	1,729
Amount due from a shareholder	–	106	379	1,460	276
Income tax receivables	–	–	285	138	583
Cash and cash equivalents	269	22	2,850	3,030	4,612
Total current assets	783	662	6,232	7,391	7,200
Current liabilities					
Trade and other payables	1,010	1,749	1,987	1,666	1,285
Borrowings	764	1,004	665	6	5
Amount due to a shareholder	42	–	–	–	–
Income tax payables	351	140	–	–	218
Deferred revenue	4,814	5,803	5,661	4,578	4,272
Total current liabilities	6,981	8,696	8,313	6,250	5,780
Net current (liabilities)/assets	(6,198)	(8,034)	(2,081)	1,141	1,420

As at 31 March 2015, the net current liabilities of the Target Group amounted to GBP8.0 million, as compared to GBP6.2 million as at 31 March 2014. The increase was mainly attributable to (i) an increase of GBP1.0 million in deferred revenues, and (ii) an increase in trade and other payables of GBP0.7 million, which, in turn, was mainly due to an increase in legal and professional fees and other administrative expenses because of the Target Group's expansion of its business operations.

As at 31 March 2016, the net current liabilities of the Target Group amounted to GBP2.1 million, as compared to GBP8.0 million as at 31 March 2015. The decrease was mainly attributable to an increase in cash and cash equivalents of GBP2.9 million and an increase in trade and other receivables of GBP2.2 million, which were in line with revenue growth over the same period.

As at 30 September 2016, the Target Group turned around to record net current assets of GBP1.1 million as compared to the net current liabilities of the Target Group of GBP2.1 million as at 31 March 2016. The increase was mainly attributable to (i) an increase in an amount due from a shareholder of GBP1.1 million, which was funded by internally generated cash; (ii) a decrease in deferred revenue of GBP1.1 million; and (iii) a decrease in borrowings of GBP0.7 million.

As at 31 December 2016, the net current assets of the Target Group amounted to GBP1.4 million, as compared to the net current assets of GBP1.1 million as at 30 September 2016. The increase was mainly attributable to a decrease in trade and other payables of GBP0.4 million.

INDEBTEDNESS

The table below sets out the indebtedness of the Target Group as at the indicated dates:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
Non-current				
Bank borrowings – unsecured	641	12	4	1
Current				
Bank borrowing – unsecured	764	792	8	6
Other borrowings – unsecured	–	–	657	–
Bank overdraft	–	212	–	–
Total borrowings	1,405	1,016	669	7

Total borrowings of the Target Group were GBP1.4 million, GBP1.0 million, GBP0.7 million, and GBP7,000 as at 31 March 2014, 2015, and 2016 and 30 September 2016, respectively.

The borrowings of the Target Group primarily consisted of bank borrowings that are unsecured, have a repayment term of one to three years, and fixed interest rate at 3.5%, 3.7%, 3.7%, and 3.7% per annum for the years ended 31 March 2014, 2015, and 2016 and for the six months ended 30 September 2016, respectively. Other borrowings of the Target Group, as at 31 March 2016, represented the borrowings from an independent third party for financing of its daily operations. The borrowings were unsecured and had a repayment term of six months and a fixed interest rate at 12% per annum. The overdraft, as at 31 March 2015, was guaranteed by a director of the Target Group and the security has been subsequently released. The interest rate of the bank overdraft was 7.25% per annum.

As at 30 September 2016, the Target Group did not have any unused banking facilities.

The table below sets forth the aging analysis of the borrowings of the Target Group as at the indicated dates:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
Within 1 year	764	1,004	665	6
Between 1 and 2 years	639	8	4	1
Between 2 and 5 years	2	4	–	–
	1,405	1,016	669	7

As at 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, material sources of liquidity of the Target Group were cash and cash equivalents in the amount of GBP4.6 million. As at 31 December 2016, the Target Group had total utilised banking facilities of GBP5,000 from its lending bank.

Save as aforesaid, as at 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Target Group did not have any indebtedness, or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, borrowings, or other similar indebtedness, liabilities under acceptances (other than normal trade bills), or acceptable credits, debentures, mortgages, pledges, charges, finance leases, or hire purchase commitments, guarantees, or material contingent liabilities.

Directors of the Target Group confirm that the Target Group did not have any material defaults in payment of trade and non-trade payables or bank borrowings and did not breach any financial covenants during the Track Record Period, and the Target Group has no plan to materially change its borrowing levels.

DISCUSSION OF SELECTED COMBINED STATEMENTS OF FINANCIAL POSITION ITEMS

Trade and Other Receivables

The table below sets forth the trade and other receivables of the Target Group as at the indicated dates:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
Trade receivables	304	348	996	1,486
Other receivables	63	41	58	65
Prepayments	147	38	437	187
Accrued income	–	107	1,227	1,025
	514	534	2,718	2,763

During the Track Record Period, the trade receivables of the Target Group primarily consisted of receivables from the third-party publishers and platforms under the work-for-hire business model. The trade receivables of the Target Group as at 31 March 2014, 2015, and 2016 and 30 September 2016 were GBP0.3 million, GBP0.3 million, GBP1.0 million, and GBP1.5 million, respectively. The increasing trend in the trade receivables over the periods was in line with revenue growth of the Target Group.

The Target Group has established different credit policies for customers. The credit term is generally 30 days. The trade receivables from the five largest debtors as at 31 March 2014, 2015, and 2016 and 30 September 2016, represented 100.0% of total trade receivables. In particular, its largest debtor accounted for 79.4%, 82.7%, 39.6%, and 56.6% of the total receivables that were due as at 31 March 2014, 2015, and 2016 and 30 September 2016.

The table below sets forth the aging analysis of trade receivables of the Target Group based on the invoice date as at the indicated dates:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
1-30 days	301	290	982	1,486
31-60 days	3	57	4	–
61-90 days	–	–	–	–
Over 90 days	–	1	10	–
	304	348	996	1,486

As at 31 March 2014, 2015 and 2016, trade receivables of GBP3,283, GBP58,239 and GBP13,787 were past due but not impaired, respectively. These receivables relate to certain customers with no history of credit default and who are in continuous business relationships with the Target Group.

Based on experience, the management of the Target Group believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality, and the balances are still considered fully recoverable. No trade receivables were past due but not impaired as at 30 September 2016. During the year ended 31 March 2014, trade receivables of GBP0.3 million were written off directly. The total amount of trade receivables outstanding of the Target Group as at 30 September 2016, was GBP1.5 million, which was subsequently settled as at the Latest Practicable Date.

The average turnover days of the trade receivables of the Target Group, which are calculated using the average of opening and closing balance trade receivables for a period divided by the revenue of the period and multiplied by the number of days in the period, were 79.7 days, 22.0 days, 15.6 days, and 24.9 days, respectively, for the years ended 31 March 2014, 2015, and 2016 and six months ended 30 September 2016. The average turnover days of the trade receivables of the Target Group for the year ended 31 March 2014 were relatively high due to a delay in payments from *Dirty Bomb* contracts.

During the Track Record Period, the accrued income of the Target Group primarily consisted of (i) revenue recognised for work-for-hire projects based on the percentage-of completion basis; and (ii) royalties from work-for-hire projects recognised on a quarterly basis after the launch of the products. The accrued income of the Target Group as at 31 March 2014, 2015, and 2016 and 30 September 2016 was nil, GBP0.1 million, GBP1.2 million, and GBP1.0 million, respectively. The increase in accrued income of the Target Group from GBP0.1 million as at 31 March 2015 to GBP1.2 million as at 31 March 2016 was mainly due to the increase in the Target Group's revenue generated from work-for-hire segment.

Amount Due (to)/from a Shareholder

The amount due to a shareholder was GBP42,000 as at 31 March 2014, and the amounts due from a shareholder were GBP0.1 million, GBP0.4 million, and GBP1.5 million as at 31 March 2015, and 2016 and 30 September 2016, respectively. These balances are unsecured and repayable on demand and bear on interest rate of 0.5% per annum. As at the Latest Practicable Date, GBP1.4 million had been repaid by the shareholder. The directors of the Target Group confirm that the amount due from a shareholder will be settled prior to the Completion.

Trade and Other Payables

The table below sets forth the trade and other payables of the Target Group as at the indicated dates:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
Trade payables	68	168	33	67
Other taxes and social security costs	478	676	234	246
Other payables and accruals	464	905	1,720	1,353
	1,010	1,749	1,987	1,666

The table below sets forth the aging analysis of trade payables of the Target Group based on the invoice date as at the indicated dates:

		As at 31 March		As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
0-30 days	20	18	28	67
31-60 days	48	150	5	–
	68	168	33	67

Trade payables of the Target Group primarily consisted of payables to web service providers and suppliers of equipment and office supplies. Other payables and accruals of the Target Group primarily consisted of legal and professional fees and other administrative expenses. Other payables and accruals of the Target Group increased from GBP0.5 million as at 31 March 2014, to GBP0.9 million as at 31 March 2015, and further to GBP1.7 million as at 31 March 2016, primarily attributable to the Target Group's expansion of its business operations. Other payables and accruals of the Target Group decreased from GBP1.7 million as at 31 March 2016, to GBP1.4 million as at 30 September 2016, primarily attributable to the timing of payment to the Target Group's suppliers.

COMMITMENTS

As at 31 March 2014, 2015, and 2016 and 30 September 2016, the Target Group had no significant capital commitments.

As at 31 March 2014, 2015, and 2016 and 30 September 2016, the operating lease commitments of the Target Group amounted to GBP4.7 million, GBP4.9 million, GBP4.7 million, and GBP4.2 million, respectively. The operating lease commitment was mainly related to office and equipment leases.

The table below sets forth the total future minimum lease payments under non-cancellable operating leases in which the Target Group is a lessee as at the indicated dates:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
Office premises and equipment				
Not later than 1 year	653	746	873	723
Later than 1 year and not later than 5 years	1,929	2,071	2,228	2,137
Later than 5 years	2,153	2,062	1,574	1,344
	4,735	4,879	4,675	4,204

CAPITAL EXPENDITURES

During the Track Record Period, the Target Group's capital expenditures primarily consisted of purchases of property, plants and equipment and capitalised internal game development properties. The following table sets forth the capital expenditures of the Target Group for the periods indicated:

	For the year ended 31 March			For the six months ended 30 September
	2014	**2015**	**2016**	**2016**
	GBP'000	*GBP'000*	*GBP'000*	*GBP'000*
Purchase of property, plants and equipment	15	–	140	25
Construction-in-progress	1,313	702	–	–
Intangible assets	5	1	920	516
Total	1,333	703	1,060	541

As at the Latest Practicable Date, the Target Group had no committed capital expenditures.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2014, 2015, and 2016 and 30 September 2016, the Target Group had a total of 96, 108, 177, and 198 employees, respectively. Remuneration for employees is determined in accordance with performance, professional experience, and the prevailing market conditions. Management of the Target Group reviews the Target Group's employee remuneration policy and arrangement on a regular basis. Total employee benefit expenses of the Target Group for the years ended 31 March 2014, 2015, and 2016 and the six months ended 30 September 2016, amounted to GBP4.5 million, GBP4.9 million, GBP7.0 million, and GBP4.6 million, respectively.

On 21 August 2009 and 10 July 2012, the Target Group set up the enterprise management incentive plan and a share option scheme in which the Target Group grants options to its directors and to selected employees where the share options are granted to the employees of the Target Group and employees of the related company, WarChest, respectively. The share options will only become vested and exercisable if there is a change in control of the Target Group and WarChest. The share options have a contractual option term of ten years, and the Target Group has no legal or constructive obligation to repurchase or settle the options in cash. As at 31 March 2014, 2015, and 2016 and 30 September 2016, none of the share options were exercisable. During the Track Record Period, no share-based expense had been recognised in the combined statement of comprehensive income as the vesting condition for the share options is not probable to be met.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, the Target Group did not have any material contingent liabilities that will have a material adverse effect on its financial position, liquidity, or results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 September 2016, the Target Group had not entered into any off-balance sheet arrangement.

MATERIAL ACQUISITION, DISPOSALS, SIGNIFICANT INVESTMENT, AND FUTURE PLANS OF MATERIAL INVESTMENTS

On 31 March 2015, Splash Damage entered into a stock transfer agreement with PW, the sole shareholder of Splash Damage, to transfer 100% of his equity interest in Demolition Games to Splash Damage at a consideration of GBP100. Demolition Games has been used as a special purpose vehicle for Splash Damage.

Save as disclosed above, during the Track Record Period, the Target Group did not have any other material acquisition, disposal, significant investment, or future plan of material investments.

PLEDGES OF ASSETS

As at 31 March 2014, 2015, and 2016 and 30 September 2016, the Target Group did not have any pledges of assets.

FOREIGN EXCHANGE EXPOSURE

The Target Group mainly operates in the United Kingdom and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("**USD**"). The Target Group does not currently hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit, as much as possible, the amount of its foreign currency exposure. Foreign exchange risk arises from future commercial transactions, recognised assets, and liabilities that are denominated in a currency that is not GBP.

If GBP had weakened/strengthened by 15% against the USD with all other variables held constant, post-tax loss would have been GBP543 and GBP855 higher/lower for the years ended 31 March 2014 and 2015, respectively, and post-tax profit would have been GBP41,892 and GBP61,542 higher/lower for the year ended 31 March 2016 and for the six months ended 30 September 2016, respectively, mainly as a result of foreign exchange losses/gains on translation of net monetary liabilities/assets denominated in USD.

KEY FINANCIAL RATIOS

The following table sets forth the major financial ratios of the Target Group as at the dates or of the indicated periods:

	As at or for the year ended 31 March			As at or for the six months ended 30 September
	2014	2015	2016	2016
Current ratio *(times)* [(i)]	0.11	0.08	0.75	1.18
Quick ratio *(times)* [(ii)]	0.11	0.08	0.75	1.18
Return on equity *(%)* [(iii)]	N/A	N/A	495.5	145.3[(v)]
Return on total assets *(%)* [(iv)]	N/A	N/A	67.2	62.9[(v)]

Notes:

(i) Current ratio is equal to current assets divided by current liabilities as at the end of the period.

(ii) Quick ratio is equal to current assets less inventories and divided by current liabilities.

(iii) Return on equity represents net income divided by total equity at the end of the period and multiplied by 100%.

(iv) Return on total assets represents net income divided by total assets at the end of the period and multiplied by 100%.

(v) Ratios are calculated on an annualised basis.

Current Ratios

The current ratios of the Target Group were 0.11, 0.08, 0.75 and 1.18 as at 31 March 2014, 2015 and 2016 and 30 September 2016, respectively. The increasing trend in current ratios of the Target Group during the Track Record Period was primarily due to the increases in cash and cash equivalents and trade and other receivables, which were in line with the increases in the Target Group's profits and revenues.

Quick Ratios

The Target Group had no inventories during the Track Record Period. Therefore, the Target Group's quick ratios were the same as its current ratios. See the subsection headed "– Current Ratios" above.

Return on Equity

The Target Group had losses for the years ended 31 March 2014 and 2015. It turned around to record net profits of GBP6.5 million for the year ended 31 March 2016 and GBP3.5 million for the six months ended 30 September 2016. The return on equity of the Target Group decreased significantly from 495.5% for the year ended 31 March 2016 to 145.3% for the six months ended 30 September 2016, primarily due to the increase in the Target Group's total equity, which, in turn, resulted from a significant increase in retained earnings, due to its rapidly growing and profitable business operations over the period and a relatively low equity level, as at 31 March 2016.

Return on Total Assets

The Target Group had losses for the years ended 31 March 2014 and 2015. It turned around to record net profits of GBP6.5 million for the year ended 31 March 2016 and GBP3.5 million for the six months ended 30 September 2016. The return on total assets of the Target Group decreased from 67.2% for the year ended 31 March 2016 to 62.9% for the six months ended 30 September 2016, primarily due to an increase in total assets as a result of the Target Group's expansion of business operations.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work that the directors of the Target Group consider appropriate and, after due and careful consideration, the directors of the Target Group confirm that, up to the date of this circular, there has been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees, or prospectus of the Target Group since 30 September 2016, the date of the latest audited consolidated financial statements of the Target Group.

DIVIDEND

The board of directors of the Target Group are responsible for approving dividend payments, if any. Whether it pays a dividend and in what amount is based on its results of operations, cash flows, financial condition, cash dividends it receives from its subsidiaries, future business prospects, statutory and regulatory restrictions on payment of dividends by it and other factors that its directors deem relevant. No dividend or distribution has been declared or made by the Target Group in respect of any period subsequent to 30 September 2016.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of the companies comprising the Target Group in respect of any period subsequent to 30 September 2016 and up to the date of this circular. No dividend or distribution has been declared or made by the Target Group or any of the companies comprising the Target Group in respect of any period subsequent to 30 September 2016.

INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

As at 31 December 2016, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had total indebtedness as follows:

	RMB'000
Non-current	
Bond *(Note (a))*	136,999
Debenture *(Note (b))*	3,376
	140,375
Current	
Bond *(Note (a))*	137,082
Bank borrowings *(Note (c))*	46
	137,128
Total indebtedness	277,503
Representing:	
– guaranteed and secured *(Note (a))*	274,081
– unsecured *(Note (b) & (c))*	3,422
	277,503

(a) As at 31 December 2016, bond at amortised cost of approximately US$41,934,000 (equivalent to approximately RMB274,081,000) was guaranteed by Multi Dynamic Games Group Inc., a subsidiary of the Enlarged Group, and was secured by 97% shares of Digital Extremes. The bond bears an interest rate of 7.0% per annum and an additional interest rate of 6.5% per annum.

(b) As at 31 December 2016, debenture at amortised cost of approximately HK$4,281,000 (equivalent to approximately RMB3,376,000) was unsecured and unguaranteed. The debenture bears an interest rate of 5% per annum.

(c) As at 31 December 2016, bank borrowings of approximately GBP5,000 (equivalent to approximately RMB46,000) was unsecured and unguaranteed. The bank borrowings bears an interest rate of 3.9% per annum.

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities, under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding as at 31 December 2016.

The Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 31 December 2016, the date on which the statement of indebtedness is made and up to the Latest Practicable Date.

WORKING CAPITAL SUFFICIENCY OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that, taking into account the financial resources of the Enlarged Group and its internally generated funds, the Enlarged Group has available sufficient working capital for at least the next 12 months from the date of this circular.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

22 February 2017

The Directors
Leyou Technologies Holdings Limited

Dear Sirs,

We report on the combined financial information of Fireteam Limited, Splash Damage Limited and Warchest Limited (together, the "Target Companies") and Splash Damage Limited's subsidiary (together, the "Target Group"), which comprises the combined statements of financial position of the Target Group as at 31 March 2014, 2015 and 2016 and 30 September 2016, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for each of the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Leyou Technologies Holdings Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix I to the circular of the Company dated 22 February 2017 (the "Circular") in connection with the proposed acquisition of the Target Companies by the Company.

The Target Companies are companies with limited liability, details of which are set out in Note 1.1 of Section II below.

As at the date of this report, Splash Damage Limited has direct interest in a subsidiary, as set out in Note 1.1 of Section II below.

The statutory financial statements of the respective Target Companies for each of the years ended 31 March 2014 and 2015 prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), were audited by Deloitte LLP. The statutory financial statements of the respective Target Companies for the year ended 31 March 2016 are prepared but not yet audited.

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The directors of the Target Companies are responsible for the preparation of the combined financial statements of the Target Group for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2.1 of Section II below.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 2.1 of Section II below and in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the "Group") as set out in the annual report of the Company for the year ended 31 December 2015 and the new/revised accounting standards adopted in the interim report of the Company for the six months ended 30 June 2016.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 2.1 of Section II below, a true and fair view of the combined financial position of the Target Group as at 31 March 2014, 2015 and 2016 and 30 September 2016 and of the Target Group's combined financial performance and cash flows for the Relevant Periods.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Circular which comprises the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Target Group for the six months ended 30 September 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 2.1 of Section II below and the accounting policies set out in Note 2 of Section II below and the accounting policies adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2015 and the new/revised accounting standards adopted in the interim report of the Company for the six months ended 30 June 2016.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.1 of Section II below and the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the combined financial information of the Target Group prepared by the directors of Leyou Technologies Holdings Limited ("the Company") as at 31 March 2014, 2015 and 2016 and 30 September 2016 and for each of the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2015 and 2016 (the "Financial Information"), presented on the basis set out in Note 2.1 of Section II below.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 March			Six months ended 30 September	
	Note	**2014**	**2015**	**2016**	**2015**	**2016**
		GBP	*GBP*	*GBP*	*GBP*	*GBP*
					(Unaudited)	
Revenue	*5*	1,498,194	5,412,760	15,752,118	5,805,889	8,967,455
Cost of revenue	*7*	(599,277)	(2,017,175)	(3,508,308)	(1,379,292)	(2,800,744)
Gross profit		898,917	3,395,585	12,243,810	4,426,597	6,166,711
Other income	*6*	71,036	175,106	116,378	86,317	2,599
General and administrative expenses	*7*	(4,677,971)	(4,436,466)	(6,215,626)	(2,435,581)	(3,147,973)
Operating (loss)/profit		(3,708,018)	(865,775)	6,144,562	2,077,333	3,021,337
Finance income	*9*	18	65	3,161	54	6,193
Finance costs	*9*	(55,428)	(78,770)	(127,442)	(26,566)	(7,639)
Finance costs – net		(55,410)	(78,705)	(124,281)	(26,512)	(1,446)
(Loss)/profit before income tax		(3,763,428)	(944,480)	6,020,281	2,050,821	3,019,891
Income tax (expense)/credit	*10*	(420,746)	411,463	456,814	(138,122)	451,155
(Loss)/profit and total comprehensive (loss)/ income attributable to owner of the Target Group for the year/period		(4,184,174)	(533,017)	6,477,095	1,912,699	3,471,046
Earnings per share	*11*	N/A	N/A	N/A	N/A	N/A

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 March 2014 GBP	2015 GBP	2016 GBP	As at 30 September 2016 GBP
ASSETS					
Non-current assets					
Property, plant and equipment	*12*	49,643	16,868	127,699	126,194
Construction-in-progress	*13*	2,151,353	–	–	–
Intangible assets	*14*	12,284	2,864,758	3,271,601	3,521,630
		2,213,280	2,881,626	3,399,300	3,647,824
Current assets					
Trade and other receivables	*15*	513,862	534,010	2,718,275	2,763,079
Amount due from a shareholder	*16*	–	106,496	379,173	1,460,243
Income tax receivables		–	–	284,961	137,770
Cash and cash equivalents	*17*	269,241	21,745	2,849,970	3,030,293
		783,103	662,251	6,232,379	7,391,385
Total assets		2,996,383	3,543,877	9,631,679	11,039,209
EQUITY AND LIABILITIES					
Equity attributable to owner of the Target Group					
Combined capital	*19*	102	102	102	102
(Accumulated losses)/retained earnings		(4,636,928)	(5,169,945)	1,307,150	4,778,196
Total (deficit)/equity		(4,636,826)	(5,169,843)	1,307,252	4,778,298
LIABILITIES					
Non-current liabilities					
Borrowings	*20*	640,953	11,990	3,940	994
Deferred tax liabilities	*21*	10,835	5,581	7,989	9,799
		651,788	17,571	11,929	10,793
Current liabilities					
Trade and other payables	*22*	1,010,295	1,749,095	1,986,843	1,665,823
Borrowings	*20*	763,986	1,003,887	665,048	5,901
Amount due to a shareholder	*16*	42,479	–	–	–
Income tax payables		350,512	140,314	–	–
Deferred revenue	*23*	4,814,149	5,802,853	5,660,607	4,578,394
		6,981,421	8,696,149	8,312,498	6,250,118
Total liabilities		7,633,209	8,713,720	8,324,427	6,260,911
Total equity and liabilities		2,996,383	3,543,877	9,631,679	11,039,209

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owner of the Target Group		
	Combined capital *GBP*	(Accumulated losses)/ retained earnings *GBP*	Total (deficit)/ equity *GBP*
Balance at 1 April 2013	102	(452,754)	(452,652)
Loss and total comprehensive loss for the year	–	(4,184,174)	(4,184,174)
Balance at 31 March 2014	102	(4,636,928)	(4,636,826)
Balance at 1 April 2014	102	(4,636,928)	(4,636,826)
Loss and total comprehensive loss for the year	–	(533,017)	(533,017)
Balance at 31 March 2015	102	(5,169,945)	(5,169,843)
Balance at 1 April 2015	102	(5,169,945)	(5,169,843)
Profit and total comprehensive income for the year	–	6,477,095	6,477,095
Balance at 31 March 2016	102	1,307,150	1,307,252
Balance at 1 April 2016	102	1,307,150	1,307,252
Profit and total comprehensive income for the six months ended 30 September 2016	–	3,471,046	3,471,046
Balance at 30 September 2016	102	4,778,196	4,778,298
(Unaudited)			
Balance at 1 April 2015	102	(5,169,945)	(5,169,843)
Profit and total comprehensive income for the six months ended 30 September 2015	–	1,912,699	1,912,699
Balance at 30 September 2015	102	(3,257,246)	(3,257,144)

COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 March			Six months ended 30 September	
		2014	2015	2016	2015	2016
		GBP	GBP	GBP	GBP	GBP
					(Unaudited)	
Cash flows from operating activities						
Cash generated from operations	24	1,351,671	876,117	4,598,564	599,282	1,865,738
Income tax receipt		2,733	196,011	33,947	117,302	600,156
Interest paid		(55,428)	(78,770)	(127,442)	(26,566)	(7,639)
Net cash generated from operating activities		1,298,976	993,358	4,505,069	690,018	2,458,255
Cash flows from investing activities						
Payment for purchase of property, plant and equipment		(14,997)	(197)	(140,456)	(59,189)	(25,071)
Payment for addition to construction-in-progress		(1,313,479)	(702,208)	–	–	–
Payment for addition to intangible assets		(4,919)	(477)	(919,983)	(429,119)	(515,891)
Cash advanced to a shareholder		–	(148,975)	(272,677)	(90,328)	(1,081,070)
Interest received		18	65	3,161	54	6,193
Net cash used in investing activities		(1,333,377)	(851,792)	(1,329,955)	(578,582)	(1,615,839)
Cash flows from financing activities						
Drawdown of borrowings		635,454	266,257	656,996	176,873	–
Repayment of borrowings		(895,735)	(867,419)	(791,785)	–	(662,093)
Cash advanced from a shareholder		25,495	–	–	–	–
Net cash generated (used in)/ from financing activities		(234,786)	(601,162)	(134,789)	176,873	(662,093)
Net (decrease)/increase in cash and cash equivalents		(269,187)	(459,596)	3,040,325	288,309	180,323
Cash and cash equivalents and bank overdrafts at beginning of year/period		538,428	269,241	(190,355)	(190,355)	2,849,970
Cash and cash equivalents and bank overdrafts at end of year/period	17	269,241	(190,355)	2,849,970	97,954	3,030,293

Non-cash transaction

On 31 March 2015, Splash Damage Limited entered into a stock transfer agreement with Paul Wedgewood, sole shareholder of Splash Damage Limited to transfer 100% of his equity interest in Demolition Games Limited at a consideration of GBP100 which has been set off with the amount due from a shareholder.

II. NOTES TO THE FINANCIAL INFORMATION

1.1 General information of the Target Group

The Target Group is principally engaged in the development of video games under both the work-for-hire and self-development models, as well as the provision of server support services to video games in the United Kingdom (the "UK").

Fireteam Limited, Splash Damage Limited, Warchest Limited and Demolition Games Limited, a wholly-owned subsidiary of Splash Damage Limited, were incorporated in the UK on 22 September 2011, 30 April 2001, 22 September 2011 and 18 December 2007 respectively, as companies with limited liability with issued capital of GBP1, GBP100, GBP 1 and GBP 100 respectively. The address of their registered office is Royal Court, 81 Tweety Road, Bromley, BR1 1TG, UK. Fireteam Limited, Splash Damage Limited and Warchest Limited are principally engaged in the provision of online services and back-end support of computer games; development of computer games for different hardware platforms, including consoles, personal computers and mobile devices; and owning, publishing and operating competitive multiplayer games with high production values for leading platforms, respectively. Demolition Games Limited is dormant during the Relevant Periods.

The Financial Information is presented in Pound Sterling ("GBP"), unless otherwise stated.

2 Summary of principal accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods, unless otherwise stated.

2.1 Basis of presentation and preparation

(a) Since the Target Companies are 100% owned and controlled by Paul Wedgewood and the Company proposed to acquire the Target Companies together, for the purpose of this report, the Financial Information has been presented on a combined basis. The Financial Information has been prepared to present combined statements of financial position of the Target Group as at 31 March 2014, 2015 and 2016 and 30 September 2016 and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Group for the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2015 and 2016.

All intra-group transactions and balances between the companies in the Target Group are eliminated on combination.

(b) The Financial Information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

(c) The following new standards and amendments to standards have been published and are mandatory for the Target Group's accounting periods beginning after 1 April 2016 or later periods, but the Target Group has not early adopted them:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS 7	Disclosure initiative	1 January 2017
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

The expected impacts from the adoption of the above standards and amendments are still being assessed in details by management, and management is not yet in a position to state whether they would have a significant impact on the Target Group's results of operations and financial position.

2.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the combined statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiary have been adjusted to conform with the Target Group's accounting policies.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of the Target Group are measured using the currency of the primary economic environment in which the entity operates (the ''functional currency''). The Financial Information is presented in GBP, which is the Target Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the combined statement of comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of 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 Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statement of comprehensive income during the Relevant Periods in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful lives
Computer equipment	2 years
Office equipment	4 years
Fixture and fitting	4-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gain and losses on disposal are determined by comparing the proceeds with the carrying amount of the relevant assets and is recognised within "other income" in the combined statement of comprehensive income.

2.6 Intangible assets

(i) Trademarks

Trademarks are recorded at cost less accumulated amortisation and any related government assistance. Amortisation of intangible assets is calculated over their estimated useful lives of ten years using the straight-line method.

(ii) Game intellectual properties

Development costs that are directly attributable to the design and testing of identifiable and unique games controlled by the Target Group are recognised as intangible assets when the following criteria are met:

– it is technically feasible to complete the software so that it will be available for use;

– management intends to complete the software and use or sell it;

– there is an ability to use or sell the software;

– it can be demonstrated how the software will generate probable future economic benefits;

– adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

– the expenditure attributable to the software during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing games and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Costs associated with maintaining the games are recognised as an expense as incurred.

No amortisation is provided for games under development until its completion. Amortisation commences when construction-in-progress is transferred to intangible assets and ready for their intended use. Game intellectual properties are amortised using the straight-line method over their estimated useful lives of the games of not more than 6 years.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(i) Classification

The Target Group classifies its financial assets as loans and receivables. The classification depends on the purposes for which the financial assets were acquired. The directors of the Target Group determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, in which case they are classified as non-current assets. The Target Group's loans and receivables comprise 'trade and other receivables', 'amount due from a shareholder' and 'cash and cash equivalents' in the combined statements of financial position *(Notes 2.10 and 2.11).*

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Target Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.9 Impairment of financial assets

Assets carried at amortised cost

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in combined statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in combined statement of comprehensive income.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected within one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks and bank overdrafts. In the combined statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the combined statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Target Companies and Splash Damage Limited's subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined statement of financial position. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

(i) Pension obligations

A defined contribution plan is a pension plan under which the Target Group pays fixed contributions into a separate entity. The Target Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Target Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Target Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Employee leave entitlements

Employee entitlements to annual leave are reorganised 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 end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.17 Share-based payments

Equity-settled share-based payment transactions

The Target Group operates a number of equity-settled, share-based compensation plans, under which the entities receive services from employees as consideration for equity instruments (options) of the Target Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

– including any market performance conditions (for example, an entity's share price);

– excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

– including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Target Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. The Target Group recognises the impact of the revision to original estimates, if any, in the combined statement of comprehensive income, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Target Group issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.18 Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Target Group's activities. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities, as described below:

(a) Work-for-hire

For Work-for-hire, contract execution payments, received in advance of services being rendered at the beginning of each contract, are recognised as deferred income and are recognised as revenue based on the percentage-of-completion basis. After the launch of the product, the Target Group may be entitled to royalties according to the terms in the work for hire contract. Royalties are recognised when received from publishers on a quarterly basis after the launch of the product, as the Target Group has no further obligation attached to the royalties.

(b) Game-hosting and supporting service

The Target Group holds the backbone server platform and provides game-hosting and supporting service for customers. When related service is delivered, revenue is recognised at a monthly rate for a certain usage level, and at a predetermined rate when the actual usage is beyond that level when services have been delivered.

(c) Own intellectual property (the "Owned-IP") game

The Target Group grants rights of the self-developed games to licensed operators and sharing of game revenue with them. The Target Group receives license fees and royalties from the licensed operators for the provision of the license to operate the game. License fees received before the launch of the games are recognised as deferred revenue and subsequently recognised as revenue on a straight-line basis over the contract term.

Royalties are calculated monthly based on a pre-determined sharing percentage of net sales calculated as gross proceeds after deducting the applicable taxes, distribution cost and returns of the licensed operators. The Target Group has evaluated and determined it is not the primary obligor in the rendering services to game players. Accordingly, the Target Group considers the licensed operators as their customers and the royalties recognised in the combined financial statements are the proceeds received from license operator. The Target Group recognize revenue when it is entitled to the royalties and has no further obligation attached to the royalties.

(d) Rental income

Rental income from sub-leasing part of the office is recognised in the combined statement of comprehensive income on a straight-line basis over the term of the lease.

(e) Interest income

Interest income mainly represents interest income from bank deposits and is recognised using the effective interest method.

2.20 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessee or received from the lessor) are recognised as income or expense in the combined statement of comprehensive income on a straight-line basis over the periods of the lease.

3 Financial risk management

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

Risk management is carried out under the policies approved by the directors of the Target Companies (the 'Directors'). The Directors provide principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing of excess liquidity.

(a) *Market risk*

(i) Foreign exchange risk

The Target Group mainly operates in the UK and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD"). The Target Group currently do not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limit as much as possible the amount of its foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

If GBP had weakened/strengthened by 15% against the USD with all other variables held constant, post-tax loss would have been approximately GBP543 and GBP855 higher/lower for the years ended 31 March 2014 and 2015 respectively, post-tax profit would have been approximately GBP41,892 and GBP61,542 higher/lower for the year ended 31 March 2016 and for the six months ended 30 September 2016 respectively, mainly as a result of foreign exchange losses/gains on translation of net monetary liabilities/assets denominated in USD.

(ii) Cash flow and fair value interest rate risk

The Target Group's interest rate risk arises from borrowings. The Target Group's borrowings were issued at fixed rates and expose the Target Group to fair value interest rate risk. Since fixed rate borrowings have a short maturity date and at market interest rate, the directors are of the opinion that the fair value interest-rate risk is minimal.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group does not have any significant interest bearing financial assets or liabilities except for cash at banks and bank overdraft. The Target Group has not used any interest rate swap to hedge its exposure to interest rate risk. Interest income and expenses will fluctuate because of changes in market interest rates. The directors of the Target Group believe that the Target Group's exposure to the cash flow interest rate risk is insignificant as variable interest rates bank deposits and bank overdraft are relatively short term and immaterial.

(b) Credit risk

The credit risk of the Target Group mainly arises from cash and cash equivalents, trade and other receivables and amount due from a shareholder. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and bank deposits, the Target Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions in the UK. There has been no recent history of default in relation to these financial institutions.

Trade receivables at the end of each reporting period were due from customers in cooperation with the Target Group. If the strategic relationship with the customers is terminated or scaled-back; or if the customers alter of the co-operative arrangements or if they experience financial difficulties in paying the Target Group, the Target Group's trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Target Group maintains frequent communications with the customers to ensure effective credit control. In view of the history of cooperation and the sound collection history of receivables due from them, the directors of the Target Group believe that the credit risk inherent in the Target Group's outstanding trade receivable balances is low. As at 31 March 2014 and 2015, there were 2 customers in total accounted for 96% and 99% of the Target Group's total trade receivables respectively. As at 31 March 2016 and 30 September 2016, the trade receivables were contributed by 3 customers with each contributed over 10% of the Target Group's total trade receivables in each respective year/period. However, the credit risk in relation to these customers is not significant because they do not have financial difficulties and have no history of significant default in the past.

For other receivables and amount due from a shareholder, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

The credit quality of the amount due from a shareholder has been assessed with reference to historical information of the counterparty default. Management believes the credit risk in relation to shareholder is insignificant, considering the shareholder does not have defaults in the past and management does not expect any losses from non-performance by the shareholder.

The directors of the Target Group believes that there is no material credit risk inherent in the Target Group's outstanding balance of other receivables.

(c) Liquidity risk

The liquidity risk of the Target Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flows.

The table below analyses the Target Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	GBP	*GBP*	*GBP*	*GBP*
At 31 March 2014				
Trade and other payables	983,528	–	–	983,528
Amount due to a shareholder	42,479	–	–	42,479
Borrowings	833,735	694,537	2,494	1,530,766
	1,859,742	694,537	2,494	2,556,773
At 31 March 2015				
Trade and other payables	1,717,757	–	–	1,717,757
Borrowings	1,067,421	8,748	4,426	1,080,595
	2,785,178	8,748	4,426	2,798,352
At 31 March 2016				
Trade and other payables	1,944,885	–	–	1,944,885
Borrowings	674,137	4,038	–	678,175
	2,619,022	4,038	–	2,623,060
At 30 September 2016				
Trade and other payables	1,633,944	–	–	1,633,944
Borrowings	6,119	1,069	–	7,188
	1,640,063	1,069	–	1,641,132

(d) Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders through the optimisation of the debt and equity balance.

The Target Group monitors capital on the basis of the total shareholder's equity as shown in the combined statements of financial position. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or assets sold to reduce debt. The Target Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long-term.

4 Critical accounting estimates and judgments

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

The Target 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 addressed below.

(a) Provision for impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of the trade receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Target Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expense or write-back of provision for trade receivables in the period in which such estimate has been changed.

(b) Income tax expense

The Target Group is subject to income taxes and is entitled to certain tax relief in the UK. Significant judgement is required in determining the provision for income taxes and tax relief. There are many transactions and calculations which render the ultimate determination of such amounts uncertain. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due, and recognises tax relief when the realisability and collectability of tax relief are considered probable. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences can be utilised. The outcome of their actual utilisation may be different. Details of the deferred taxation are disclosed in Note 21.

(c) Useful lives and impairment of intangible assets

The Target Group's management determines the estimated useful lives for amortisation of intangible assets. This estimate is based on the historical experience of the actual useful lives of the assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the amortisation where useful lives are less than previously estimated lives, or provide impairment for technically obsolete or non-strategic assets that have been abandoned or sold.

The Target Group reviews intangible assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on management's estimate with best information available. The Target Group derives the required cash flow estimates from historical experience and internal business plans. To determine recoverable amount, the Target Group uses cash flow estimates discounted at an appropriate discount rate, as appropriate.

5 Revenue and segment information

The Target Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the directors who are responsible for allocating resources, assessing performance of the operating segment and making strategic decisions. As a result of this evaluation, the Target Group determined that it has operating segments as follows:

– Work-for-hire

– Game-hosting and support service

– Owned-IP

The directors assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. General and administrative expenses are not included in the measure of the segments' performance which is used by the directors as a basis for the purpose of resource allocation and assessment of segment performance. Other income and income tax expense are also not allocated to individual operating segments.

The revenue from external customers reported to the directors are measured as segment revenue, which is the revenue derived from work for hire segment and game-hosting and support service segment and own IP game segment. Cost of revenue primarily comprises salary and staff benefits and others.

Other information, together with the segment information provided to the directors, is measured in a manner consistent with that applied in this Financial Information. There were no separate segment assets and segment liabilities information provided by the directors, as the directors do not use this information to allocate resources to or evaluate the performance of the operating segments.

The segment information provided to the Target Group's directors of the reportable segments for the Relevant Periods is as follows:

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Work-for-hire					
Segment revenue	1,194,399	4,699,200	13,829,696	4,724,296	7,965,713
Segment cost	(512,757)	(1,778,522)	(3,243,607)	(1,225,026)	(2,583,890)
Gross profit	681,642	2,920,678	10,586,089	3,499,270	5,381,823
Game-hosting and support service					
Segment revenue	51,200	633,962	765,203	395,137	332,022
Segment cost	(23,394)	(214,463)	(215,621)	(133,225)	(134,373)
Gross profit	27,806	419,499	549,582	261,912	197,649
Owned-IP					
Segment revenue	252,595	79,598	1,157,219	686,456	669,720
Segment cost	(63,126)	(24,190)	(49,080)	(21,041)	(82,481)
Gross profit	189,469	55,408	1,108,139	665,415	587,239

The reconciliation of gross profit to profit before income tax of individual period during the Relevant Periods is shown in the combined statement of comprehensive income.

Details of the customers accounting for 10% or above of total revenue are as follows:

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Customer A	1,194,399	–	–	–	–
Customer B	–	4,758,212	9,920,990	3,654,622	3,989,449
Customer C	–	568,388	2,958,049	1,211,070	2,838,069
Customer D	–	–	1,673,290	–	1,448,435

During the years ended 31 March 2014, 2015 and 2016 and the six months ended 30 September 2015 and 2016, the Target Group mainly provided services in the UK and majority of the revenue were generated in the UK.

As of 31 March 2014, 2015 and 2016 and 30 September 2016, the Target Group's non-current assets were all located in the UK.

6 Other income

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Rental income	71,036	174,809	115,873	86,022	2,450
Others	–	297	505	295	149
	71,036	175,106	116,378	86,317	2,599

7 Expenses by nature

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Employee benefit expenses *(Note (a) and Note 8)*	4,498,227	4,893,441	7,038,045	2,909,560	4,575,663
Employee benefit expenses capitalised	(1,232,154)	(598,403)	(843,132)	(429,119)	(515,891)
Other research and development expenses *(Note a)*	65,479	62,156	74,277	1,845	12,701
Operating lease rentals in respect of office building	362,636	530,290	546,465	236,991	278,701
Operating lease rentals in respect of equipment	253,940	304,446	365,303	177,197	304,290
Depreciation *(Note 12)*	71,054	32,972	29,625	13,032	26,576
Amortisation *(Note 14)*	1,255	1,564	513,140	187,648	265,862
Auditor's remuneration	31,258	56,778	59,851	31,457	36,025
Legal and professional fee	104,453	271,190	831,202	223,465	204,057
Sub-contracting charges	276,754	325,618	212,634	65,762	162,866
Bad debts written-off *(Note 15)*	259,721	–	–	–	–
Others	584,625	573,589	896,524	397,035	597,867
Total cost of revenue and general and administrative expenses	5,277,248	6,453,641	9,723,934	3,814,873	5,948,717

Note:

(a) For the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2015 and 2016, research and development expenses that have been charged to the combined statements of comprehensive income were GBP2,404,870, GBP1,204,286, GBP94,670,and GBP1,845 and GBP12,701 respectively.

8 Employee benefit expenses

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Wages and salaries	4,332,132	4,704,579	6,665,295	2,783,339	4,420,867
Pension cost					
– defined contribution plans	68,297	82,006	144,167	62,855	107,858
Employees' benefits	97,798	106,856	228,583	63,366	46,938
	4,498,227	4,893,441	7,038,045	2,909,560	4,575,663

The Target Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

(a) Pensions – defined contribution plans

No forfeited contribution is available to reduce the contribution payable in future year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group are all directors for the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2015 and 2016, respectively, whose emoluments are reflected in the analysis presented in Note 28.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9 Finance costs – net

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Finance income	18	65	3,161	54	6,193
Finance costs	(55,428)	(78,770)	(127,442)	(26,566)	(7,639)
Finance costs, net	(55,410)	(78,705)	(124,281)	(26,512)	(1,446)

10 Income tax (expense)/credit

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
Current income tax					
– UK corporate income tax	(433,952)	406,209	459,222	(138,122)	452,965
Deferred income tax *(Note 21)*	13,206	5,254	(2,408)	–	(1,810)
	(420,746)	411,463	456,814	(138,122)	451,155

The tax on the Target Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the tax rate in London, UK, in which the Target Group's major operation is located, as follows:

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
(Loss)/profit before income tax	(3,763,428)	(944,480)	6,020,281	2,050,821	3,019,891
Tax calculated at rates applicable to profits of the combined entities	(865,588)	(198,341)	1,204,056	410,165	603,978
Research and development tax relief *(note c)*	(177,670)	(101,644)	(184,053)	(110,343)	(121,592)
Utilisation of tax losses previously not recognised	–	(95,489)	–	–	–
Tax losses not recognised	1,487,948	955,912	288,220	542,681	123,049
Video game tax relief *(note d)*	–	(935,215)	(1,802,033)	(727,390)	(1,000,706)
Others	(23,944)	(36,686)	36,996	23,009	(55,884)
Income tax expense/(credit)	420,746	(411,463)	(456,814)	138,122	(451,155)

Note:

(a) The Target Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which the Target Group is domiciled and operates.

(b) Hong Kong profits tax has not been provided as the Target Group did not generate any assessable profits in Hong Kong for each of the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2015 and 2016.

(c) The Target Group is subject to the research and development tax relief of the small or medium-sized enterprise scheme from Her Majesty's Revenue and Customs ("HMRC"), the Target Group can claim Research and development tax relief based on 80% of the core expenditure incurred for video games on all platforms at UK corporate income tax rate. which are credited to the combined statements of comprehensive income during the Relevant Periods in which they are incurred.

(d) The Target Group is also subject to video game tax relief ("VGTR") from HMRC which is effective since 1 April 2014. The Target Group can claim VGTR based on 80% of the core expenditure incurred for video games on all platforms at UK corporate income tax rate. It is credited to the combined statements of comprehensive income during the Relevant Periods in which they are incurred.

The tax rates applicable to profits of the combined entities for each of the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2015 and 2016 was 23%, 21%, 20%, 20% and 20% respectively. The decrease is caused by the change of government's policy on UK corporate income tax rate.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 March 2014, 2015 and 2016 and 30 September 2016, The Target Group did not recognise deferred tax assets of GBP842,792, GBP1,753,185, GBP1,962,916 and GBP2,085,965 in respect of losses that can be carried forward against future taxable income of GBP4,213,961, GBP8,765,923, GBP9,814,582 and GBP10,429,829 respectively. The tax losses do not have any expiry date.

11 Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful. The Target Group has no potentially dilutive option or other instruments relating to ordinary shares.

12 Property, plant and equipment

	Computer equipment *GBP*	Office equipment *GBP*	Fixture and fitting *GBP*	Total *GBP*
At 1 April 2013				
Cost	387,681	108,623	239,408	735,712
Accumulated depreciation	(326,426)	(104,645)	(198,941)	(630,012)
Net book amount	61,255	3,978	40,467	105,700
Year ended 31 March 2014				
Opening net book amount	61,255	3,978	40,467	105,700
Additions	5,574	–	9,423	14,997
Depreciation	(52,663)	(1,533)	(16,858)	(71,054)
Closing net book amount	14,166	2,445	33,032	49,643
At 31 March 2014				
Cost	393,255	108,623	248,831	750,709
Accumulated depreciation	(379,089)	(106,178)	(215,799)	(701,066)
Net book amount	14,166	2,445	33,032	49,643
Year ended 31 March 2015				
Opening net book amount	14,166	2,445	33,032	49,643
Additions	32	165	–	197
Depreciation	(13,618)	(1,272)	(18,082)	(32,972)
Closing net book amount	580	1,338	14,950	16,868

	Computer equipment *GBP*	Office equipment *GBP*	Fixture and fitting *GBP*	Total *GBP*
At 31 March 2015				
Cost	393,287	108,788	248,831	750,906
Accumulated depreciation	(392,707)	(107,450)	(233,881)	(734,038)
Net book amount	580	1,338	14,950	16,868
Year ended 31 March 2016				
Opening net book amount	580	1,338	14,950	16,868
Additions	1,775	636	138,045	140,456
Depreciation	(1,016)	(1,332)	(27,277)	(29,625)
Closing net book amount	1,339	642	125,718	127,699
At 31 March 2016				
Cost	395,062	109,424	386,876	891,362
Accumulated depreciation	(393,723)	(108,782)	(261,158)	(763,663)
Net book amount	1,339	642	125,718	127,699
Six months ended 30 September 2016				
Opening net book amount	1,339	642	125,718	127,699
Additions	–	427	24,644	25,071
Depreciation	(452)	(153)	(25,971)	(26,576)
Closing net book amount	887	916	124,391	126,194
At 30 September 2016				
Cost	395,062	109,851	411,520	916,433
Accumulated depreciation	(394,175)	(108,935)	(287,129)	(790,239)
Net book amount	887	916	124,391	126,194

13 Construction-in-progress

	Game intellectual properties *GBP*
At 1 April 2013	837,874
Additions	1,313,479
At 31 March 2014	2,151,353
Additions	702,208
Transfer to intangible assets *(Note 14)*	(2,853,561)
At 31 March 2015, 2016 and 30 September 2016	–

14 Intangible assets

	Trademark *GBP*	Game intellectual properties *GBP* *(Note)*	Total *GBP*
At 1 April 2013			
Cost	10,247	–	10,247
Accumulated amortisation	(1,627)	–	(1,627)
Net book amount	8,620	–	8,620
Year ended 31 March 2014			
Opening net book amount	8,620	–	8,620
Additions	4,919	–	4,919
Amortisation	(1,255)	–	(1,255)
Closing net book amount	12,284	–	12,284

	Trademark	Game intellectual properties	Total
	GBP	*GBP*	*GBP*
		(Note)	
At 31 March 2014			
Cost	15,166	–	15,166
Accumulated amortisation	(2,882)	–	(2,882)
Net book amount	12,284	–	12,284
Year ended 31 March 2015			
Opening net book amount	12,284	–	12,284
Additions	477	–	477
Amortisation	(1,564)	–	(1,564)
Transfer from construction-in-progress *(Note 13)*	–	2,853,561	2,853,561
Closing net book amount	11,197	2,853,561	2,864,758
At 31 March 2015			
Cost	15,643	2,853,561	2,869,204
Accumulated amortisation	(4,446)	–	(4,446)
Net book amount	11,197	2,853,561	2,864,758
Year ended 31 March 2016			
Opening net book amount	11,197	2,853,561	2,864,758
Additions	12,501	907,482	919,983
Amortisation	(1,774)	(511,366)	(513,140)
Closing net book amount	21,924	3,249,677	3,271,601
At 31 March 2016			
Cost	28,144	3,761,043	3,789,187
Accumulated amortisation	(6,220)	(511,366)	(517,586)
Net book amount	21,924	3,249,677	3,271,601

	Trademark	Game intellectual properties	Total
	GBP	*GBP* *(Note)*	*GBP*
Six months ended 30 September 2016			
Opening net book amount	21,924	3,249,677	3,271,601
Additions	–	515,891	515,891
Amortisation	(1,407)	(264,455)	(265,862)
Closing net book amount	20,517	3,501,113	3,521,630
At 31 September 2016			
Cost	28,144	4,276,934	4,305,078
Accumulated amortisation	(7,627)	(775,821)	(783,448)
Net book amount	20,517	3,501,113	3,521,630

Note:

Under the co-publishing and distribution agreement with a third party, the game intellectual property rights are exclusively owned by the Target Group. The third party is only responsible for the distribution of the intellectual property rights.

15 Trade and other receivables

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
Trade receivables *(Note a)*	303,662	348,175	996,044	1,485,837
Other receivables	63,320	40,534	58,321	65,224
Prepayments	146,880	38,343	437,055	187,282
Accrued income	–	106,958	1,226,855	1,024,736
	513,862	534,010	2,718,275	2,763,079

The ageing analysis of trade receivables of the Target Group by invoice date is as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
1 – 30 days	300,379	289,936	982,257	1,485,837
31 – 60 days	3,283	56,754	4,240	–
61 – 90 days	–	–	–	–
Over 90 days	–	1,485	9,547	–
	303,662	348,175	996,044	1,485,837

Note:

(a) The Target Group has established different credit policies for customers. The general credit periods granted to customers are 30 days.

As at 31 March 2014, 2015 and 2016, trade receivables of approximately GBP3,283, GBP58,239 and GBP13,787 were past due but not impaired respectively. These relate to certain customers with no history of credit default and they are in continuous business relationships with the Target Group. Based on past experience, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. No trade receivables were past due but not impaired as at 30 September 2016.

During the year ended 31 March 2014, trade receivables of GBP259,721 were written off directly.

The aging analysis of these trade receivables past due but not impaired based on due date is as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
Past due				
1 – 90 days	3,283	56,754	4,240	–
Over 90 days	–	1,485	9,547	–
	3,283	58,239	13,787	–

Trade and other receivables are denominated in currencies as follows:

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	GBP	*GBP*	*GBP*	*GBP*
USD	–	2,732	369,205	399,247
GBP	513,862	531,278	2,349,070	2,363,832
	513,862	534,010	2,718,275	2,763,079

The maximum exposure to credit risk at each balance sheet date is the carrying amount of each class of receivable mentioned above. The Target Group does not hold any collateral as security.

16 Amounts due (to)/from a shareholder

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	GBP	*GBP*	*GBP*	*GBP*
Amount due (to)/from a shareholder	(42,479)	106,496	379,173	1,460,243
Maximum outstanding balance during the year	–	106,496	379,173	1,460,243

The amount due (to)/from a shareholder is unsecured, repayable on demand and denominated in GBP.

The amount due from a shareholder bears interest at 0.5% per annum. The carrying amount of the balance approximates its fair values due to short maturity.

17 Cash and cash equivalents

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	GBP	*GBP*	*GBP*	*GBP*
Cash and cash equivalents in the combined statement of financial position	269,241	21,745	2,849,970	3,030,293
Less: Bank overdrafts *(Note 20)*	–	(212,100)	–	–
Cash and cash equivalents and bank overdrafts in the combined statement of cash flows	269,241	(190,355)	2,849,970	3,030,293

The above balances represent cash at bank and on hand as at 31 March 2014, 2015 and 2016 and 30 September 2016 and all are denominated in GBP.

18 Share-based payments

On 21 August 2009 and 10 July 2012, the Enterprise Management Incentive Plan (the "EMIP") and Unapproved Share Option Plan (the "USOP") were set up by Fireteam Limited, Splash Damage Limited and Warchest Limited respectively, in which the Target Companies grant options to directors and selected employees. Under the EMIP, share options are granted to the employees of its own company while under the USOP, share options are granted to the employees of related companies. The share options will only vest and become exercisable if there is a change in control of the Target Companies. In the meantime, the share options forfeited if the employees leave the companies.

For the share options granted under EMIP by Fireteam Limited, the exercise price is GBP0.45 per share. For the share options granted under EMIP by Splash Damage Limited, the exercise price ranged from GBP4.80 per share to GBP6.20 per share depending on the date of grant of the options. For the share options granted under EMIP by Warchest Limited, the exercise price is GBP0.67 per share. While for share options granted under USOP by the Target Companies, the exercise price is nil. As at 31 March 2014, 2015 and 2016 and 30 September 2016, none of the share options are exercisable.

The options have a contractual option term of ten years. The Target Group has no legal or constructive obligation to repurchase or settle the options in cash.

During the years ended 31 March 2014, 2015 and 2016 and 30 September 2016, no share-based expense has been recognised in the combined statements of comprehensive income as the vesting condition for the share options is not probable to be met.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted average exercise price per share option *GBP*	Number of share options
At 1 April 2013	1.48	309,750
Granted	1.52	50,000
Forfeited	1.01	(52,150)
At 31 March 2014	1.62	307,600
Granted	3.46	30,700
Forfeited	0.60	(6,275)
At 31 March 2015	1.49	332,025
Granted	1.77	35,000
Forfeited	2.56	(96,650)
At 31 March 2016	1.20	270,375
Granted	8.92	66,325
Forfeited	0.7	(2,500)
At 30 September 2016	2.74	334,200

The share options outstanding at the end of the period will have an expiry date ranging from 2019 to 2025 depending of the date of grant of the options.

19 Combined capital

For the purpose of this report, the combined capital presented in the combined statements of financial position as at 31 March 2014, 2015 and 2016 and 30 September 2016 represents the combined capital of the Target Companies as at the respective reporting dates.

20 Borrowings

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
Non-current				
Bank borrowings – unsecured *(Note a)*	640,953	11,990	3,940	994
Current				
Bank borrowings – unsecured *(Note a)*	763,986	791,787	8,048	5,901
Other borrowings – unsecured *(Note b)*	–	–	657,000	–
Bank overdraft *(Note c)*	–	212,100	–	–
	763,986	1,003,887	665,048	5,901
Total borrowings	1,404,939	1,015,877	668,988	6,895

Notes:

(a) Bank borrowings

Bank borrowings are unsecured, have a repayment term of 1 to 3 years and with fixed interest rate at 3.5%, 3.7%, 3.7% and 3.7% per annum for the years ended 31 March 2014, 2015 and 2016 and for the six months ended 30 September 2016 respectively.

The carrying amounts of the Target Group's bank borrowings approximate their fair values and are denominated in GBP.

(b) Other borrowings

As at 31 March 2016, the Target Group has borrowings with an independent third party to finance its daily operation. The borrowings are unsecured and have a repayment term of 6 months with fixed interest rate at 12% per annum.

The carrying amounts of the Target Group's other borrowings approximate their fair values and are denominated in GBP.

(c) Bank overdraft

As at 31 March 2015, the bank overdraft was guaranteed by a director of the Target Group and the security has been subsequently released. The interest rate of the bank overdraft is 7.25% per annum over the UK base rate. The carrying amounts of the Target Group's bank overdraft approximate their fair values due to its short maturity and are denominated in GBP.

As at 31 March 2014, 2015 and 2016 and 30 September 2016 the Target Group did not have any material undrawn banking facilities.

The Target Group's borrowings were repayable as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
Within 1 year	763,986	1,003,887	665,048	5,901
Between 1 and 2 years	638,815	8,048	3,940	994
Between 2 and 5 years	2,138	3,942	–	–
	1,404,939	1,015,877	668,988	6,895

21 Deferred tax liabilities

The analysis of deferred tax liabilities is as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
Deferred tax liabilities to be settled after more than 12 months	5,581	926	2,475	2,475
Deferred tax liabilities to be settled within 12 months	5,254	4,655	5,514	7,324
	10,835	5,581	7,989	9,799

The movements in deferred tax liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	Accelerated tax allowance
	GBP
At 1 April 2013	24,041
Credited to combined statement of comprehensive income *(Note 10)*	(13,206)
At 31 March 2014	10,835
At 1 April 2014	10,835
Credited to combined statement of comprehensive income *(Note 10)*	(5,254)
At 31 March 2015	5,581
At 1 April 2015	5,581
Charged to combined statement of comprehensive income *(Note 10)*	2,408
At 31 March 2016	7,989
At 1 April 2016	7,989
Charged to combined statement of comprehensive income *(Note 10)*	1,810
At 30 September 2016	9,799

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Target Group did not recognise deferred income tax assets of GBP1,553,000, GBP2,414,000, GBP2,702,000 and GBP1,855,000 in respect of losses amounting to GBP6,754,000, GBP11,494,000, GBP13,510,000 and GBP9,276,000 that can be carried forward indefinitely against future taxable income as at 31 March 2014, 2015 and 2016 and 30 September 2016 respectively.

22 Trade and other payables

		As at 31 March		As at 30 September
	2014	2015	2016	2016
	GBP	*GBP*	*GBP*	*GBP*
Trade payables *(Note a)*	68,045	167,607	33,009	67,397
Other taxes and social security costs	478,145	676,029	233,352	245,600
Other payables and accruals *(Note b)*	464,105	905,459	1,720,482	1,352,826
	1,010,295	1,749,095	1,986,843	1,665,823

Notes:

(a) The ageing analysis of the trade payables of the Target Group based on invoice date is as follows:

		As at 31 March		As at 30 September
	2014	2015	2016	2016
	GBP	*GBP*	*GBP*	*GBP*
0 – 30 days	19,573	17,457	28,364	67,397
31 – 60 days	48,472	150,150	4,645	–
	68,045	167,607	33,009	67,397

(b) Other payables and accruals mainly consist of legal and professional fees and other administrative expenses. The balances are denominated in GBP.

23 Deferred revenue

Deferred revenue represents unrecognised revenue received in respect of license fees received. Deferred revenue is recognised in the combined statement of comprehensive income according to revenue recognition policy of license income as mentioned in Note 2.19.

The movements of deferred revenue during the Relevant Periods are as follows:

	As at 31 March			As at 30 September
	2014	2015	2016	2016
	GBP	*GBP*	*GBP*	*GBP*
Opening balance	–	4,814,149	5,802,853	5,660,607
Received during the year/period	4,814,149	988,704	1,085,388	–
Recognised as revenue during the year/period	–	–	(1,227,634)	(1,082,213)
Closing balance	4,814,149	5,802,853	5,660,607	4,578,394

24 Cash generated from operations

Reconciliation of (loss)/profit before income tax to cash generated from operations is set out as below:

	Year ended 31 March			Six months ended 30 September	
	2014	2015	2016	2015	2016
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
				(Unaudited)	
(Loss)/profit before income tax	(3,763,428)	(944,480)	6,020,281	2,050,821	3,019,891
Adjustments for:					
– Depreciation *(Note 12)*	71,054	32,972	29,625	13,032	26,576
– Amortisation *(Note 14)*	1,255	1,564	513,140	187,456	265,862
– Interest expense *(Note 9)*	55,428	78,770	127,442	26,566	7,639
– Interest income *(Note 9)*	(18)	(65)	(3,161)	(54)	(6,193)
– Bad debts written-off *(Note 15)*	259,721	–	–	–	–
Operating (loss)/profit before working capital change	(3,375,988)	(831,239)	6,687,327	2,277,821	3,313,775
– Trade and other receivables	(69,107)	(20,148)	(2,184,265)	(1,661,279)	(44,804)
– Deferred revenue	4,814,149	988,704	(142,246)	(25,422)	(1,082,213)
– Trade and other payables	(17,383)	738,800	237,748	8,162	(321,020)
Cash generated from operations	1,351,671	876,117	4,598,564	599,282	1,865,738

25 Financial instruments by category

	Loans and receivables
	GBP
Assets included in the combined statements of financial position	
At 31 March 2014	
Trade and other receivables excluding prepayments	366,982
Cash and cash equivalents	269,241
Total	636,223
At 31 March 2015	
Trade and other receivables excluding prepayments	495,667
Amount due from a shareholder	106,496
Cash and cash equivalents	21,745
Total	623,908
At 31 March 2016	
Trade and other receivables excluding prepayments	2,281,220
Amount due from a shareholder	379,173
Cash and cash equivalents	2,849,970
Total	5,510,363
At 30 September 2016	
Trade and other receivables excluding prepayments	2,575,797
Amount due from a shareholder	1,460,243
Cash and cash equivalents	3,030,293
Total	7,066,333

	Liabilities at amortised cost
	GBP
Liabilities included in the combined statements of financial position	
At 31 March 2014	
Trade and other payables excluding non-financial liabilities	983,528
Amount due to a shareholder	42,479
Borrowings	1,404,939
Total	2,430,946
At 31 March 2015	
Trade and other payables excluding non-financial liabilities	1,717,757
Borrowings	1,015,877
Total	2,733,634
At 31 March 2016	
Trade and other payables excluding non-financial liabilities	1,944,885
Borrowings	668,988
Total	2,613,873
At 30 September 2016	
Trade and other payables excluding non-financial liabilities	1,633,944
Borrowings	6,895
Total	1,640,839

26 Commitments

Operating lease commitments – the Target Group as the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 March			As at 30 September
	2014	**2015**	**2016**	**2016**
	GBP	*GBP*	*GBP*	*GBP*
Office premises and equipment:				
Not later than 1 year	652,630	746,294	873,035	722,965
Later than 1 year and not later than 5 years	1,928,691	2,070,725	2,227,753	2,137,081
Over 5 years	2,153,289	2,062,122	1,574,242	1,343,898
	4,734,610	4,879,141	4,675,030	4,203,944

As at 31 March 2014, 2015 and 2016 and 30 September 2016, the Target Group had no significant capital commitment.

27 Related party transactions

The ultimate controlling party of the Target Group is Paul Wedgewood, who is the sole shareholder of the Target Group.

Other than those transactions disclosed elsewhere in the Financial Information, no other material transactions were carried out with related companies in the normal course of the Target Group's business.

28 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
Year ended 31 March 2014					
Executive Directors					
– Arnout van Meer	–	101,303	20,000	3,605	124,908
– Griff Jenkins	–	101,961	20,000	–	121,961
– Olivier Leonardi	–	102,743	20,000	3,500	126,243
– Paul Wedgewood	–	1,799	–	6,125	7,924
– Richard Jolly	–	101,292	20,000	3,000	124,292
– Stephen Gaffney	–	101,112	20,000	615	121,727
	–	510,210	100,000	16,845	627,055

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
Year ended 31 March 2015					
Executive Directors					
– Arnout van Meer	–	104,895	–	4,959	109,854
– Griff Jenkins	–	104,911	–	2,575	107,486
– Olivier Leonardi	–	105,745	–	4,325	110,070
– Paul Wedgewood	–	2,229	–	6,125	8,354
– Richard Jolly	–	104,130	–	3,938	108,068
– Ross Farrow (appointed on 1 April 2014)	–	69,050	–	3,350	72,400
– Stephen Gaffney	–	104,592	–	2,630	107,222
	–	595,552	–	27,902	623,454

Name of Director	**Directors' fees**	**Salaries, allowances and benefits in kind**	**Discretionary bonus**	**Employer's contribution to pension scheme**	**Total**
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
Year ended 31 March 2016					
Executive Directors					
– Arnout van Meer	–	106,186	33,695	4,807	144,688
– Griff Jenkins	–	117,621	33,695	4,807	156,123
– Olivier Leonardi (resigned on 30 April 2015)	–	57,028	–	2,163	59,191
– Paul Wedgewood	–	3,049	–	6,125	9,174
– Richard Jolly	–	106,088	33,695	4,979	144,762
– Ross Farrow	–	95,641	28,069	3,675	127,385
– Stephen Gaffney (resigned 16 November 2015)	–	64,129	11,251	1,315	76,695
	–	549,742	140,405	27,871	718,018

Name of Director	**Directors' fees**	**Salaries, allowances and benefits in kind**	**Discretionary bonus**	**Employer's contribution to pension scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 September 2016					
Executive Directors					
– Arnout Van Meer	–	53,364	–	2,575	55,939
– Griff Jenkins	–	67,881	–	3,272	71,153
– Paul Wedgewood	–	1,748	–	3,063	4,811
– Richard Jolly	–	54,437	–	3,539	57,976
– Ross Farrow	–	53,051	–	2,013	55,064
	–	230,481	–	14,462	244,943

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	GBP	*GBP*	*GBP*	*GBP*	*GBP*
(Unaudited)					
Six months ended 30 September 2015					
Executive Directors					
– Arnout Van Meet	–	64,097	11,251	2,403	77,751
– Griff Jenkins	–	64,189	11,251	2,403	77,843
– Olivier Leonardi (resigned on 30 April 2015)	–	57,028	–	2,163	59,191
– Paul Wedgewood	–	1,524	–	3,063	4,587
– Richard Jolly	–	64,047	11,251	2,490	77,788
– Ross Farrow	–	48,031	5,625	1,837	55,493
– Stephen Gaffney	–	64,129	11,251	1,315	76,695
	–	363,045	50,629	15,674	429,348

Ross Farrow was appointed as executive director of the Target Companies on 1 April 2014. He is also an employee of the Target Companies during the Relevant Periods and the Target Companies paid emoluments to him in his capacity as the employee of the Target Companies before his appointment as executive director of the Target Companies on 1 April 2014.

During the Relevant Periods, none of the directors of the Target Companies (i) received or paid any remuneration in respect of accepting office; (ii) received or paid emoluments in respect of services in connection with the management of the affairs of the Target Companies or its subsidiaries undertaking; and (iii) waived or has agreed to waive any emolument.

(b) Directors' termination benefits

During the Relevant Periods, no emoluments, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(c) Consideration provided to third parties for making available directors' services

During the Relevant Periods, no consideration was provided to or receivables by third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans or other dealings entered into by the Target Companies or subsidiary undertaking of the Target Companies where applicable, in favour of the directors is as follows:

Name of Director	Total amount payable *GBP*	Outstanding/ aggregate outstanding amount at the beginning of the year/ period *GBP*	Outstanding/ aggregate outstanding amount at the end of the year/ period *GBP*	Maximum outstanding during the year/period *GBP*	Outstanding/ aggregate amount fallen due but not been paid *GBP*	Provision/ aggregate provisions for doubtful/bad debts made	Term	Interest rate	Security
As at 31 March 2015									
Loans:									
– Paul Wedgewood	106,496	–	106,496	106,496	–	–	Repayable on demand	0.5% per annum	Nil
As at 31 March 2016									
Loans:									
– Paul Wedgewood	379,173	106,496	379,173	379,173	–	–	Repayable on demand	0.5% per annum	Nil
As at 30 September 2016									
Loans:									
– Paul Wedgewood	1,460,243	379,173	1,460,243	1,460,243	–	–	Repayable on demand	0.5% per annum	Nil

There was no loans, quasi-loans and other dealings in favour of the directors, their controlled bodies corporate and connected entities as at 31 March 2014.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Target Group's business to which the Target Group was a party and in which a director of the Target Group has a material interest, whether directly or indirectly, subsisted at the end of 31 March 2014, 2015 and 2016 and 30 September 2016 or at any time during the years ended 31 March 2014, 2015 and 2016 and six months ended 30 September 2016.

29 Acquisition of a subsidiary

On 31 March 2015, Splash Damage Limited entered into a stock transfer agreement with Paul Wedgewood, sole shareholder of Splash Damage Limited to transfer 100% of his equity interest in Demolition Games Limited at a consideration of GBP100 which has been set off with the amount due from a shareholder. Demolition Games Limited had an issued and outstanding share capital of GBP100 and has not commenced any operations as at the date of transfer.

30 Subsequent events

On 1 July 2016, Paul Wedgwood and Radius Maxima Limited, a wholly-owned subsidiary of Leyou Technologies Holdings Limited entered into the Main SPA pursuant to which Radius Maxima conditionally agreed to acquire the shares of the Target Companies from Paul Wedgwood. Upon Completion of the above transaction, the share options disclosed in Note 19 will be vested and exercisable.

On 17 January 2017, the Target Group has entered into an agreement with Nexon America Inc. ("Nexon America") to terminate the exclusive right and licence given to Nexon America to maintain, publish, operate and distribute Dirty Bomb, and the Target Group shall have such rights after the termination date.

An initial payment of US$500,000 was paid by the Target Group to Nexon America upon execution of the agreement and a further US$500,000 shall pay to Nexon America after the transition and migration of Dirty Bomb. In addition, Nexon America is entitled to revenue sharing throughout the life of Dirty Bomb.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Companies or its subsidiary in respect of any period subsequent to 30 September 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Target Companies or its subsidiary in respect of any period subsequent to 30 September 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc

羅兵咸永道

22 February 2017

The Directors
Leyou Technologies Holdings Limited

Dear Sirs,

We report on the financial information of Digital Extremes Ltd. ("Digital Extremes") and its subsidiaries (together, the "Acquired Group"), which comprises the consolidated and company statements of financial position of Digital Extremes as at 31 December 2013, 2014 and 2015 and 30 September 2016, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of Digital Extremes for each of the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2016 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Leyou Technologies Holdings Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 22 February 2017 (the "Circular") in connection with the acquisition of Digital Extremes by the Company.

Digital Extremes was incorporated in Ontario, Canada with limited liability under the Business Corporations Act.

As at the date of this report, Digital Extremes has direct interest in a subsidiary as set out in Note 29 of Section II below.

The financial statements of Digital Extremes prepared in accordance with Canadian Accounting Standards for Private Enterprises for the year ended 31 October 2013 and the consolidated financial statements of Digital Extremes prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2015 were audited by Ernst & Young LLP. The consolidated financial statements of Digital Extremes prepared in accordance with IFRS for the year ended 31 December 2014 was audited by PricewaterhouseCoopers pursuant to separate terms of engagement with Digital Extremes.

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The directors of Digital Extremes are responsible for the preparation of the consolidated financial statements of Digital Extremes for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the "Group") as set out in the annual report of the Company for the year ended 31 December 2015 and the new/revised accounting standards adopted in the interim report of the Company for the six months ended 30 June 2016.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of Digital Extremes and of the Acquired Group as at 31 December 2013, 2014 and 2015 and 30 September 2016 and of the Acquired Group's financial performance and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix II to the Circular which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of Digital Extremes for the nine months ended 30 September 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below and the accounting policies adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2015 and the new/revised accounting standards adopted in the interim report of the Company for the six months ended 30 June 2016.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE ACQUIRED GROUP

The following is the financial information of Digital Extremes Ltd. ("Digital Extremes") and its subsidiaries (together, the "Acquired Group") prepared by the directors of Leyou Technologies Holdings Limited (the "Company") as at 31 December 2013, 2014 and 2015 and 30 September 2016 and for each of the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016 (the 'Financial Information').

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013 CAD	Year ended 31 December 2014 CAD	Year ended 31 December 2015 CAD	Nine months ended 30 September 2015 CAD (Unaudited)	Nine months ended 30 September 2016 CAD
Revenue	5	29,205,566	65,825,065	115,080,399	74,916,741	114,675,240
Cost of revenue	7	(18,129,477)	(29,766,077)	(49,343,350)	(34,041,710)	(40,229,263)
Gross profit		11,076,089	36,058,988	65,737,049	40,875,031	74,445,977
Other income	6	1,350,355	572,324	368,434	368,434	–
Selling and marketing expenses	7	(2,927,434)	(6,569,900)	(6,950,712)	(5,175,845)	(4,431,814)
General and administrative expenses	7	(2,248,092)	(2,896,356)	(6,142,603)	(5,045,376)	(5,094,620)
Other gains/(losses), net	8	32,277	274,997	1,889,500	1,251,542	(1,568,093)
Operating profit		7,283,195	27,440,053	54,901,668	32,273,786	63,351,450
Finance income	10	64,025	128,581	200,127	174,528	67,509
Finance costs	10	(239,037)	(148,511)	(150)	(162)	(106)
Finance (costs)/income – net		(175,012)	(19,930)	199,977	174,366	67,403
Profit before income tax		7,108,183	27,420,123	55,101,645	32,448,152	63,418,853
Income tax expense	11	(1,812,175)	(7,274,246)	(14,301,597)	(8,265,433)	(16,823,613)
Profit for the year/period attributable to the owners of Digital Extremes		5,296,008	20,145,877	40,800,048	24,182,719	46,595,240
Other comprehensive (loss)/income:						
Item that may be reclassified to profit or loss						
Currency translation differences		–	(934)	(3,328)	(5,533)	471
Total comprehensive income for the year/period attributable to the owners of Digital Extremes		5,296,008	20,144,943	40,796,720	24,177,186	46,595,711

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2013 CAD	As at 31 December 2014 CAD	As at 31 December 2015 CAD	As at 30 September 2016 CAD
ASSETS					
Non-current assets					
Property, plant and equipment	*14*	1,902,537	2,375,376	2,874,654	2,567,415
Intangible assets	*15*	27,707	1,795	15,509	72,367
Development expenditures	*16*	–	2,164,064	577,051	444,960
Deferred income tax assets	*17*	356,156	407,398	–	323,113
		2,286,400	4,948,633	3,467,214	3,407,855
Current assets					
Inventories	*19*	98,106	59,602	333,640	412,797
Tax credits receivable	*27*	11,361,455	12,284,356	13,800,460	19,041,668
Trade and other receivables	*18*	4,707,152	9,030,880	17,028,654	14,550,450
Amount due from a shareholder	*32(b)*	–	162,838	–	–
Financial assets at fair value through profit or loss	*20*	–	534,231	–	–
Cash and cash equivalents	*21*	6,083,744	16,814,104	17,541,279	19,841,701
		22,250,457	38,886,011	48,704,033	53,846,616
Total assets		24,536,857	43,834,644	52,171,247	57,254,471
EQUITY AND LIABILITIES					
Equity attributable to owners of Digital Extremes					
Share capital	*22*	300	300	300	300
Share based compensation reserve	*23*	475,864	475,864	475,864	475,864
Exchange reserve		–	(934)	(4,262)	(3,791)
Retained earnings		5,418,968	25,564,845	29,620,684	26,416,388
Total equity		5,895,132	26,040,075	30,092,586	26,888,761

	Note	As at 31 December 2013 CAD	2014 CAD	2015 CAD	As at 30 September 2016 CAD
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	*17*	–	–	215,940	–
Deferred credits and other liabilities	*25*	1,463,517	1,668,716	1,470,229	1,320,863
		1,463,517	1,668,716	1,686,169	1,320,863
Current liabilities					
Trade and other payables	*24*	2,086,507	3,096,171	2,164,079	6,225,571
Deferred credits and other liabilities	*25*	3,170,619	3,704,940	4,129,735	3,104,248
Derivative financial instruments	*26*	39,750	106,028	–	–
Loan from the ultimate holding company	*32(b)*	10,000,000	–	–	–
Income tax payable		1,881,332	9,218,714	14,098,678	19,715,028
		17,178,208	16,125,853	20,392,492	29,044,847
Total liabilities		18,641,725	17,794,569	22,078,661	30,365,710
Total equity and liabilities		24,536,857	43,834,644	52,171,247	57,254,471

STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2013 CAD	As at 31 December 2014 CAD	As at 31 December 2015 CAD	As at 30 September 2016 CAD
ASSETS					
Non-current assets					
Property, plant and equipment	*14*	1,902,537	2,297,573	2,755,158	2,483,017
Intangible assets	*15*	27,707	1,795	15,509	72,367
Investment in subsidiaries	*28*	–	109	109	109
Development expenditures	*16*	–	2,164,064	577,051	444,960
Deferred income tax assets	*17*	356,156	407,398	–	323,113
		2,286,400	4,870,939	3,347,827	3,323,566
Current assets					
Inventories	*19*	98,106	59,602	333,640	412,797
Tax credits receivable	*27*	11,361,455	12,284,356	13,800,460	19,041,668
Trade and other receivables	*18*	4,707,139	8,957,014	16,997,450	14,529,874
Amount due from a shareholder	*32(b)*	–	162,838	–	–
Amount due from a subsidiary	*32(b)*	–	153,322	163,389	104,353
Financial assets at fair value through profit or loss	*20*	–	534,231	–	–
Cash and cash equivalents	*21*	6,083,367	16,785,773	17,485,051	19,789,528
		22,250,067	38,937,136	48,779,990	53,878,220
Total assets		24,536,467	43,808,075	52,127,817	57,201,786
EQUITY AND LIABILITIES					
Equity attributable to owners of Digital Extremes					
Share capital	*22*	300	300	300	300
Share based compensation reserve	*13 & 23*	475,864	475,864	475,864	475,864
Retained earnings	*13*	5,444,646	25,593,283	29,628,796	26,416,241
Total equity		5,920,810	26,069,447	30,104,960	26,892,405

	Note	As at 31 December 2013 CAD	2014 CAD	2015 CAD	As at 30 September 2016 CAD
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	*17*	–	–	215,940	–
Deferred credits and other liabilities	*25*	1,463,517	1,663,277	1,467,617	1,320,863
		1,463,517	1,663,277	1,683,557	1,320,863
Current liabilities					
Trade and other payables	*24*	2,060,439	3,048,932	2,114,773	6,172,638
Deferred credits and other liabilities	*25*	3,170,619	3,701,677	4,125,849	3,100,852
Derivative financial instruments	*26*	39,750	106,028	–	–
Loan from the ultimate holding company	*32(b)*	10,000,000	–	–	–
Income tax payable		1,881,332	9,218,714	14,098,678	19,715,028
		17,152,140	16,075,351	20,339,300	28,988,518
Total liabilities		18,615,657	17,738,628	22,022,857	30,309,381
Total equity and liabilities		24,536,467	43,808,075	52,127,817	57,201,786

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Digital Extremes				
	Share capital	Retained earnings	Share based compensation reserve	Exchange reserve	Total equity
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Balance at 1 January 2013	100	10,122,960	–	–	10,123,060
Comprehensive income					
Profit for the year	–	5,296,008	–	–	5,296,008
Total comprehensive income	–	5,296,008	–	–	5,296,008
Total contributions by and distributions to owners of Digital Extremes recognised directly in equity					
Issuance of common shares	200	–	–	–	200
Issuance of Class B special shares *(Note 22)*	100	–	–	–	100
Repurchase of common shares	(100)	–	–	–	(100)
Dividend	–	(10,000,000)	–	–	(10,000,000)
Share based payment expenses *(Note 23)*	–	–	475,864	–	475,864
Total transactions with owners	200	(10,000,000)	475,864	–	(9,523,936)
Balance at 31 December 2013	300	5,418,968	475,864	–	5,895,132
Balance at 1 January 2014	300	5,418,968	475,864	–	5,895,132
Comprehensive income					
Profit for the year	–	20,145,877	–	–	20,145,877
Other comprehensive loss					
Currency translation differences	–	–	–	(934)	(934)
Total comprehensive income/(loss)	–	20,145,877	–	(934)	20,144,943
Balance at 31 December 2014	300	25,564,845	475,864	(934)	26,040,075

	Attributable to owners of Digital Extremes				
	Share capital *CAD*	Retained earnings *CAD*	Share based compensation reserve *CAD*	Exchange reserve *CAD*	Total equity *CAD*
Balance at 1 January 2015	300	25,564,845	475,864	(934)	26,040,075
Comprehensive income					
Profit for the year	–	40,800,048	–	–	40,800,048
Other comprehensive loss					
Currency translation differences	–	–	–	(3,328)	(3,328)
Total comprehensive income/(loss)	–	40,800,048	–	(3,328)	40,796,720
Total contributions by and distributions to owners of Digital Extremes recognised directly in equity					
Dividend	–	(36,744,209)	–	–	(36,744,209)
Total transactions with owners	–	(36,744,209)	–	–	(36,744,209)
Balance at 31 December 2015	300	29,620,684	475,864	(4,262)	30,092,586
Balance at 1 January 2015	300	25,564,845	475,864	(934)	26,040,075
Comprehensive income					
Profit for the period	–	24,182,719	–	–	24,182,719
Other comprehensive loss					
Currency translation differences	–	–	–	(5,533)	(5,533)
Total comprehensive income/(loss)	–	24,182,719	–	(5,533)	24,177,186
Total contributions by and distributions to owners of Digital Extremes recognised directly in equity					
Dividend	–	(36,167,158)	–	–	(36,167,158)
Total transactions with owners	–	(36,167,158)	–	–	(36,167,158)
Balance at 30 September 2015 (Unaudited)	300	13,580,406	475,864	(6,467)	14,050,103

	Attributable to owners of Digital Extremes				
	Share capital	Retained earnings	Share based compensation reserve	Exchange reserve	Total equity
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Balance at 1 January 2016	300	29,620,684	475,864	(4,262)	30,092,586
Comprehensive income					
Profit for the period	–	46,595,240	–	–	46,595,240
Other comprehensive loss					
Currency translation differences	–	–	–	471	471
Total comprehensive income	–	46,595,240	–	471	46,595,711
Total contributions by and distributions to owners of Digital Extremes recognised directly in equity					
Dividend	–	(49,799,536)	–	–	(49,799,536)
Total transactions with owners	–	(49,799,536)	–	–	(49,799,536)
Balance at 30 September 2016	300	26,416,388	475,864	(3,791)	26,888,761

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Nine months ended 30 September	
		2013	2014	2015	2015	2016
		CAD	CAD	CAD	CAD (Unaudited)	CAD
Cash flows from operating activities						
Cash generated from operations	29	3,722,965	19,982,048	46,953,954	27,849,152	63,160,444
Tax credits received	27	3,405,210	4,488,436	5,306,315	5,306,315	–
Income tax (paid)/refund		(1,147,670)	11,894	(8,798,296)	(6,864,796)	(11,746,316)
Net cash generated from operating activities		5,980,505	24,482,378	43,461,973	26,290,671	51,414,128
Cash flows from investing activities						
Payment for purchase of property, plant and equipment		(292,967)	(1,094,660)	(1,195,577)	(870,272)	(292,426)
Purchase of intangible assets		(106,483)	(17,791)	(76,257)	(75,329)	(137,464)
Advance of development expenditure to game developers		–	(2,164,064)	(5,975,751)	(5,153,880)	(260,780)
Proceeds from disposal of property, plant and equipment and intangible assets		1,860	14,647	150	150	–
Proceeds from sales of financial assets at fair value through profit or loss		–	571,513	438,062	438,062	–
Interest received		64,025	128,581	200,127	174,528	67,509
Purchase of financial assets at fair value through profit or loss		–	(1,044,406)	–	–	–
Net cash used in investing activities		(333,565)	(3,606,180)	(6,609,246)	(5,486,741)	(623,161)
Cash flows from financing activities						
Proceeds from issuance of ordinary shares		200	–	–	–	–
Repayment of loan from shareholder		–	(10,000,000)	–	–	–
Dividends on common shares		–	–	(36,131,839)	(17,000,000)	(48,495,933)
Interest paid		(239,037)	(148,511)	(150)	(162)	(106)
Net cash used in financing activities		(238,837)	(10,148,511)	(36,131,989)	(17,000,162)	(48,496,039)
Net increase in cash and cash equivalents		5,408,103	10,727,687	720,738	3,803,768	2,294,928
Cash and cash equivalents at beginning of year/period		675,641	6,083,744	16,814,104	16,814,104	17,541,279
Effect of foreign exchange rate changes, net		–	2,673	6,437	11,169	5,494
Cash and cash equivalents at end of year/period	21	6,083,744	16,814,104	17,541,279	20,629,041	19,841,701

II. NOTES TO THE FINANCIAL INFORMATION

1 General information of the Acquired Group

Digital Extremes is a limited liability company incorporated in Ontario, Canada. The address of its registered office is 250 York Street, Suite 100, London, Ontario, Canada, N6A 6K2.

The Acquired Group are principally engaged in the development of video games for both console and computer platforms. Prior to 2013, Digital Extremes focused on developing retail games for third party publishers under the "work-for-hire" model. Since 2013, Digital Extremes started to develop and sell online games under the "free-to-play" model. Digital Extremes began the distribution of a self-published title through various online distributors in March 2013.

The Financial Information is presented in Canadian Dollars ("CAD"), unless otherwise stated.

2 Summary of principal accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Acquired Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

The following new standards and amendments have been issued but are not effective for the annual accounting period beginning 1 January 2016 and have not been early adopted.

Standards/ Amendments	Subject	Effective for the accounting periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKAS 7 (Amendment)	Disclosure Initiative	1 January 2017
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

The Acquired Group is in the process of making an assessment of the impact of these new or revised standards and amendments to existing standards on its result of operations and financial position.

2.2 Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Acquired Group has control. The Acquired Group controls an entity when the Acquired Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Acquired Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Acquired group companies are eliminated. Profit and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Acquired Group.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by Digital Extremes on the basis of dividend received and receivable.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Acquired Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in CAD, which is the Digital Extremes's functional and the Acquired Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated statement of comprehensive income.

(iii) Subsidiaries

The results and financial position of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) All resulting currency translation differences are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of 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 Acquired Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to consolidated statement of comprehensive income during the Relevant Periods in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Useful lives
Furniture & fixtures	10 years
Computer hardware	2 years
Leasehold improvements	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gain and losses on disposal are determined by comparing the proceeds with the carrying amount of the relevant assets and is recognised within "other (losses)/gains, net" in the consolidated statement of comprehensive income.

2.6 Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and any related government assistance. Amortisation of intangible assets is calculated over their estimated useful lives using the straight-line method and the following period:

	Useful lives
Computer software	12 months

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(i) Classification

The Acquired Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purposes for which the financial assets were acquired. The directors of Digital Extremes determine the classification of its financial assets at initial recognition. As at 31 December 2014, the Acquired Group had loans and receivables and financial assets at fair value through profit or loss. As at 31 December 2013 and 2015 and 30 September 2016, the Acquired Group only had loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of each reporting period, in which case they are classified as non-current assets. The Acquired Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and 'amount due from a shareholder' in the consolidated statement of financial position *(Notes 2.12 and 2.13).*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Acquired Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Acquired Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in consolidated statement of comprehensive income within 'other gains/(losses), net' in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of 'finance income' when the Acquired Group's right to receive payments is established.

2.9 Impairment of financial assets

Assets carried at amortised cost

The Acquired Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Acquired Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in consolidated statement of comprehensive income.

2.10 Inventories

Inventories comprise merchandise held for direct sales and are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Derivative financial instruments which do not qualify for hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Changes in the fair value of the derivative instruments which do not qualify for hedge accounting are recognised immediately in the consolidated statement of comprehensive income within "other gains/(losses), net".

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected within one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Current and deferred income tax

The tax expenses for the period comprises current and deferred tax. Tax is recognised in consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Digital Extremes's subsidiary operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on an investment in a subsidiary, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by Digital Extremes and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

(i) Pension obligations

A defined contribution plan is a pension plan under which the Acquired Group pays fixed contributions into a separate entity. The Acquired Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Acquired Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Acquired Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Employee leave entitlements

Employee entitlements to annual leave are reorganised 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 end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.18 Share-based payments

The Acquired Group operates a number of equity-settled share-based compensation plans.

Equity-settled share-based payment transactions

For equity-settled share-based compensation plan, the entity receives services from employees as consideration for equity instruments (options) of the Acquired Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Acquired Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2.19 Provisions

Provisions are recognised when the Acquired Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Acquired Group's activities. The Acquired Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Acquired Group's activities, as described below.

(a) Game development and publishing

Game development and publishing represent revenue from the sale of virtual goods of on-line game operated by the Acquired Group and retail sales of game. The gross proceeds from the sale of virtual goods are initially recorded in deferred revenue and recognised as revenue over the estimated average period that paying players typically play the game. The on-line game are either self-published by the Acquired Group or published through distributors. The gross proceeds from the retail sale of the game is recognised when received as Acquired Group does not have any unfulfilled obligation to the game players. Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. The primary factor is whether the Acquired Group is acting as the principal in offering services to the customer or whether the Acquired Group is acting as an agent in the transaction. The Acquired Group has determined that it is acting as the principal in offering services, given the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in suppliers selection; and (iv) has involvement in the determination of product specifications. Therefore, the Acquired Group adopted a gross basis to recognise revenues derived from these arrangements in the consolidated statement of comprehensive income.

(b) Work-for-hire

For work for hire, advances received from publishers are recognised as revenue based on the percentage-of-completion basis. Royalties are received from publishers after the launch of the product. They are receivable quarterly based on a calendar year as calculated by the publisher. As there are no unfulfilled obligations for the royalties, they are recognised when received.

(c) *Sales of merchandise goods*

Revenue from sales of merchandise goods, including game related collectibles and apparel, is recognised when the risk and rewards of the goods have been transferred to the customer, which is usually at the date when the goods are delivered to the customer, the customer has accepted the products and there is no unfulfilled obligations that could affect the customer's acceptance of the goods.

(d) *Interest income*

Interest income mainly represents interest income from bank deposits and is recognised using the effective interest method.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessee or received from the lessor) are recognised as income or expense in the consolidated statement of comprehensive income on a straight-line basis over the periods of the lease.

2.22 Dividend distribution

Dividend distribution to the Digital Extremes's shareholders is recognised as a liability in the Acquired Group's consolidated statement of financial position in the period in which the dividends are approved by the Digital Extremes's shareholders.

2.23 Government incentives

Amounts received or receivable resulting from government incentive programs are reflected as either reductions of the cost of assets and expenditures that can be specified of which they are related to or other income when the Acquired Group becomes eligible to accrue for them, provided that there is reasonable assurance that the benefits will be realised.

The Acquired Group is entitled to certain Ontario Interactive Digital Media Tax Credits ("OIDMTC"), which are tax credits for creation of digital media products in Canada, from Ontario Media Development Corporation ("OMDC"). Tax credits from OMDC are reflected as reduction in expenditures. The Acquired Group also receives government grant income from the Ministry of Economic Development, Trade and Employment ("MEDTE"). This government grant income is accounted for as reduction in the cost of assets captalised in the consolidated statement of financial position or as other income in the consolidated statement of comprehensive income depending on the nature against which the expenditure are subsidised once the Acquired Group has reasonable assurance that they will be realised and collectable. The incentives recorded by the Acquired Group are subject to review and approval by the appropriate authorities and it is possible that these amounts will be different from the amounts accounted for in the Financial Information.

2.24 Development expenditures

Development expenditures include payments made to independent software developers under development agreements. The Acquired Group enters into agreements with third-party developers that require advance payments for game development and production services. In exchange for the advance payments, the Acquired Group receives the exclusive publishing and distribution rights to the finished game title. These agreements allow the Acquired Group to recover the payments from the developers earned on the subsequent retail sales of such software, net of any agreed upon costs. After the Acquired Group fully recover the development expenditures, the Acquired Group and the developer will share the revenue at an agreed rate. Subsequent to establishing technological feasibility of the product, the Acquired Group capitalises all development and production service payments to third-party developers as development expenditures. Significant management judgments and estimates are utilised in the assessment of when technological feasibility is established.

Amortisation of development expenditures commences when the product is commercially released and will be recorded in cost of goods sold. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Acquired Group. If that pattern cannot be determined reliably, the straight-line method shall be used.

The Acquired Group evaluates the future recoverability of capitalised development advances on a regular basis. Prior to release, recoverability is assessed based on the expected performance of the specific title. The Group utilises a number of criteria in evaluating expected product performance, including: historical performance of comparable products developed with comparable technology; market performance of comparable titles; orders for the product prior to its release; and, general market conditions. Once the product is commercially released, recoverability will primarily be assessed based on the actual title's performance. When management determines that the value of the title is unlikely to be recovered by product sales, capitalised costs are charged to cost of revenue in the period in which such determination is made.

3 Financial risk management

3.1 Financial risk factors

The Acquired Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Acquired Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Acquired Group's financial performance.

Risk management is carried out under the policies approved by the Board of Directors (the "Board"). The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Acquired Group has customers in various countries of the world and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars ("USD"). The Acquired Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limited as much as possible the amount of its foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

If Canadian Dollars had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit would have been approximately CAD166,596, CAD291,256, CAD939,304, CAD819,227 and CAD711,561 higher/lower for the years ended 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016 respectively, mainly as a result of foreign exchange gains/losses on translation of net monetary assets denominated in USD.

(ii) Interest rate risk

The Acquired Group's interest rate risk arises from loan from the ultimate holding company.

As at 31 December 2013, if the interest rate on loan from the ultimate holding company had been 100 basis points higher/lower with all other variables held constant, the Acquired Group's profit after tax for the year would have been decreased/increased by approximately CAD100,000, mainly as a result of higher/lower interest expense on the loan from the ultimate holding company with floating interest rates. There was no variable interest rate borrowing as at 31 December 2014 and 2015 and 30 September 2015 and 2016.

The Acquired Group has no significant fixed-rate interest-bearing assets and liabilities and is not exposed to fair value interest rate risk.

(iii) Price risk

The Acquired Group's investments in equity of other entities that are publicly traded are included in S&P/TSX Composite Index.

The table below summarises the impact of increases/decreases of S&P/TSX Composite Index on the Acquired Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 10% with all other variables held constant and all the Acquired Group's equity instruments moved according to the historical correlation with the index:

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
S&P/TSX Composite Index	–	40,306	–	–

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss.

(b) Credit risk

The credit risk of the Acquired Group mainly arises from cash and cash equivalents, trade and other receivables and financial assets at fair value through profit or loss. The carrying amounts of these balances represent the Acquired Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk arising from cash and bank deposits, the Acquired Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions in Canada. There has been no recent history of default in relation to these financial institutions.

Trade receivables at the end of each reporting period were due from the platforms and third-party payment vendors in cooperation with the Acquired Group. If the strategic relationship with the platforms and third-party payment vendors is terminated or scaled-back; or if the platforms and third-party payment vendors alter the co-operative arrangements or if they experience financial difficulties in paying the Acquired Group, the Acquired Group's trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Acquired Group maintains frequent communications with the platforms and third-party payment vendors to ensure effective credit control. In view of the history of cooperation with the platforms and third-party payment vendors and the sound collection history of receivables due from them, the directors of Digital Extremes believe that the credit risk inherent in the Acquired Group's outstanding trade receivable balances due from the platforms and third-party payment vendors is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of Digital Extremes believe that there is no material credit risk inherent in the Acquired Group's outstanding balance of other receivables.

(c) Liquidity risk

The liquidity risk of the Acquired Group is controlled by maintaining sufficient cash and cash equivalents, which is generated from the operating cash flows.

The table below analyses the Acquired Group's and the Digital Extremes's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Acquired Group

	Less than 1 year *CAD*	Between 1 and 2 years *CAD*	Between 2 and 5 years *CAD*	Over 5 years *CAD*
At 31 December 2013				
Trade and other payables	2,086,507	–	–	–
Derivative financial instruments	39,750	–	–	–
Loan from the ultimate holding company	10,000,000	–	–	–
	12,126,257	–	–	–
At 31 December 2014				
Trade and other payables	3,096,171	–	–	–
Derivative financial instruments	106,028	–	–	–
	3,202,199	–	–	–
At 31 December 2015				
Trade and other payables	2,164,079	–	–	–
At 30 September 2016				
Trade and other payables	6,225,571	–	–	–

Digital Extremes

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	CAD	*CAD*	*CAD*	*CAD*
At 31 December 2013				
Trade and other payables	2,060,439	–	–	–
Derivative financial instruments	39,750	–	–	–
Loan from the ultimate holding company	10,000,000	–	–	–
	12,100,189	–	–	–
At 31 December 2014				
Trade and other payables	3,048,932	–	–	–
Derivative financial instruments	106,028	–	–	–
	3,154,960	–	–	–
At 31 December 2015				
Trade and other payables	2,114,773	–	–	–
At 30 September 2016				
Trade and other payables	6,172,638	–	–	–

(d) Capital risk management

The Acquired Group's objectives when managing capital are to safeguard the Acquired Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders through the optimisation of the debt and equity balance.

In order to maintain or adjust the capital structure, the Acquired Group may adjust the amount of dividends paid to shareholders, capital returned to shareholders, new shares issued or assets sold to reduce debt.

Consistent with others in the industry, the Acquired Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

The gearing ratio at 31 December 2013 is as follows:

	As at 30 September 2013
	CAD
Total borrowings	10,000,000
Less: cash and cash equivalents	(6,083,744)
Net debt	3,916,256
Total equity	5,895,132
Total capital	9,811,388
Gearing ratio	39.9%

As at 31 December 2014, 2015 and 30 September 2016, the Acquired Group had no borrowings. Management considered the calculation of gearing ratio is irrelevant to the Acquired Group.

(e) Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Acquired Group and Digital Extremes's financial assets and liabilities that are measured at fair value as at 31 December 2013, 2014, 2015 and 30 September 2016.

Acquired Group and Digital Extremes

	Level 1	Level 2	Level 3	Total
	CAD	*CAD*	*CAD*	*CAD*
At 31 December 2013				
Liability				
Derivative financial instruments	–	39,750	–	39,750
At 31 December 2014				
Assets				
Financial assets at fair value through profit or loss	534,231	–	–	534,231
Liability				
Derivative financial instruments	–	106,028	–	106,028

There were no derivative financial instruments and financial assets at fair value through profit or loss as at 31 December 2015 and 30 September 2016.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.

– The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

– As at 31 December 2013, 2014 and 2015 and 30 September 2016, there were no transfer between the levels.

4 Critical accounting estimates and judgments

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

The Acquired 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 addressed below.

(a) Estimates of player relationship period in the Acquired Group's game development and publishing service

As described in Note 2.20, the Acquired Group recognises revenue from sales of virtual goods of on-line game ratably over the estimated average playing period of paying players for the applicable game.

Subsequent to the annual review by management in December 2014, the Acquired Group has revised the recognition of the revenue based on the mission time of the paying players from the straight-line method used before. The determination of the estimated average playing period is made based on the Acquired 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 regular basis. Future paying player usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average playing periods may change in the future.

The effect of change in the estimated average playing period as a result of new information will be accounted for as a change in accounting estimate prospectively. The recognition of revenue has been accelerated under the new method for the year ended 31 December 2015 and for the nine months ended 30 September 2016. For future period, it is impracticable to quantify the effect of change in revenue due to the change in the estimate.

(b) Income tax and government incentives

The Acquired Group is subject to income taxes and is entitled to certain tax incentives in Canada. Significant judgement is required in determining the provision for income taxes and government incentives. There are many transactions and calculations which render the ultimate determination of such amounts uncertain. The Acquired Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due, and recognises tax incentives when the realisability and collectability of tax incentives are considered reasonably assured. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities and tax credits receivable in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences can be utilised. The outcome of their actual utilisation may be different. Details of the deferred taxation are disclosed in Note 17.

(c) Employee benefits-share based payments

The Acquired Group has granted share options to its employees. The directors have used the binomial option-pricing model to determine the total fair value of the options granted, which is to be expensed over the vesting period. Significant estimate on assumptions, such as the underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by the directors in applying the binomial option-pricing model.

(d) Fair value of shares issued to employees

The Acquired Group has awarded shares to two employees. The directors have used the discounted cash flow method to determine the total fair value of these shares awarded. Significant judgements on key assumptions, such as discount rate and projection of future performance are required to be made by the directors.

(e) Provision for impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Acquired Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of doubtful debt expense or write-back of provision for trade receivables in the period in which such estimate has been changed.

(f) Recoverability of development expenditures

Significant management judgments and estimates are utilised in assessing the recoverability of capitalised development expenditures. In evaluating the recoverability of capitalised costs, the assessment of expected product performance utilises forecasted sales amounts and estimates additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilised in the initial recoverability analysis, the net realisable value may be lower than originally estimated, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if management makes different judgments or utilises different estimates in evaluating these qualitative factors.

5 Revenue and segment information

The Acquired Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the directors who are responsible for allocating resources, assessing performance of the operating segment and making strategic decisions. As a result of this evaluation, the Acquired Group determined that it has operating segments as follows:

– Game development and publishing

– Work-for-hire

– Sales of merchandise goods

The directors assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses and general and administrative expenses are not included in the measure of the segments' performance which is used by the directors as a basis for the purpose of resource allocation and assessment of segment performance. Other income, other gains/(losses), net and income tax expense are also not allocated to individual operating segments.

The revenue from external customers reported to the directors are measured as segment revenue, which is the gross revenue derived from the customers in each segment. Cost of revenue primarily comprises merchant revenue share, salary and staff benefits, depreciation and amortisation, and others.

Other information, together with the segment information provided to the directors, is measured in a manner consistent with that applied in this Financial Information. There were no separate segment assets and segment liabilities information provided to the directors, as the directors do not use this information to allocate resources to or evaluate the performance of the operating segments.

The segment information provided to the Digital Extremes's directors of the reportable segments for the Relevant Periods is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Game development and publishing					
Segment revenue	23,477,508	65,454,712	114,566,414	74,582,993	114,298,233
Segment cost	(14,194,137)	(29,698,943)	(41,613,637)	(28,411,127)	(39,648,667)
Amortisation and impairment of development expenditures	–	–	(7,562,764)	(5,509,093)	(392,871)
Gross profit	9,283,371	35,755,769	65,390,013	40,662,773	74,256,695
Work for hire					
Segment revenue	5,728,058	229,727	195,320	94,358	136,979
Segment cost	(3,935,340)	–	–	–	–
Gross profit	1,792,718	229,727	195,320	94,358	136,979
Sales of merchandise goods					
Segment revenue	–	140,626	318,665	239,390	240,028
Segment cost	–	(67,134)	(166,949)	(121,490)	(187,725)
Gross profit	–	73,492	151,716	117,900	52,303

The reconciliation of gross profit to profit before income tax during the Relevant Periods is shown in the consolidated statement of comprehensive income.

For game development and publishing, there is no concentration risk as the Acquired Group has a large number of players and there is no single players accounting for more than 10% of the Acquired Group's total revenue for the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016.

For work for hire, details of the customers accounting for 10% or more of total revenue are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Customer A	3,287,241	N/A	N/A	N/A	N/A

As of 31 December 2013, 2014 and 2015 and 30 September 2016, the Acquired Group's non-current assets other than deferred income tax and financial instruments were mainly located in Canada and the United States of America (the "US").

6 Other income

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Grant from MEDTE *(Note 18(iii))*	1,350,355	572,324	368,434	368,434	–

The Acquired Group developed and refined a game engine that lead to long term benefits to the Province of Ontario through the investment of the Acquired Group's facility in the Province of Ontario, and through the creation and/or retention of new job opportunities. The Acquired Group receives government grant income from the Ministry of Economic Development, Trade and Employment ("MEDTE").

7 Expenses by nature

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Auditor's remuneration	21,950	22,500	30,000	22,500	97,500
Cost of merchandise goods sold	–	67,134	166,949	121,490	187,725
Employee benefit expenses *(Note 9)*	12,668,716	14,249,358	14,898,530	12,068,887	12,320,511
Amortisation and impairment of development expenditures *(Note 16)*	–	–	7,562,764	5,509,093	392,871
Merchant revenue share *(Note a)*	4,623,028	16,588,060	31,011,669	19,904,130	30,937,534
Promotion and advertising expenses	2,197,623	3,984,060	3,439,092	2,546,210	1,581,000
Operating lease rentals in respect of office building	658,890	827,677	1,104,996	829,285	889,679
Distribution and selling expenses	516,318	869,639	1,481,995	1,136,113	807,990
Depreciation and amortisation expenses *(Note 14 & 15)*	718,112	663,151	776,599	639,373	673,860
Office expenses	385,497	325,504	157,809	98,437	240,122
Others	1,514,869	1,635,250	1,806,262	1,387,413	1,626,905
	23,305,003	39,232,333	62,436,665	44,262,931	49,755,697

Note a: Merchant revenue share represents revenue shared by the online distributors and payment operators based on per-determined percentages of gross revenue received from the game players through the platforms operated by the online distributors and payment operators.

8 Other (losses)/gains, net

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Exchange gain/(loss), net	121,312	243,502	1,865,715	1,227,757	(1,567,868)
(Loss)/gain on disposal of property, plant and equipment	(23,419)	10,598	150	150	–
Loss on disposal of intangible assets	(25,866)	–	–	–	–
Realised gain on financial assets at fair value through profit or loss	–	33,517	40,506	40,506	–
Unrealised gain/(loss) on financial assets at fair value through profit or loss	–	27,821	(27,821)	(27,821)	–
Unrealised loss on derivative financial instruments	(39,750)	(66,278)	–	–	–
Gain on disposal of a subsidiary *(Note 28)*	–	25,837	–	–	–
Others	–	–	10,950	10,950	(225)
	32,277	274,997	1,889,500	1,251,542	(1,568,093)

9 Employee benefit expenses

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Wages and salaries	16,553,314	16,763,049	18,046,097	14,194,560	14,176,076
Tax credits accrued	(6,729,557)	(5,264,496)	(6,388,367)	(4,803,398)	(4,965,333)
Retirement costs – defined contribution plans	285,970	338,869	424,188	333,094	393,031
Employees' benefits	2,083,125	2,411,936	2,816,612	2,344,631	2,716,737
Share based payment expenses	475,864	–	–	–	–
	12,668,716	14,249,358	14,898,530	12,068,887	12,320,511

Employee trust

Digital Extremes Share Ownership Trust (the "Employee Trust") was set up on 12 July 2013 to hold the class D Common Shares for the benefit of the beneficiaries and to distribute such income and capital to the beneficiaries in accordance with the Employee Trust Deed and the pro rata share of Trust Units held by the beneficiaries. The beneficiaries of the Employee Trust are the selected employees of the Acquired Group and the allocation of the Trust Units is determined by the trustee of the Employee Trust.

Under the Employee Trust, the beneficiaries are only entitled to the distribution of income in the trust but not the shares held by the Trust. Any Trust Units granted to a beneficiary under the Employee Trust shall expire and terminate immediately upon such beneficiary ceasing to be an employee of Digital Extremes.

The common shares held by Employee Trust were acquired by Multi Dynamic Games on 20 May 2016.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Acquired Group included 1, Nil, 1, 1, 1 director for the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016 respectively. His emoluments are reflected in the analysis presented in Note 34(a). The emoluments paid to the remaining individuals for the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016 are as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Salary, allowances and benefits	752,113	948,721	837,549	616,020	621,875
Retirement schemes contributions	9,425	12,128	9,920	9,920	10,177
Bonus	1,100,000	2,550,000	915,600	915,600	–
	1,861,538	3,510,849	1,763,069	1,541,540	632,052

The number of highest paid individuals whose emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
				(Unaudited)	
Up to HK$1,000,000					
Equivalent to CAD133,000, CAD141,000 and CAD164,000 for the year ended 31 December 2013, 2014 and 2015 and CAD162,000 and CAD167,000 for the nine months ended 30 September 2015 and 2016	–	–	–	–	3
HK$1,000,001 – HK$1,500,000					
Equivalent to CAD133,001 – CAD200,000, CAD141,001 – CAD212,000, CAD164,001 – CAD246,000 for the year ended 31 December 2013, 2014, 2015 and CAD162,001 – CAD242,000 and CAD167,001 – CAD250,000 for the nine months ended 30 September 2015 and 2016	–	–	–	–	1
HK$1,500,001 – HK$2,000,000					
Equivalent to CAD200,001 – CAD266,000, CAD212,001 – CAD282,000, CAD246,001 – CAD328,000 for the year ended 31 December 2013, 2014, 2015 and CAD242,001 – CAD323,000 and CAD250,001 – CAD334,000 for the nine months ended 30 September 2015 and 2016	–	–	–	1	–
HK$2,000,001 – HK$2,500,000					
Equivalent to CAD266,001 – CAD333,000, CAD282,001 – CAD353,000, CAD328,001 – CAD410,000 for the year ended 31 December 2013, 2014, 2015 and CAD323,001 – CAD404,000 and CAD334,001 – CAD417,000 for the nine months ended 30 September 2015 and 2016	–	–	3	2	–
Over HK$2,500,000					
Equivalent to CAD333,001, CAD353,001 and CAD410,001 for the year ended 31 December 2013, 2014 and 2015 and CAD404,001 and CAD417,001 for the nine months ended 30 September 2015 and 2016	4	5	1	1	–
	4	5	4	4	4

10 Finance (costs)/income – net

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Finance income					
Interest income	64,025	128,581	200,127	174,528	67,509
Finance costs					
Interest expense *(Note 32)*	(239,037)	(148,511)	(150)	(162)	(106)
Finance (costs)/income, net	(175,012)	(19,930)	199,977	174,366	67,403

11 Income tax expense

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Current income tax					
– Canadian corporate income tax	1,914,703	7,325,488	13,678,259	7,666,102	17,362,666
Deferred income tax *(Note 17)*	(102,528)	(51,242)	623,338	599,331	(539,053)
	1,812,175	7,274,246	14,301,597	8,265,433	16,823,613

The tax on the Acquired Group's profit before income tax differs from the theoretical amount that would arise using the tax rate in Canada, in which the Acquired Group's major operation is located, as follows:

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Profit before income tax	7,108,183	27,420,123	55,101,645	32,448,152	63,418,853
Tax calculated at tax rate in Canada of 26.5%	1,883,668	7,266,333	14,601,936	8,598,760	16,805,996
Effect of tax concession *(Note d)*	(51,423)	–	–	–	–
Expenses not deductible for tax purposes	68,237	7,913	11,630	9,937	17,617
Over-provision in prior year	–	–	(308,087)	(308,087)	–
Others	(88,307)	–	(3,882)	(35,177)	–
Income tax expense	1,812,175	7,274,246	14,301,597	8,265,433	16,823,613

(a) The Acquired Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which the Acquired Group is domiciled and operates.

(b) Hong Kong profits tax has not been provided as the Acquired Group did not generate any assessable profits in Hong Kong for each of the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016.

(c) Under the relevant income tax law in Canada, the Acquired Group is subject to corporate income tax at a statutory rate of 26.5% for each of the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2015 and 2016 on their respective taxable income. For the income derived from the US, it is not exposed to material income tax exposure.

(d) The Acquired Group is subject to tax credit claim for small businesses and from Scientific Research and Experimental Development Investment which are credited to the consolidated statement of comprehensive income during the Relevant Periods in which they are incurred.

12 Dividend

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Final dividend	10,000,000	–	36,744,209	36,167,158	49,799,536

Pursuant to a resolution of the sole director on 11 July 2013, a dividend of CAD10,000,000 was declared to the equity owner.

On 20 May 2015 and 15 July 2015, the board of directors passed resolutions to declare CAD17,000,000 and 19,167,158 to the equity owners respectively. Digital Extremes further accrued CAD577,051 in relation to the dividend to class B common shares approved by the board of directors before year ended 31 December 2015.

On 20 May 2016 and 15 June 2016, the board of directors passed resolutions to declare CAD36,699,221 and CAD11,796,712 to the equity owners respectively. Digital Extremes further accrued CAD1,303,603 for the dividend to class B common shares approved by the board of directors during the nine months ended 30 September 2016.

The rate for the dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

13 Reserves – Digital Extremes

	Retained earnings *CAD*	Share based compensation reserve *CAD*	Total reserves *CAD*
Balance at 1 January 2013	10,148,638	–	10,148,638
Comprehensive income			
Profit for the year	5,296,008	–	5,296,008
Total comprehensive income	5,296,008	–	5,296,008
Total contributions by and distributions to owners of Digital Extremes recognized directly in reserves			
Dividend	(10,000,000)	–	(10,000,000)
Share based payment expenses *(Note 23)*	–	475,864	475,864
Total transactions with owners	(10,000,000)	475,864	(9,524,136)
Balance at 31 December 2013	5,444,646	475,864	5,920,510
Balance at 1 January 2014	5,444,646	475,864	5,920,510
Comprehensive income			
Profit for the year	20,148,637	–	20,148,637
Total comprehensive income	20,148,637	–	20,148,637
Balance at 31 December 2014	25,593,283	475,864	26,069,147

	Retained earnings	Share based compensation reserve	Total reserves
	CAD	*CAD*	*CAD*
Balance at 1 January 2015	25,593,283	475,864	26,069,147
Comprehensive income			
Profit for the year	40,779,722	–	40,779,722
Total comprehensive income	40,779,722	–	40,779,722
Total contributions by and distributions to owners of Digital Extremes recognised directly in reserves			
Dividend	(36,744,209)	–	(36,744,209)
Total transactions with owners	(36,744,209)	–	(36,744,209)
Balance at 31 December 2015	29,628,796	475,864	30,104,660
Balance at 1 January 2015	25,593,283	475,864	26,069,147
Comprehensive income			
Profit for the period	24,178,493	–	24,178,493
Total comprehensive income	24,178,493	–	24,178,493
Total contributions by and distributions to owners of Digital Extremes recognised directly in reserves			
Dividend	(36,167,158)	–	(36,167,158)
Total transactions with owners	(36,167,158)	–	(36,167,158)
Balance at 30 September 2015 (Unaudited)	13,604,618	475,864	14,080,482

	Retained earnings *CAD*	Share based compensation reserve *CAD*	Total reserves *CAD*
Balance at 1 January 2016	29,628,796	475,864	30,104,660
Comprehensive income			
Profit for the period	46,586,981	–	46,586,981
Total comprehensive income	46,586,981	–	46,586,981
Total contributions by and distributions to owners of Digital Extremes recognised directly in reserves			
Dividend	(49,799,536)	–	(49,799,536)
Total transactions with owners	(49,799,536)	–	(49,799,536)
Balance at 30 September 2016	26,416,241	475,864	26,892,105

14 Property, plant and equipment

Acquired Group

	Furniture & fixtures *CAD*	Computer hardware *CAD*	Leasehold improvements *CAD*	Total *CAD*
At 1 January 2013				
Cost	544,912	931,425	1,449,318	2,925,655
Accumulated depreciation	(68,869)	(630,984)	(147,116)	(846,969)
Net book amount	476,043	300,441	1,302,202	2,078,686
Year ended 31 December 2013				
Opening net book amount	476,043	300,441	1,302,202	2,078,686
Additions	29,509	303,274	11,331	344,114
Government grant claimed against addition/cost *(Note 18(iii))*	(2,874)	(36,942)	(11,331)	(51,147)
Disposals	(11,802)	–	(13,477)	(25,279)
Depreciation	(64,838)	(226,542)	(152,457)	(443,837)
Closing net book amount	426,038	340,231	1,136,268	1,902,537
At 31 December 2013				
Cost	559,745	1,197,757	1,435,841	3,193,343
Accumulated depreciation	(133,707)	(857,526)	(299,573)	(1,290,806)
Net book amount	426,038	340,231	1,136,268	1,902,537
Year ended 31 December 2014				
Opening net book amount	426,038	340,231	1,136,268	1,902,537
Additions	69,116	629,149	401,528	1,099,793
Government grant claimed against addition/cost *(Note 18(iii))*	(553)	(4,580)	–	(5,133)
Disposals	(3,261)	(788)	–	(4,049)
Depreciation	(57,723)	(429,439)	(132,286)	(619,448)
Exchange realignment	817	457	402	1,676
Closing net book amount	434,434	535,030	1,405,912	2,375,376

	Furniture & fixtures *CAD*	Computer hardware *CAD*	Leasehold improvements *CAD*	Total *CAD*
At 31 December 2014				
Cost	615,588	1,649,827	1,839,916	4,105,331
Accumulated depreciation	(181,154)	(1,114,797)	(434,004)	(1,729,955)
Net book amount	434,434	535,030	1,405,912	2,375,376
Year ended 31 December 2015				
Opening net book amount	434,434	535,030	1,405,912	2,375,376
Additions	483,914	357,408	408,129	1,249,451
Government grant claimed against additions/cost *(Note 18(iii))*	(14,999)	(11,620)	(27,255)	(53,874)
Depreciation	(66,704)	(479,694)	(167,658)	(714,056)
Exchange realignment	8,096	4,115	5,546	17,757
Closing net book amount	844,741	405,239	1,624,674	2,874,654
At 31 December 2015				
Cost	1,092,961	1,996,424	2,227,282	5,316,667
Accumulated depreciation	(248,220)	(1,591,185)	(602,608)	(2,442,013)
Net book amount	844,741	405,239	1,624,674	2,874,654
Nine months ended 30 September 2015 (unaudited)				
Opening net book amount	434,434	535,030	1,405,912	2,375,376
Additions	252,890	263,127	408,129	924,146
Government grant claimed against additions/cost *(Note 18(iii))*	(14,999)	(11,620)	(27,255)	(53,874)
Depreciation	(59,406)	(371,676)	(142,900)	(573,982)
Exchange realignment	5,447	3,490	4,436	13,373
Closing net book amount	618,366	418,351	1,648,322	2,685,039
At 30 September 2015 (unaudited)				
Cost	859,117	1,901,033	2,225,799	4,985,949
Accumulated depreciation	(240,751)	(1,482,682)	(577,477)	(2,300,910)
Net book amount	618,366	418,351	1,648,322	2,685,039

	Furniture & fixtures *CAD*	Computer hardware *CAD*	Leasehold improvements *CAD*	Total *CAD*
Nine months ended 30 September 2016				
Opening net book amount	844,741	405,239	1,624,674	2,874,654
Additions	53,192	239,234	–	292,426
Depreciation	(87,981)	(341,792)	(163,481)	(593,254)
Exchange realignment	(4,136)	(767)	(1,508)	(6,411)
Closing net book amount	805,816	301,914	1,459,685	2,567,415
At 30 September 2016				
Cost	1,141,581	2,215,812	2,224,877	5,582,270
Accumulated depreciation	(335,765)	(1,913,898)	(765,192)	(3,014,855)
Net book amount	805,816	301,914	1,459,685	2,567,415

Digital Extremes

	Furniture & fixtures *CAD*	Computer hardware *CAD*	Leasehold improvements *CAD*	Total *CAD*
At 1 January 2013				
Cost	544,912	931,425	1,449,318	2,925,655
Accumulated depreciation	(68,869)	(630,984)	(147,116)	(846,969)
Net book amount	476,043	300,441	1,302,202	2,078,686
Year ended 31 December 2013				
Opening net book amount	476,043	300,441	1,302,202	2,078,686
Additions	29,509	303,274	11,331	344,114
Government grant claimed against addition/cost *(Note 18(iii))*	(2,874)	(36,942)	(11,331)	(51,147)
Disposals	(11,802)	–	(13,477)	(25,279)
Depreciation	(64,838)	(226,542)	(152,457)	(443,837)
Closing net book amount	426,038	340,231	1,136,268	1,902,537

	Furniture & fixtures	Computer hardware	Leasehold improvements	Total
	CAD	*CAD*	*CAD*	*CAD*
At 1 December 2013				
Cost	559,745	1,197,757	1,435,841	3,193,343
Accumulated depreciation	(133,707)	(857,526)	(299,573)	(1,290,806)
Net book amount	426,038	340,231	1,136,268	1,902,537
Year ended 31 December 2014				
Opening net book amount	426,038	340,231	1,136,268	1,902,537
Additions	45,184	600,746	371,513	1,017,443
Government grant claimed against addition/cost *(Note 18(iii))*	(553)	(4,580)	–	(5,133)
Disposals	(3,261)	(788)	–	(4,049)
Depreciation	(57,517)	(425,211)	(130,497)	(613,225)
Closing net book amount	409,891	510,398	1,377,284	2,297,573
At 31 December 2014				
Cost	590,839	1,620,967	1,809,499	4,021,305
Accumulated depreciation	(180,948)	(1,110,569)	(432,215)	(1,723,732)
Net book amount	409,891	510,398	1,377,284	2,297,573
Year ended 31 December 2015				
Opening net book amount	409,891	510,398	1,377,284	2,297,573
Additions	429,613	356,257	398,992	1,184,862
Government grant claimed against additions/cost *(Note 18(iii))*	(14,999)	(11,620)	(27,255)	(53,874)
Depreciation	(58,277)	(463,118)	(152,008)	(673,403)
Closing net book amount	766,228	391,917	1,597,013	2,755,158
At 31 December 2015				
Cost	1,005,451	1,960,844	2,181,236	5,147,531
Accumulated depreciation	(239,223)	(1,568,927)	(584,223)	(2,392,373)
Net book amount	766,228	391,917	1,597,013	2,755,158

	Furniture & fixtures	Computer hardware	Leasehold improvements	Total
	CAD	*CAD*	*CAD*	*CAD*
Nine months ended 30 September 2015 (unaudited)				
Opening net book amount	409,891	510,398	1,377,284	2,297,573
Additions	198,589	262,010	398,992	859,591
Government grant claimed against additions/cost *(Note 18(iii))*	(14,999)	(11,620)	(27,255)	(53,874)
Depreciation	(54,625)	(362,272)	(134,022)	(550,919)
Closing net book amount	538,856	398,516	1,614,999	2,552,371
At 30 September 2015 (unaudited)				
Cost	774,427	1,866,598	2,181,236	4,822,261
Accumulated depreciation	(235,571)	(1,468,082)	(566,237)	(2,269,890)
Net book amount	538,856	398,516	1,614,999	2,552,371
Nine months ended 30 September 2016				
Opening net book amount	766,228	391,917	1,597,013	2,755,158
Additions	53,192	238,023	–	291,215
Depreciation	(81,794)	(329,570)	(151,992)	(563,356)
Closing net book amount	737,626	300,370	1,445,021	2,483,017
At 30 September 2016				
Cost	1,058,643	2,180,880	2,181,236	5,420,759
Accumulated depreciation	(321,017)	(1,880,510)	(736,215)	(2,937,742)
Net book amount	737,626	300,370	1,445,021	2,483,017

15 Intangible assets – Acquired Group and Digital Extremes

	Computer software *CAD*
At 1 January 2013	
Cost	782,283
Accumulated amortisation	(560,918)
Net book amount	221,365
Year ended 31 December 2013	
Opening net book amount	221,365
Additions	154,938
Government grant claimed against addition/cost *(Note 18(iii))*	(48,455)
Disposal	(25,866)
Amortisation	(274,275)
Closing net book amount	27,707
At 31 December 2013	
Cost	862,900
Accumulated amortisation	(835,193)
Net book amount	27,707
Year ended 31 December 2014	
Opening net book amount	27,707
Additions	62,935
Government grant claimed against addition/cost *(Note 18(iii))*	(45,144)
Amortisation	(43,703)
Closing net book amount	1,795
At 31 December 2014	
Cost	431,795
Accumulated amortisation	(430,000)
Net book amount	1,795

	Computer software *CAD*
Year ended 31 December 2015	
Opening net book amount	1,795
Additions	81,392
Government grant claimed against additions/cost *(Note 18(iii))*	(5,135)
Amortisation	(62,543)
Closing net book amount	15,509
At 31 December 2015	
Cost	480,484
Accumulated amortisation	(464,975)
Net book amount	15,509
Nine months ended 30 September 2015 (unaudited)	
Opening net book amount	1,795
Additions	80,464
Government grant claimed against additions/cost *(Note 18(iii))*	(5,135)
Amortisation	(65,391)
Closing net book amount	11,733
At 30 September 2015 (unaudited)	
Cost	479,555
Accumulated amortisation	(467,822)
Net book amount	11,733
Nine months ended 30 September 2016	
Opening net book amount	15,509
Additions	137,464
Amortisation	(80,606)
Closing net book amount	72,367
At 30 September 2016	
Cost	617,948
Accumulated amortisation	(545,581)
Net book amount	72,367

16 Development expenditures – Acquired Group and Digital Extremes

Development expenditures mainly represent payment to an independent video game developer for video game development. Digital Extremes entered into a written agreement in December 2014 to provide this independent video game developer with advance payments for development of a video game on both PC and Console platforms (the "Game") in exchange for exclusive publishing rights to the Game.

As at 31 December 2014, a total of USD1,940,000 (equivalent to CAD2,164,064) has been advanced, with the remaining USD4,860,000 (equivalent to CAD5,975,751) has been advanced during the year ended 31 December 2015. No further advances are contractually required.

During the year ended 31 December 2015, Digital Extremes determined that the market's negative reception and poor sales performance of the Game to date constituted an impairment indicator. The recoverable amount of CAD577,051 as at 31 December 2015 was determined by estimating the value in use which is calculated based on the expected economic income inflow in the coming year.

The recoverable amount of payment to this independent video game developer was further assessed on 30 September 2016 and the carrying amount net of accumulated amortisation and impairment was CAD184,180. The additional payment of CAD260,780 during the nine months ended 30 September 2016 represented advance for another game development.

The movements of development expenditures during the Relevant Periods are as follows:

	Development expenditures *CAD*
At 1 January 2013 and 31 December 2013	
Cost	–
Accumulated amortisation and impairment	–
Net book amount	–
Year ended 31 December 2014	
Opening net book amount	–
Additions	2,164,064
Closing net book amount	2,164,064

	Development expenditures *CAD*
At 31 December 2014	
Cost	2,164,064
Accumulated amortisation and impairment	–
Net book amount	2,164,064
Year ended 31 December 2015	
Opening net book amount	2,164,064
Additions	5,975,751
Amortisation and impairment	(7,562,764)
Closing net book amount	577,051
At 31 December 2015	
Cost	8,139,815
Accumulated amortisation and impairment	(7,562,764)
Net book amount	577,051
Nine months ended 30 September 2015 (unaudited)	
Opening net book amount	2,164,064
Additions	5,153,880
Amortisation and impairment	(5,509,093)
Closing net book amount	1,808,851
At 30 September 2015 (unaudited)	
Cost	7,317,944
Accumulated amortisation and impairment	(5,509,093)
Net book amount	1,808,851

	Development expenditures
	CAD
Nine months ended 30 September 2016	
Opening net book amount	577,051
Additions	260,780
Amortisation and impairment	(392,871)
Closing net book amount	444,960
At 30 September 2016	
Cost	8,400,595
Accumulated amortisation and impairment	(7,955,635)
Net book amount	444,960

17 Deferred income tax – Acquired Group and Digital Extremes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The analysis of deferred income tax assets and liabilities after offsetting is as follows:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Deferred income tax assets	617,664	726,348	528,611	548,387
Deferred income tax liabilities	(261,508)	(318,950)	(744,551)	(225,274)
Net deferred income tax assets/(liabilities)	356,156	407,398	(215,940)	323,113

The movement on net deferred income tax account is as follows:

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
At beginning of the year/period	253,628	356,156	407,398	(215,940)
Credited/(charged) to the statements of comprehensive income *(Note 11)*	102,528	51,242	(623,338)	539,053
At ending of the year/period	356,156	407,398	(215,940)	323,113

The movements in deferred tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets	**Accrued expenses**
	CAD
At 1 January 2013	439,855
Credited to the statement of comprehensive income	177,809
At 31 December 2013	617,664
Credited to the statement of comprehensive income	108,684
At 31 December 2014	726,348
Charged to the statement of comprehensive income	(197,737)
At 31 December 2015	528,611
Credited to the statement of comprehensive income	19,776
At 30 September 2016	548,387

Deferred income tax liabilities	Accelerated depreciation on properties, plant and equipment
	CAD
At 1 January 2013	186,227
Charged to the statement of comprehensive income	75,281
At 31 December 2013	261,508
Charged to the statement of comprehensive income	57,442
At 31 December 2014	318,950
Charged to the statement of comprehensive income	425,601
At 31 December 2015	744,551
Credited to the statement of comprehensive income	(519,277)
At 30 September 2016	225,274

18 Trade and other receivables

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Trade receivables *(Note (i))*	3,836,517	8,271,970	16,638,295	14,235,966
Prepayments	127,163	153,801	195,667	266,976
Accrued grant receivable from MEDTE *(Note (iii))*	596,318	331,075	49,825	–
Commodity tax receivable	18,167	53,368	9,818	30,822
Others	128,987	220,666	135,049	16,686
	4,707,152	9,030,880	17,028,654	14,550,450

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Trade receivables *(Note (i))*	3,836,517	8,266,613	16,635,751	14,235,165
Prepayments	127,163	139,809	184,614	263,887
Accrued grant receivable from MEDTE *(Note (iii))*	596,318	331,075	49,825	–
Commodity tax receivable	18,167	53,342	9,818	30,822
Others	128,974	166,175	117,442	–
	4,707,139	8,957,014	16,997,450	14,529,874

The ageing analysis of trade receivables of the Acquired Group and Digital Extremes based on the time of the initial recognition of receivables is as follows:

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
1 – 30 days	3,771,237	6,452,573	15,116,581	14,186,014
31 – 60 days	59,240	1,296,145	551,302	2
61 – 90 days	1,215	478,016	864,915	18,688
Over 90 days	4,825	45,236	105,497	31,262
	3,836,517	8,271,970	16,638,295	14,235,966

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
1 – 30 days	3,771,237	6,447,216	15,114,037	14,185,213
31 – 60 days	59,240	1,296,145	551,302	2
61 – 90 days	1,215	478,016	864,915	18,688
Over 90 days	4,825	45,236	105,497	31,262
	3,836,517	8,266,613	16,635,751	14,235,165

The maximum exposure to credit risk at each balance sheet date is the carrying amount of each class of receivable mentioned above.

Notes:

(i) Trade receivables are mainly denominated in USD and their carrying amounts approximated their fair values as at the balance sheet date.

The Acquired Group has established different credit policies for customers. The general credit periods granted to customers are ranging from 30 to 90 days.

(ii) As of 31 December 2013, 2014 and 2015 and 30 September 2016, trade receivables of CAD54,653, CAD1,765,708, CAD1,503,744 and CAD860,292, respectively, were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables base on due date is as follows:

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
1 – 30 days	26,270	1,260,489	549,639	829,852
31 – 60 days	15,325	462,317	860,045	1,024
61 – 90 days	8,549	12,463	63,786	699
Over 90 days	4,509	30,439	30,274	28,717
	54,653	1,765,708	1,503,744	860,292

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
1 – 30 days	26,270	1,260,489	549,639	829,852
31 – 60 days	15,325	462,317	860,045	1,024
61 – 90 days	8,549	12,463	63,786	699
Over 90 days	4,509	30,439	30,274	28,717
	54,653	1,765,708	1,503,744	860,292

(iii) The grant represents funding from MEDTE for the development of 3D computer software. Grant from MEDTE based on the actual disbursements incurred for the development of 3D computer software will be received after Digital Extremes has satisfied the criteria specified in the grant agreement. The disbursements incurred for the development of 3D computer software were not capitalised due to the short development and usage period. This grant, including any future disbursements up to the maximum of CAD2,500,000, is repayable in full if the project progress, spending or employment level targets and covenants are not met. The first claim from MEDTE was received in February 2013. After receiving the first claim, Digital Extremes recognises the grant on an accrual basis upon the expenditures for the development of the 3D computer software being incurred.

The movement of accrued grant receivable from MEDTE during the Relevant Periods is as follows:

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Opening balance	(500,000)	596,318	331,075	49,825
Credited to other income *(Note 6)*	1,350,355	572,324	368,434	–
Credited to cost of property, plant and equipment *(Note 14)*	51,147	5,133	53,874	–
Credited to cost of intangible assets *(Note 15)*	48,455	45,144	5,135	–
Cash received from MEDTE during the year/period	(353,639)	(887,844)	(708,693)	(49,825)
Closing balance	596,318	331,075	49,825	–

19 Inventories – Acquired Group and Digital Extremes

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	CAD	*CAD*	*CAD*	*CAD*
Merchandise held for sale	98,106	59,602	333,640	412,797

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	CAD	*CAD*	*CAD*	*CAD*
Carrying amount of merchandise sold	–	67,134	166,949	187,725

20 Financial assets at fair value through profit or loss – Acquired Group and Digital Extremes

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	CAD	*CAD*	*CAD*	*CAD*
Listed equity securities in Canada	–	534,231	–	–

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other gains/(losses), net" in the consolidated statement of comprehensive income *(Note 8)*.

The fair value of all equity securities is based on their current bid prices in an active market.

All financial assets at fair value through profit or loss were sold in February 2015.

21 Cash and cash equivalents

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Cash and bank balances	6,083,744	16,814,104	17,541,279	19,841,701

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Cash and bank balances	6,083,367	16,785,773	17,485,051	19,789,528

The fair value of the Acquired Group's and the Digital Extremes's cash and cash equivalents approximate the carrying amounts of deposits.

The above balances are denominated in currencies as follows:

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
CAD	3,650,364	13,531,502	10,787,920	4,961,988
USD	1,531,274	2,626,409	5,799,916	14,055,879
Euros ("EUR")	530,217	639,454	937,031	819,683
Others	371,889	16,739	16,412	4,151
	6,083,744	16,814,104	17,541,279	19,841,701

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
CAD	3,649,987	13,531,502	10,787,920	4,961,988
USD	1,531,274	2,598,079	5,743,688	14,003,706
EUR	530,217	639,454	937,031	819,683
Others	371,889	16,738	16,412	4,151
	6,083,367	16,785,773	17,485,051	19,789,528

22 Share capital – Acquired Group and Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Authorised at 31 December 2013 and 2014				
Unlimited common shares, voting				
Unlimited class B special shares, 6% non-cumulative, redemption value of $1,500 per share				
Unlimited class A common shares, voting				
Unlimited class B common shares, voting				
Unlimited class C common shares, voting				
Unlimited class D common shares, voting				

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	CAD	*CAD*	*CAD*	*CAD*
Authorised at 31 December 2015 and 30 September 2016				
Unlimited common shares, voting				
Unlimited class B special shares, 6% non-cumulative, redemption value of $1,500 per share				
Issued				
20,000,000 common shares, voting	–	–	200	200
10,000 class B special shares *(Note 23)*	100	100	100	100
13,400,000 class A common shares, voting	134	134	–	–
1,400,000 class B common shares, voting	14	14	–	–
2,020,000 class C common shares, voting	20	20	–	–
3,180,000 class D common shares, voting	32	32	–	–
	300	300	300	300

On 12 July 2013, Digital Extremes entered into a share exchange agreement with 2375249 Ontario Ltd pursuant to which Digital Extremes issued 10,000 class B special shares to Mr. James Schmalz for CAD100. As a closing condition to the share exchange agreement, Digital Extremes repurchased 10,000,000 common shares previously held by 2375249 Ontario Ltd at a consideration of CAD 100 which is wholly owned by Mr. James Schmalz, one of the founders of Digital Extremes. The repurchased common shares were cancelled immediately and the share capital of Digital Extremes was reduced by CAD100.

The key terms of the class B special shares are summarised as follows:

(a) Dividend rights

The holder of the class B special shares is entitled to receive, as and when declared by the directors from time to time, non-cumulative annual dividends not to exceed 6% of the Class B Redemption amount out of moneys of Digital Extremes properly applicable to the payment of dividends. It is acknowledged that the directors may declare and pay dividends on the class B special shares to the exclusion of the other class of shares.

(b) Voting rights

The holder of the class B special shares is not entitled to receive notice of or to attend any meeting of the shareholders of Digital Extremes or to vote at any such meeting.

(c) Redemption feature

The redemption amount of the class B special shares is CAD1,500 per share. No holder of the class B special shares is entitled to redeem such shares without prior consent of the board of directors.

(d) Liquidation preference

In the event of the liquidation, dissolution or winding up of Digital Extremes, whether voluntary or involuntary, or any other distribution of the assets of Digital Extremes among its shareholders for the purpose of winding up its affairs, the holder of the class B special shares is entitled to receive the class B redemption amount before any distribution of any assets of Digital Extremes to the holders of any class of shares of Digital Extremes. Upon full payment of the class B redemption amount, the class B special shares is not entitled to participate further in the distribution of assets of Digital Extremes.

According to the terms of the class B special shares, the distribution of dividends is at the discretion of the board of directors and the board of directors' consent is required for the redemption of the class B special shares. Therefore, the class B special shares have been accounted for as equity.

On 12 July 2013, Digital Extremes established unlimited number of class A common shares, class B common shares, class C common shares and class D common shares which are collectively known as Common Shares. All classes of Common Shares are ranked *pari passu.*

On the date of establishment of the Common Shares, Mr. James Schmalz, Dr. Michael Schmalz, Mr. Steve Sinclair and Digital Extremes Share Ownership Trust acquired 13,400,000 class A common shares, 1,400,000 class B common shares, 2,020,000 class C common shares and 3,180,000 class D common shares in Digital Extremes for a cash consideration of CAD134, CAD14, CAD20 and CAD32 respectively. The shares held by Mr. James Schmalz, Dr. Michael Schmalz and Mr. Steve Sinclair were subsequently transferred to 2375249 Ontario Ltd, 2375250 Ontario Ltd, 2377289 Ontario Ltd which are wholly owned by Mr. James Schmalz, Dr. Michael Schmalz and Mr. Steve Sinclair respectively.

The directors of Digital Extremes appointed an independent valuer to estimate the fair value of Digital Extremes as at the date of change in shareholder structure. The fair value of Digital Extremes was determined using discounted cash flow method.

The key assumptions used in the valuation of Digital Extremes include projections of future performance and assumptions set out in the table below:

	12 July 2013
Minority discount	23.3%
Marketability discount	16.1%
Long-term growth rate	3%
Discount rate	18.8%

The fair value of Digital Extremes as at 12 July 2013 is CAD15,000,000 which equals to the fair value of the class B special shares issued to Mr. James Schmalz. As a result, the fair value shared by class A common shares, class B common shares, class C common shares and class D common shares issued on 12 July 2013 is zero.

On 21 July 2015, Digital Extremes amalgamated with its shareholders, 2375250 Ontario Ltd. and 2377289 Ontario Ltd. Digital Extremes then cancelled the Class A, Class B, Class C and Class D common shares and issued a proportionate amount of ordinary common shares to the shareholders.

Immediately following the amalgamation, the shareholders of Digital Extremes sold 58% and 3% of the outstanding common shares and Class B Special shares to Multi Dynamic Games Group Inc. ("Multi Dynamic Games"), a wholly-owned subsidiary of the Leyou Technologies Holdings Limited and Perfect Online Holding Limited respectively. All classes of Common Shares are ranked *pari passu*.

On 20 May 2016, Multi Dynamic Games further acquired 39% of the Common Shares and Class B Special shares from 2375249 Ontario Ltd., 2475202 Ontario Ltd., 2475200 Ontario Ltd. and Digital Extremes Employee Share Trust. After the acquisition, Multi Dynamic Games is holding 97% of the Common Share and Class B Special shares of Digital Extremes.

23 Share-based payment – Acquired Group and Digital Extremes

(a) Share-based award to two employees

On 12 July 2013, Dr. Michael Schmalz and Mr. Steve Sinclair were awarded 1,400,000 class B common shares and 2,020,000 class C common shares of Digital Extremes at a consideration of CAD14 and CAD20 respectively for their past contributions made to the business development of the Acquired Group. As there was no future service conditions attached to the award, the share-based awards were vested immediately. The share award expenses related to Dr. Michael Schmalz and Mr. Steve Sinclair were accounted for as employee benefit expenses. As disclosed in Note 22, since the fair value of the shares awarded to Dr. Michael Schmalz and Mr. Steve Sinclair is zero which is less than their subscription cost, no employee benefit expenses are recognised.

(b) Share options

In 2007, the directors of Digital Extremes approved the establishment of a share option scheme with the objective to recognise and regard the contribution of eligible employees to the Acquired Group and development of the Acquired Group.

The exercise price in respect of any option is fixed at CAD1 per common share. The contractual life of all options under the scheme is 7 years from the grant date.

The vesting of the share options is subject to a change in control of Digital Extremes and the options may be exercised provided that the Digital Extremes's shares are listed on a recognised stock exchange. Since the vesting date is considered to be undeterminable before 12 July 2015, no compensation expense has been recognised in the consolidated statement of comprehensive income before July 2015.

On 12 July 2013, as part of the change in shareholder structure of Digital Extremes, the share option scheme was terminated and all of the outstanding share options were cancelled. A cash-settled compensation of CAD452,000 recognised as wages and salaries in the statement of comprehensive income was paid to the employees for the cancellation of the share options and the share options scheme was replaced by the Employee Trust.

The directors of Digital Extremes appointed an independent valuer to estimate the fair value of the share options as of the termination date. The fair value of the share options was determined using Binominal model. The fair value of the share options cancelled was CAD927,864 at the termination date.

Since the fair value of the share options cancelled is more than the fair value of the shares held by the employee trust, an accelerated recognition of the fair value of the share options cancelled of CAD475,864, which represents the difference between CAD927,864 and the cash settlement amount of CAD452,000, was recognised as share based compensation reserve for the year ended 31 December 2013.

24 Trade and other payables

Acquired Group

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	CAD	*CAD*	*CAD*	*CAD*
Trade payables *(Note a)*	627,920	923,169	739,764	210,426
Dividend payable	–	–	612,370	1,915,972
Other payables and accruals	1,458,587	2,173,002	811,945	4,099,173
	2,086,507	3,096,171	2,164,079	6,225,571

Digital Extremes

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	CAD	*CAD*	*CAD*	*CAD*
Trade payables *(Note a)*	602,352	897,161	732,233	208,772
Dividend payable	–	–	612,370	1,915,972
Other payables and accruals	1,458,087	2,151,771	770,170	4,047,894
	2,060,439	3,048,932	2,114,773	6,172,638

Notes:

(a) The ageing analysis of the trade payables of the Acquired Group and Digital Extremes based on invoice date is as follows:

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
0 – 30 days	463,868	661,692	733,872	207,460
31 – 60 days	69,235	87,905	5,666	1,314
61 – 90 days	–	173,572	–	560
Over 90 days	94,817	–	226	1,092
	627,920	923,169	739,764	210,426

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
0 – 30 days	438,300	635,684	726,635	205,866
31 – 60 days	69,235	87,905	5,372	1,254
61 – 90 days	–	173,572	–	560
Over 90 days	94,817	–	226	1,092
	602,352	897,161	732,233	208,772

25 Deferred credits and other liabilities

Acquired Group

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Current deferred credits and other liabilities				
Deferred revenue	2,975,483	3,511,188	3,930,177	2,905,180
Deferred lease inducements	195,136	193,752	199,558	199,068
	3,170,619	3,704,940	4,129,735	3,104,248
Non-current deferred credits and other liabilities				
Deferred lease inducements	1,463,517	1,668,716	1,470,229	1,320,863

Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Current deferred credits and other liabilities				
Deferred revenue	2,975,483	3,511,188	3,930,177	2,905,180
Deferred lease inducements	195,136	190,489	195,672	195,672
	3,170,619	3,701,677	4,125,849	3,100,852
Non-current deferred credits and other liabilities				
Deferred lease inducements	1,463,517	1,663,277	1,467,617	1,320,863

Since the year ended 31 December 2013, as Digital Extremes moved towards a free-to-play revenue model, deferred revenue comprised proceeds from sale of virtual tokens through their online game that is being recognised through profit and loss over the average estimated paying player life.

Deferred lease inducements represent the unamortised value of inducements received from the Digital Extremes's landlord for its new office lease, which commenced on 1 July 2011. The deferred lease inducements are being amortised over the term of the lease. The current portion of deferred lease inducements refers to the value of the free rent to be amortised over the next 12 months from the date of the consolidated statement of financial position.

26 Derivative financial instruments – Acquired Group and Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Liability				
Foreign exchange forward contracts	39,750	106,028	–	–

Changes in fair values of derivative financial instruments are recorded in "other gains/(losses), net" in the consolidated statement of comprehensive income. The total notional principal amounts of the outstanding foreign exchange forward contracts are as follows:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Sell USD buy CAD	6,700,680	3,712,320	–	–

27 Tax credits receivable

Acquired Group and Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Ontario Co-operative Education Tax Credit receivable	–	–	34,408	61,734
Ontario Interactive Digital Media Tax Credit receivable	11,299,908	12,075,968	13,123,612	18,061,620
Withholding Tax receivable	61,547	208,388	642,440	918,314
	11,361,455	12,284,356	13,800,460	19,041,668

The Ontario Co-operative Education Tax Credit is a refundable tax credit available to employers who hire students enrolled in a co-operative education program at an Ontario university or college.

The Ontario Interactive Digital Media Tax Credit (OIDMTC) is a government incentive from OMDC based on eligible Ontario labour expenditures and eligible marketing and distribution expenses claimed by the Acquired Group with respect to interactive digital media products.

The movement of tax credits receivable from OMDC during the Relevant Periods is as follows:

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Opening balance	7,975,561	11,299,908	12,075,968	13,123,612
Credited to employee benefit expenses	6,729,557	5,264,496	6,353,959	4,938,008
Cash received from OMDC	(3,405,210)	(4,488,436)	(5,306,315)	–
Closing balance	11,299,908	12,075,968	13,123,612	18,061,620

28 Investment in subsidiaries – Digital Extremes

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Unlisted shares, at cost *(Note a and Note b)*	–	109	109	109

(a) Details of the principal subsidiaries as at 31 December 2013, 2014 and 2015 and 30 September 2016 are set out below:

Name of the company	Date of incorporation/ establishment	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and paid-up share capital				Proportion of ownership interest			
				As at 31 December			As at 30 September	As at 31 December			As at 30 September
				2013	2014	2015	2016	2013	2014	2015	2016
				CAD	*CAD*	*CAD*	*CAD*				
Brainbox Games Inc.	30 April 2003	Canada, limited liability company	Dormant	CAD100	–	–	–	100%	–	–	–
Digital Extremes US, Inc.	6 May 2014	California, limited liability company	Marketing support activities	–	CAD109 (US$100 equivalent)	CAD109 (US$100 equivalent)	CAD109 (US$100 equivalent)	–	100%	100%	100%

(b) The investment cost in Brainbox Game Inc. of CAD100 was written off in 2012. Brainbox Game Inc. was dissolved in November 2014.

29 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is set out as below:

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Profit before income tax	7,108,183	27,420,123	55,101,645	32,448,152	63,418,853
Adjustments for:					
– Depreciation *(Note 14)*	443,837	619,448	714,056	573,982	593,254
– Amortisation *(Note 15)*	274,275	43,703	62,543	65,391	80,606
– Amortisation of lease inducement	(227,659)	(188,528)	(194,065)	(143,331)	(149,540)
– Amortisation and impairment of development expenditures	–	–	7,562,764	5,509,093	392,871
– Loss/(gain) on disposal of property, plant and equipment	23,419	(10,598)	(150)	(150)	–
– Loss on disposal of intangible assets	25,866	–	–	–	–
– Gain on disposal of a subsidiary	–	(25,837)	–	–	–
– Interest income *(Note 10)*	(64,025)	(128,581)	(200,127)	(174,528)	(67,509)
– Interest expenses *(Note 10)*	239,037	148,511	150	162	106
– Provision for tax credits receivable	(6,729,557)	(5,264,496)	(6,388,367)	(4,803,397)	(4,965,333)
– Provision for withholding tax receivable	(61,547)	(146,841)	(434,051)	(165,718)	(275,875)
– Share based payment expenses	475,864	–	–	–	–
– Gain on financial assets at fair value through profit or loss	–	(61,338)	(9,859)	(9,859)	–
– Unrealised loss/(gain) on derivative financial instruments	39,750	66,278	–	–	–
– Deferred credits and other liabilities	2,410,492	927,690	418,989	(21,896)	(1,024,997)
Changes in working capital	3,957,935	23,399,534	56,633,528	33,277,901	58,002,436
– Inventories	(98,106)	38,504	(274,038)	(275,064)	(79,157)
– Trade and other receivables	(1,496,232)	(4,320,695)	(7,987,845)	(4,395,782)	2,476,649
– Amount due from a shareholder	136,289	(168,858)	135,352	138,121	–
– Trade and other payables	1,223,079	1,033,563	(1,553,043)	(896,024)	2,760,516
Cash generated from operations	3,722,965	19,982,048	46,953,954	27,849,152	63,160,444

In the consolidated statements of cash flows, proceeds from sale of property, plant and equipment and intangible assets comprise:

	Year ended 31 December			Nine months ended 30 September	
	2013	2014	2015	2015	2016
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Net book amount	51,145	4,049	–	–	–
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(49,285)	10,598	150	150	–
Proceeds from disposal of property, plant and equipment and intangible assets	1,860	14,647	150	150	–

Non-cash transaction:

(i) In July 2013, Digital Extremes declared a dividend of CAD10,000,000 to the shareholder which was net off from the principal of the loan from a shareholder.

(ii) In July 2013, Digital Extremes issued 10,000 class B special share to Mr. James Schmalz of CAD100 in exchange of 10,000,000 common shares previously held by 2375249 Ontario Ltd.

30 Financial instruments by category

Acquired Group

	Loans and receivables *CAD*	Financial assets at fair value through profit or loss *CAD*	Total *CAD*
Assets included in the balance sheet			
At 31 December 2013			
Trade and other receivables excluding prepayments	4,579,989	–	4,579,989
Cash and cash equivalents	6,083,744	–	6,083,744
Total	10,663,733	–	10,663,733
At 31 December 2014			
Trade and other receivables excluding prepayments	8,877,079	–	8,877,079
Amount due from a shareholder	162,838	–	162,838
Financial assets at fair value through profit or loss	–	534,231	534,231
Cash and cash equivalents	16,814,104	–	16,814,104
Total	25,854,021	534,231	26,388,252
At 31 December 2015			
Trade and other receivables excluding prepayments	16,832,987	–	16,832,987
Cash and cash equivalents	17,541,279	–	17,541,279
Total	34,374,266	–	34,374,266
At 30 September 2016			
Trade and other receivables excluding prepayments	14,283,474	–	14,283,474
Cash and cash equivalents	19,841,701	–	19,841,701
Total	34,125,175	–	34,125,175

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
	CAD	*CAD*	*CAD*
Liabilities included in the balance sheet			
At 31 December 2013			
Trade and other payables excluding non-financial liabilities	2,086,507	–	2,086,507
Derivative financial instruments	–	39,750	39,750
Loan from the ultimate holding company	10,000,000	–	10,000,000
Total	12,086,507	39,750	12,126,257
At 31 December 2014			
Trade and other payables excluding non-financial liabilities	3,096,171	–	3,096,171
Derivative financial instruments	–	106,028	106,028
Total	3,096,171	106,028	3,202,199
At 31 December 2015			
Trade and other payables excluding non-financial liabilities	2,164,079	–	2,164,079
At 30 September 2016			
Trade and other payables excluding non-financial liabilities	6,225,571	–	6,225,571

Digital Extremes

	Cash Loans and receivables	Financial assets at fair value through profit or loss	Total
	CAD	*CAD*	*CAD*
Assets included in the balance sheet			
At 31 December 2013			
Trade and other receivables excluding prepayments	4,579,976	–	4,579,976
Cash and cash equivalents	6,083,367	–	6,083,367
Total	10,663,343	–	10,663,343
At 31 December 2014			
Trade and other receivables excluding prepayments	8,817,205	–	8,817,205
Amount due from a shareholder	162,838	–	162,838
Amount due from a subsidiary	153,322	–	153,322
Financial assets at fair value through profit or loss	–	534,231	534,231
Cash and cash equivalents	16,785,773	–	16,785,773
Total	25,919,138	534,231	26,453,369
At 31 December 2015			
Trade and other receivables excluding prepayments	16,812,836	–	16,812,836
Cash and cash equivalents	17,485,051	–	17,485,051
Total	34,297,887	–	34,297,887
At 30 September 2016			
Trade and other receivables excluding prepayments	14,265,987	–	14,265,987
Cash and cash equivalents	19,789,528	–	19,789,528
Total	34,055,515	–	34,055,515

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
	CAD	*CAD*	*CAD*
Liabilities included in the balance sheet			
At 31 December 2013			
Trade and other payables excluding non-financial liabilities	2,060,439	–	2,060,439
Derivative financial instruments	–	39,750	39,750
Loan from the ultimate holding company	10,000,000	–	10,000,000
Total	12,060,439	39,750	12,100,189
At 31 December 2014			
Trade and other payables excluding non-financial liabilities	3,048,932	–	3,048,932
Derivative financial instruments	–	106,028	106,028
Total	3,048,932	106,028	3,154,960
At 31 December 2015			
Trade and other payables excluding non-financial liabilities	2,114,773	–	2,114,773
At 30 September 2016			
Trade and other payables excluding non-financial liabilities	6,172,638	–	6,172,638

31 Commitments – Acquired Group and Digital Extremes

(a) Operating lease commitments – Digital Extremes as the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Land and buildings:				
Not later than 1 year	859,410	1,223,367	1,244,850	1,371,071
Later than 1 year and not later than 5 years	3,478,131	4,795,850	4,709,583	6,094,718
Over 5 years	3,121,308	5,213,624	4,055,041	4,190,118
	7,458,849	11,232,841	10,009,474	11,655,907

32 Related party transactions

Prior to 21 July 2015, Digital Extremes was controlled by 2375249 Ontario Ltd. which owned 67% of the Digital Extremes's common shares. The remaining 33% of the shares were held by 2375250 Ontario Ltd., 2377289 Ontario Ltd. and Digital Extremes Employee Share Trust.

On 21 July 2015, Leyou Technologies Holdings Limited, through its wholly-owned subsidiary, Multi Dynamic Games, acquired 58% of the issued shares of Digital Extremes and become the controlling shareholder. The remaining 42% of the shares were held by 2375249 Ontario Ltd., 2475202 Ontario Ltd., 2475200 Ontario Ltd., Perfect Online Holdings Limited and Digital Extremes Employee Share Trust.

On 20 May 2016, Multi Dynamic Games Group Inc. further acquired 39% of the Digital Extremes's common shares from 2375249 Ontario Ltd., 2475202 Ontario Ltd., 2475200 Ontario Ltd. and Digital Extremes Employee Share Trust.

The ultimate controlling party of Digital Extremes is Leyou Technologies Holdings Limited.

(a) Transaction with a related party

During the Relevant Periods, Digital Extremes had the following significant transaction with a related party:

(i) Interest expenses paid to a related party

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
2375249 Ontario Ltd.	239,037	148,511	–	–	–

(b) Balances with related parties

(i) Amount due from a shareholder – Acquired Group and Digital Extremes

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
2375249 Ontario Ltd.	–	162,838	–	–

(ii) Loan from the ultimate holding company – Acquired Group and Digital Extremes

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
2375249 Ontario Ltd.	10,000,000	–	–	–

(iii) Amount due from a subsidiary – Digital Extremes

	Year ended 31 December			Nine months ended 30 September
	2013	**2014**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*
Digital Extremes US, Inc.	–	153,322	163,389	104,353

The amount due from a subsidiary and amount due from a shareholder are unsecured, interest-free and repayable on demand. The loan from the ultimate holding company is unsecured, repayable on demand and bearing interest at the Canadian bank's prescribed rate plus 2% p.a. The amount was fully settled in May 2014.

(c) Key management compensation

Remuneration for key management personnel of Digital Extremes, including amounts paid to the Digital Extremes's directors as disclosed in Note 33(a), is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
				(Unaudited)	
Basic salaries and allowances	4,170,899	3,714,031	2,517,197	2,169,203	1,023,060

33 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Year ended 31 December 2013					
Executive Directors					
– James Schmalz (chief executive)	–	250,689	2,056,316	2,356	2,309,361

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Year ended 31 December 2014					
Executive Directors					
– James Schmalz (chief executive)	–	200,757	–	2,426	203,183

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Year ended 31 December 2015					
Executive Directors					
– James Schmalz (chief executive)	–	176,568	2,000	2,480	181,048
– Michael Schmalz *(Note (i))*	–	281,700	288,900	2,480	573,080
– Chun W. A Yeung *(Note (ii))*	–	–	–	–	–
– Michael C.K. Kwan *(Note (iii))*	–	–	–	–	–
– Chunyang Wang *(Note (iv))*	–	–	–	–	–
– Haitong Wang *(Note (v))*	–	–	–	–	–
– Law Kin Fat *(Note (vi))*	–	–	–	–	–
– Johnny Huang *(Note (vii))*	–	–	–	–	–
	–	458,268	290,900	4,960	754,128

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Period ended 30 September 2015 (Unaudited)					
Executive Directors					
– James Schmalz (chief executive)	–	123,970	2,000	2,480	128,450
– Michael Schmalz *(Note (i))*	–	207,833	288,900	2,480	499,213
– Chun W. A Yeung *(Note (ii))*	–	–	–	–	–
– Michael C.K. Kwan *(Note (iii))*	–	–	–	–	–
– Chunyang Wang *(Note (iv))*	–	–	–	–	–
– Haitong Wang *(Note (v))*	–	–	–	–	–
– Law Kin Fat *(Note (vi))*	–	–	–	–	–
– Johnny Huang *(Note (vii))*	–	–	–	–	–
	–	331,803	290,900	4,960	627,663

Name of Director	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Employer's contribution to pension scheme	Total
	CAD	*CAD*	*CAD*	*CAD*	*CAD*
Period ended 30 September 2016					
Executive Directors					
– James Schmalz (chief executive)	15,000	112,081	–	2,544	129,625
– Michael Schmalz *(Note (i))*	15,000	207,839	–	2,544	225,383
– Haitong Wang *(Note (v))*	15,000	–	–	–	15,000
– Law Kin Fat *(Note (vi))*	15,000	–	–	–	15,000
– Ka Chun Carson Wong *(Note (viii))*	6,000	–	–	–	6,000
	66,000	319,920	–	5,088	391,008

Notes:

(i) Appointed on 21 July 2015

(ii) Appointed on 21 July 2015 and resigned on 31 July 2015

(iii) Appointed on 21 July 2015 and resigned on 31 July 2015

(iv) Appointed on 21 July 2015 and resigned on 31 July 2015

(v) Appointed on 21 July 2015

(vi) Appointed on 21 July 2015

(vii) Appointed on 21 July 2015 and resigned on 27 April 2016

(viii) Appointed on 27 April 2016

(b) Directors' retirement benefits and termination benefits

During the Relevant Periods, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(c) Consideration provided to third parties for making available directors' services

During the Relevant Periods, no consideration was provided to or receivables by third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to Acquired Group's business to which Digital Extremes was a party and in which a director of Digital Extremes had a material interest, whether directly or indirectly, subsisted at the end of the Relevant Periods or at any time during the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Digital Extremes or any of its subsidiaries in respect of any period subsequent to 30 September 2016 up to the date of this report. No dividend or distribution has been declared or made by Digital Extremes or any of its subsidiaries in respect of any period subsequent to 30 September 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group (''Unaudited Pro Forma Financial Information''), comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 100% equity interest in the Target Group and acquisition of 97% equity interest in the Acquired Group (together, the ''Transactions''), as if the Transactions had been completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position and 1 January 2016 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with those of Group as set out in the published annual report of the Group for the year ended 31 December 2015 and the new/revised accounting standards adopted in the interim report of the Company for the six months ended 30 June 2016.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Transactions been completed as at 30 June 2016 or 1 January 2016, where applicable, or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

(I) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) Unaudited pro forma consolidated statement of financial position

		Pro forma adjustments for the Transactions				
	The Remaining Group as at 30 June 2016	The Target Group as at 30 September 2016	The Target Group as at 30 September 2016	Other adjustments		The Enlarged Group
	RMB'000	*GBP*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3)*	*(Note 4)*	
ASSETS						
Non-current assets						
Property, plant and equipment	16,130	126,194	1,093	–	–	17,223
Goodwill	188,945	–	–	666,127	–	855,072
Intangible assets	492,365	3,521,630	30,515	82,081	–	604,961
Development expenditure	2,132	–	–	–	–	2,132
Available-for-sale financial assets	63,562	–	–	–	–	63,562
	763,134	3,647,824	31,608	748,208	–	1,542,950
Current assets						
Inventories	26,975	–	–	–	–	26,975
Trade receivables	76,291	1,485,837	12,875	–	–	89,166
Deposits paid, prepayments and other receivables	307,422	1,277,242	11,067	–	–	318,489
Financial assets at fair value through profit or loss	103,894	–	–	–	–	103,894
Amount due from a related party	–	1,460,243	12,653	(4,061)	–	8,592
Income tax receivables	–	137,770	1,194	–	–	1,194
Cash and bank balances	254,205	3,030,293	26,258	(26,711)	(22,708)	231,044
	768,787	7,391,385	64,047	(30,772)	(22,708)	779,354
Total assets	**1,531,921**	**11,039,209**	**95,655**	**717,436**	**(22,708)**	**2,322,304**
EQUITY						
Share Capital	236,606	102	1	(1)	–	236,606
Reserves	778,511	4,778,196	41,403	(41,403)	(22,708)	755,803
Equity attributable to owners of the Company	1,015,117	4,778,298	41,404	(41,404)	(22,708)	992,409
Non-controlling interests	21,187	–	–	–	–	21,187
Total equity	**1,036,304**	**4,778,298**	**41,404**	**(41,404)**	**(22,708)**	**1,013,596**

		Pro forma adjustments for the Transactions				
	The Remaining Group as at 30 June 2016	The Target Group as at 30 September 2016	The Target Group as at 30 September 2016	Other adjustments		The Enlarged Group
	RMB'000	*GBP*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3)*	*(Note 4)*	
LIABILITIES						
Non-current liabilities						
Debenture	3,526	–	–	–	–	3,526
Bond	137,570	–	–	–	–	137,570
Borrowings	–	994	9	–	–	9
Consideration payable	–	–	–	431,720	–	431,720
Deferred tax liabilities	121,145	9,799	85	16,416	–	137,646
	262,241	10,793	94	448,136	–	710,471
Current liabilities						
Trade payables	2,632	67,397	584	–	–	3,216
Accruals, deposits received and other payables	58,001	1,598,426	13,850	–	–	71,851
Deferred revenue	18,045	4,578,394	39,672	–	–	57,717
Borrowings	–	5,901	51	–	–	51
Bond	137,570	–	–	–	–	137,570
Consideration payable	–	–	–	310,704	–	310,704
Tax payables	17,128	–	–	–	–	17,128
	233,376	6,250,118	54,157	310,704	–	598,237
Total liabilities	**495,617**	**6,260,911**	**54,251**	**758,840**	**–**	**1,308,708**
Total equity and liabilities	**1,531,921**	**11,039,209**	**95,655**	**717,436**	**(22,708)**	**2,322,304**

(b) Unaudited pro forma consolidated statement of comprehensive income

	The Remaining Group for the period ended 30 June 2016	The Target Group for the period ended 30 September 2016	The Target Group for the period ended 30 September 2016	Pro forma adjustments for the Transactions – Other pro forma adjustments			The Enlarged Group
	RMB'000	*GBP*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Revenue	444,904	8,967,455	80,934	–	–	–	525,838
Cost of sales	(184,390)	(2,800,744)	(25,278)	–	–	–	(209,668)
Gross profit	260,514	6,166,711	55,656	–	–	–	316,170
Other revenue and gains	12,162	2,599	23	–	–	–	12,185
Net loss on financial assets at fair value through profit or loss	(44,737)	–	–	–	–	–	(44,737)
Estimated gain on disposal	61,865	–	–	–	–	–	61,865
Selling and distribution expenses	(15,205)	–	–	–	–	–	(15,205)
Administrative expenses	(85,667)	(3,147,973)	(28,411)	(22,708)	–	(12,683)	(149,469)
Finance costs, net	(5,005)	(1,446)	(13)	–	–	–	(5,018)
Other operating expenses	(70)	–	–	–	–	–	(70)
Equity-settled share-based payment expenses	(7,696)	–	–	–	–	–	(7,696)
Profit before tax	**176,161**	**3,019,891**	**27,255**	**(22,708)**	**–**	**(12,683)**	**168,025**
Taxation	(36,283)	451,155	4,072	–	–	2,537	(29,674)
Profit for the period	**139,878**	**3,471,046**	**31,327**	**(22,708)**	**–**	**(10,146)**	**138,351**
Profit for the period attributable to:							
Owners of the Company	99,459	3,471,046	31,327	(22,708)	37,032	(10,146)	134,964
Non-controlling interest	40,419	–	–	–	(37,032)	–	3,387
	139,878	3,471,046	31,327	(22,708)	–	(10,146)	138,351
Other comprehensive profit/(loss) for the period, net of income tax							
Items that may be reclassified subsequently to profit or loss:							
Exchange differences on translating foreign operation	71,799	–	(1,252)	–	–	–	70,547
Release of exchange differences upon the disposal	(8,524)	–	–	–	–	–	(8,524)
Other comprehensive profit/(loss) for the period, net of income tax	63,275	–	(1,252)	–	–	–	62,023
Total comprehensive profit for the period	**203,153**	**3,471,046**	**30,075**	**(22,708)**	**–**	**(10,146)**	**200,374**
Total comprehensive profit for the period attributable to:							
Owners of the Company	128,464	3,471,046	30,075	(22,708)	66,822	(10,146)	192,507
Non-controlling interest	74,689	–	–	–	(66,822)	–	7,867
	203,153	3,471,046	30,075	(22,708)	–	(10,146)	200,374

(c) Unaudited pro forma consolidated statement of cash flows

		Pro forma adjustments for the Transactions							
	The Remaining Group for the period ended 30 June 2016	The Target Group for the period ended 30 September 2016	The Target Group for the period ended 30 September 2016	Other pro forma adjustments					The Enlarged Group
	RMB'000	*GBP*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	
Operating activities									
Profit before taxation	**112,329**	**3,019,891**	**27,255**	**–**	**(22,708)**	**(12,683)**	**63,832**	**–**	**168,025**
Adjustments for:									
Interest income	(1,734)	(6,193)	(56)	–	–	–	–	–	(1,790)
Interest expenses	5,005	7,639	69	–	–	–	–	–	5,074
Estimated gain on disposal	–	–	–	–	–	–	(61,865)	–	(61,865)
Depreciation and amortisation	48,739	292,438	2,639	–	–	12,683	–	–	64,061
Equity-settled share-based payment expenses	(7,696)	–	–	–	–	–	–	–	(7,696)
Reversal of impairment recognised on other receivables	(5)	–	–	–	–	–	–	–	(5)
Net loss on financial assets at fair value through profit or loss	4,104	–	–	–	–	–	–	–	4,104
Operating cash flows before movements in working capital	**160,742**	**3,313,775**	**29,907**	**–**	**(22,708)**	**–**	**1,967**	**–**	**169,908**
Decrease/(increase) in trade receivables	1,562	(489,793)	(4,421)	–	–	–	–	–	(2,859)
(Increase)/decrease in deposits paid, prepayments and other receivables	(61,844)	444,989	4,016	–	–	–	(1,967)	–	(59,795)
Increase in financial assets at fair value through profit or loss	42,318	–	–	–	–	–	–	–	42,318
Increase in inventories	43,549	–	–	–	–	–	–	–	43,549
Change in deferred revenue	–	(1,082,213)	(9,767)	–	–	–	–	–	(9,767)
(Decrease)/increase in trade payables	(830)	34,388	310	–	–	–	–	–	(520)
Increase/(decrease) in accruals, deposits received and other payables	20,054	(355,408)	(3,208)	–	–	–	–	–	16,846
Cash generated from operations	205,551	1,865,738	16,837	–	(22,708)	–	–	–	199,680
Interest paid	(8,482)	(7,639)	(69)	–	–	–	–	–	(8,551)
Income tax (paid)/refund	(44,329)	600,156	5,417	–	–	–	–	–	(38,912)
Net cash generated from operating activities	**152,740**	**2,458,255**	**22,185**	**–**	**(22,708)**	**–**	**–**	**–**	**152,217**

	The Remaining Group for the period ended 30 June 2016	Pro forma adjustments for the Transactions: The Target Group for the period ended 30 September 2016	The Target Group for the period ended 30 September 2016	Other pro forma adjustments					The Enlarged Group
	RMB'000	*GBP*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	
Investing activities									
Interest (paid)/received	(233)	6,193	56	–	–	–	–	–	(177)
Net cash outflow from acquisition of subsidiaries	(320,072)	–	–	(26,711)	–	–	–	25,722	(321,061)
Purchase of property, plant and equipment	(4,146)	(25,071)	(226)	–	–	–	–	–	(4,372)
Payment for addition to intangible assets	–	(515,891)	(4,656)	–	–	–	–	–	(4,656)
Increase in development cost capitalised	(657)	–	–	–	–	–	–	–	(657)
Prepayment of prepaid lease payment	(179)	–	–	–	–	–	–	–	(179)
Cash advance to a related party	–	(1,081,070)	(9,757)	–	–	–	–	–	(9,757)
Increase in deferred revenue	(347)	–	–	–	–	–	–	–	(347)
Net proceeds from the disposal, net of cash and cash equivalent of Disposal Group	215,000	–	–	–	–	–	–	–	215,000
Net cash used in investing activities	**(110,634)**	**(1,615,839)**	**(14,583)**	**(26,711)**	**–**	**–**	**–**	**25,722**	**(126,206)**
Financing activities									
Repayments of bank borrowings	–	(662,093)	(5,976)	–	–	–	–	–	(5,976)
Dividends on common shares	(238,329)	–	–	–	–	–	–	–	(238,329)
Issue of bond	278,678	–	–	–	–	–	–	–	278,678
Net cash generated from/ (used in) financing activities	**40,349**	**(662,093)**	**(5,976)**	**–**	**–**	**–**	**–**	**–**	**34,373**
Net increase in cash and cash equivalents	**82,455**	**180,323**	**1,626**	**(26,711)**	**(22,708)**	**–**	**–**	**25,722**	**60,384**
Cash and cash equivalents at the beginning of the period	**112,973**	**2,849,970**	**25,722**	**–**	**–**	**–**	**–**	**(25,722)**	**112,973**
Effect of foreign exchange rate changes, net	**58,777**	**–**	**(1,090)**	**–**	**–**	**–**	**–**	**–**	**57,687**
Cash and cash equivalents at the end of the period	**254,205**	**3,030,293**	**26,258**	**(26,711)**	**(22,708)**	**–**	**–**	**–**	**231,044**

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1) On 30 September 2016, the Group has completed the disposal (the "Disposal") of its entire equity interest in Sumpo International Holdings Limited and its subsidiaries (the "Disposal Group"), which are principally engaged in the trading, manufacturing and supply of chicken meat products in Fujian (the "Poultry Business"). Upon completion, Sumpo International Holdings Limited ceased to be a subsidiary of the Group. The Group excluding the Disposal Group (the "Remaining Group") will no longer be engaged in the Poultry Business.

   These amounts are extracted from the unaudited pro forma consolidated statement of financial position of the Remaining Group as at 30 June 2016, the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Remaining Group for the period ended 30 June 2016, as set out in the published circular of the Company dated 14 September 2016 in connection with the Disposal.

2) The audited combined statement of financial position of the Target Group as at 30 September 2016 is extracted from the accountant's report of the Target Group as set out in Appendix I to this circular, which are converted from its presentation currency of GBP to RMB at the rate of GBP1 = RMB8.6651, calculated based on the rate of GBP1 = USD1.2976 and USD1 = RMB6.6778 as at 30 September 2016 sourced from Bloomberg Finance L.P. and People's Bank of China respectively.

   The audited combined statement of comprehensive income and statement of cash flows of the Target Group for the period ended 30 September 2016 are extracted from the accountant's report of the Target Group as set out in Appendix I to this circular, which are converted from its presentation currency of GBP to RMB at the rate of GBP1 = RMB9.0253, average rate for the six months ended 30 September 2016 sourced from Hong Kong Association of Banks.

   A foreign exchange loss in the amount of RMB1.3 million, arising from the translation of the financial statements of the Target Group in its functional currency of GBP to the Group's presentation currency of RMB, is recognised in other comprehensive income for the period ended 30 June 2016. The effect of exchange rate changes on cash and cash equivalents amounts to a loss of RMB1.1 million, which is separately presented in the statement of cash flows of the Target Group for the period ended 30 September 2016.

The Board considers the exchange rates adopted to be fair and reasonable with an appropriate basis as disclosed above. The directors are of the view that the depreciation of GBP against RMB is mainly due to the vote by the British to leave the European Union during the period ended 30 June 2016.

3) Upon completion of the Acquisition, the Company will indirectly own 100% equity interest in the Target Group. The identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Company at their fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("HKFRS") No. 3 "Business Combination".

(a) This adjustment represents the recognition of the excess of the fair value of identifiable assets acquired and the liabilities assumed over the book value of the assets and the liabilities of the Target Group. The fair value of identifiable assets acquired and liabilities assumed in the Target Group is determined in accordance HKFRS No. 3, "Business Combination". For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed the fair values of the identifiable assets and liabilities of the Target Group as at 30 September 2016 by taking reference of the appraisal report as at 30 September 2016 (the "Appraisal Report") issued by Grant Sherman Appraisal Limited.

(b) Pursuant to the Sale and Purchase Agreements, the consideration for acquisition of 100% equity interest in the Target Companies is composed of an Advance Payment, Completion Value less the Advance Payment, any Initial Adjustment Payment, any positive Adjustment Payment, the Deferred Payment, any NIC Liabilities Shortfall Payment and any Earn-Out Consideration. The consideration excluding the Aggregated Adjustment Payment (i.e. any Initial Adjustment Payment, any positive Adjustment Payment and any NIC Liabilities Shortfall payment) shall not exceed US$150.0 million (equivalent to approximately RMB1,001.7 million) while the sum of the Aggregated Adjustment Payment shall not exceed US$10.0 million, which are calculated in accordance with the methodology as set out in the Sale and Purchase Agreements. For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed the fair value of the total consideration by taking reference of the Appraisal Report issued by Grant Sherman Appraisal Limited as at 30 September 2016.

The total present value of the total consideration is estimated to be approximately US$115.7 million (equivalent to approximately RMB773.2 million) is comprised of Advance Payment of US$4.0 million (equivalent to approximately RMB26.7 million) paid in October 2016, Completion Value less Advance Payment of US$31.0 million (equivalent to approximately RMB207.0 million) which will be payable upon the Completion, Initial Adjustment Payment of US$6.1 million (equivalent to approximately RMB41.0 million) which will be payable within ten business days after the date of Completion, Deferred Payment of US$10.0 million (equivalent to approximately RMB66.8 million) which will be payable on the later of 28 February 2017 and upon Completion and the fair value of Earn-Out Consideration is estimated to be approximately US$64.6 million (equivalent to approximately RMB431.7 million). The fair value of the Earn-Out Consideration is valued based on the expected future income generated in 2017, 2018 and 2019 and shall not exceed US$105.0 million (equivalent to approximately RMB701.2 million).

Goodwill of approximately RMB666.1 million will be derived from the difference between the fair value of total consideration of approximately RMB773.2 million and fair value of the identifiable assets and liabilities of the Target Group as at 30 September 2016 of approximately RMB107.1 million.

The fair value of the identifiable assets and liabilities of the Target Group as at 30 September 2016 is recognised in accordance with HKFRS No.3 "Business Combinations". For the purpose of the Unaudited Pro Forma Financial Information, the Directors have assessed the fair values of the identifiable assets and liabilities of the Target Group as at 30 September 2016 by taking reference of the Appraisal Report. The fair value of the identifiable assets and liabilities is composed of net assets of the Target Group as at 30 September 2016 valued at US$6.2 million (equivalent to RMB41.4 million or GBP4.8 million) which approximated their carrying value as of that date, and intangible assets arising from the business combination amounting to US$12.3 million (equivalent to RMB82.1 million), including self-developed software and tools, brand name and sales backlog of approximately US$2.0 million (equivalent to approximately RMB13.3 million), US$1.3 million (equivalent to approximately RMB8.5 million) and US$9.0 million (equivalent to approximately RMB60.3 million) respectively, less deferred income tax liabilities recognised as a result of the fair value adjustment of US$2.5 million (equivalent to approximately RMB16.4 million). With reference to the Appraisal Report, the fair values of the self-developed software and tools are based on the cost of replacement new method under the cost approach while the fair values of the brand name and sales backlog are based on the income approach where the values depend on the expected future economic benefits generated from use. The brand name is recognised as an identifiable intangible asset in accordance with Hong Kong Accounting Standards No.38 "Intangible Assets" as it is separable and can be reliably measured. It is recognised at fair value at the acquisition date and subsequently carried at cost less accumulated amortisation.

Goodwill arising from the proposed acquisition of 100% equity interest in the Target Group is calculated as follows:

	RMB'million	*US$'million*
Advance Payment	26.7	4.0
Completion Value less Advance Payment	207.0	31.0
Initial Adjustment Payment	41.0	6.1
Deferred Payment	66.8	10.0
Fair value of Earn-Out Consideration	431.7	64.6
Fair value of total consideration	773.2	115.7
Less: Identifiable assets acquired and liabilities assumed		
Net assets as at 30 September 2016	(41.4)	(6.2)
Intangible assets arising from the business combination	(82.1)	(12.3)
Deferred tax liabilities on intangible assets arising from the business combination	16.4	2.5
	(107.1)	(16.0)
Goodwill	666.1	99.7

Since the fair values of the consideration and the assets and liabilities of the Target Group at the actual completion date may be substantially different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Acquisition may be different from the amounts presented here and the differences may be significant.

The Directors have assessed whether there is any indication of impairment in respect of property, plant and equipment and intangible assets with reference to Hong Kong Accounting Standard 36 "Impairment of Assets". For goodwill, the Directors have performed impairment test with reference to Hong Kong Accounting Standard 36 "Impairment of Assets".

The Directors are of the view that the Target Group is a growing business with an increasing trend of profit track record (as shown in the accountant's report as set out in Appendix I to this circular) over the last three years. In addition, the Directors consider that there are no significant changes with an adverse effect on the Target Group that will take place in the near future. Based on the above assessment, the Directors consider that there is no indication of impairment in the value of property, plant and equipment, intangible assets and goodwill for the purpose of this Unaudited Pro Forma Financial Information.

The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill in the future, and communicate such basis with its current auditor.

The amounts are converted from US$ to RMB at the rate of US$1 = RMB6.6778, GBP to USD at the rate of GBP1 = USD1.2976 and GBP to RMB at the rate of GBP1 = RMB8.6651. The sources of these exchange rates are set out in Note 2.

(c) Except for an Advance Payment in the amount of US$4.0 million (equivalent to approximately RMB26.7 million) which is to be settled by cash, the Directors expect that the remaining consideration is to be funded by internal resources of the Group and/or by way of debt or equity financing. As at the Latest Practicable Date, the Group has not made any concrete agreement and arrangement in relation to equity fund raising or debt financing. As stipulated in the Sale and Purchase Agreements, a director's loan due from Paul Wedgwood to the Target Group in the amount of GBP0.5 million (equivalent to approximately RMB4.1 million) will be settled in full at Completion through the offset with PW's Percentage of the Initial Consideration. Therefore, for the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, it is assumed that a current liability and non-current liability in the amount of US$46.5 million (equivalent to approximately RMB310.7 million) and US$64.6 million (equivalent to approximately RMB431.7 million) will be recognised to reflect the consideration payables to the sellers.

The current liability of US$46.5 million (equivalent to approximately RMB310.7 million) represents estimated Completion Value less Advance Payment of US$31.0 million (equivalent to approximately RMB207.0 million), Initial Adjustment Payment of US$6.1 million (equivalent to approximately RMB41.0 million) and Deferred payment of US$10.0 million (equivalent to approximately RMB66.8 million) less the amount due from Paul Wedgwood to the Target Group in the amount of GBP0.5 million (equivalent to approximately RMB4.1 million). These amounts are expected to be settled within 1 year from the Completion Date.

The non-current liability in the amount of US$64.6 million (equivalent to approximately RMB431.7 million) represents the estimated Earn-Out Consideration of approximately US$64.6 million (equivalent to approximately RMB431.7 million), which is expected to be settled after 1 year from the Completion Date.

4) The adjustment represents the estimated professional fee and transaction costs of approximately RMB22.7 million payable by the Group in connection with the Acquisition.

For the purpose of the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group, the estimated transaction costs of the Acquisition amounting to RMB22.7 million are assumed to be paid at completion of the Acquisition. This pro forma adjustment is not expected to have a continuing effect on the unaudited pro forma consolidated statement of comprehensive income or unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

5) The amounts represent the adjustments to the share of profit and comprehensive profit attributable to non-controlling interest in the Acquired Group for the period ended 30 June 2016 assuming that the completion of the acquisition of 97% equity interest in the Acquired Group takes place on 1 January 2016 for the purpose of the Unaudited Pro Forma Financial Information.

6) The adjustments included below are for the purpose of the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group:

(a) the additional amortisation expenses of RMB12.7 million recognised for the intangible assets arising from the business combination of the Target Group, totaling RMB82.1 million, based on the fair values after taking reference of the Appraisal Report of the Target Group as at 30 September 2016 issued by Grant Sherman Appraisal Limited. For the purpose of this Unaudited Pro Forma Financial Information, the Directors consider that there are no significant changes between 30 September 2016 and 1 January 2016 and no separate valuation report as at 1 January 2016 was prepared. Had this report been prepared, the amounts of the additional amortisation expenses for the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group may be different from the amounts presented in this appendix.

(b) the related deferred income tax impact of RMB2.5 million for the Target Group as a consequence of the recognition of deferred income tax liabilities in Note 3(b) above, totaling RMB16.4 million.

7) The adjustment mainly represents the effect of the gain on the disposal of the Disposal Group on the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the period ended 30 June 2016.

8) The adjustment for the purpose of the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the period ended 30 June 2016 represents the cash and cash equivalents acquired of the Target Group, as if the Acquisition had taken place on 1 January 2016.

9) Apart from the Transactions, no other adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions entered into by the Group and Acquired Group subsequent to 30 June 2016, or the Target Group subsequent to 30 September 2016.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Leyou Technologies Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Leyou Technologies Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), Digital Extremes Ltd. and its subsidiaries (the "Acquired Group"), and Fireteam Limited, Splash Damage Limited and Splash Damage Limited's subsidiary and Warchest Limited (the "Target Group") (collectively the "Enlarged Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the period ended 30 June 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-13 of the Company's circular dated 22 February 2017, in connection with the acquisition of the Acquired Group and proposed acquisition of the Target Group (the "Transactions") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-13.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transactions on the Group's financial position as at 30 June 2016 and the Group's financial performance and cash flows for the period ended 30 June 2016 as if the Transactions had taken place at 30 June 2016 and 1 January 2016 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the directors from the Group's unaudited pro forma financial information for the period ended 30 June 2016, on which an independent reporting accountant's assurance report issued by another accountant has been published in accordance with paragraph 4.29(7) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transactions at 30 June 2016 or 1 January 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 February 2017

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

(1) Interests of Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive 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 the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares and underlying Shares as at the Latest Practicable Date

Name of Director/ chief executives	Capacity/ Nature of interests	Number of Shares/ underlying Shares held	Approximate percentage of the Company's issued share capital
Mr. Hsiao Shih-Jin [(1)]	Interest of controlled corporation	545,050,000	19.00%
Mr. Wang Haitong [(2)]	Beneficial owner	14,400,000	0.50%
Mr. Law Kin Fat [(3)]	Beneficial owner	14,400,000	0.50%
Mr. Wong Ka Fai Paul	Beneficial owner	80,000	0.003%

Notes:

1. Mr. Hsiao Shih-Jin held the entire issued share capital of Timerrich Technology Limited, which in turn directly owned 545,050,000 Shares.

2. This represents the number of share options granted to Mr. Wang Haitong.

3. This represents the number of share options granted to Mr. Law Kin Fat.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(2) Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) and companies had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long position in the Shares as at the Latest Practicable Date

Name	Capacity/ Nature of interest	Total number of Shares held	Approximate percentage of the Company's issued share capital
Port New Limited	Beneficial owner	835,570,000	29.13%
Yuk Kwok Cheung Charles	Interest of corporation controlled by the substantial shareholder	835,570,000	29.13%
Timerrich Technology Limited (1)	Beneficial owner	545,050,000	19.00%

Note:

1. Mr. Hsiao Shih-Jin, a Director, holds the entire issued share capital of Timerrich Technology Limited.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director and chief executive of the Company, no other person (not being a Director or chief executive of the Company) or company had, or were deemed to have, any interests or short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter into, any service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation)).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or proposed Directors and their respective close associates had any interest in any business which competes or may compete with the business of the Enlarged Group.

5. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

On 10 August 2016, the Company and Ms. Fu Jianping entered into a sale and purchase agreement, pursuant to which the Company conditionally agreed to sell and Ms. Fu Jianping conditionally agreed to purchase the entire issued share capital of Sumpo International Holdings Limited at the total consideration of RMB215,000,000 (equivalent to approximately HK$258,000,000), subject to the terms and conditions of such sale and purchase agreement (the "**Disposal**"). The Disposal was completed and the consideration thereof was received by the Company on 30 September 2016. Upon the completion of the Disposal, Sumpo International Holdings Limited ceased to be a subsidiary of the Company and would be wholly owned by Ms. Fu Jianping, who is the spouse of Mr. Lin Qinglin, an executive Director of the Company. Please refer to the announcements of the Company dated 10 August 2016 and 30 September 2016 and the circular of the Company dated 14 September 2016 for more details.

Save as discussed above, as at the Latest Practicable Date:

(i) none of the Directors or proposed Director had any direct or indirect interest in any assets acquired or disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2015, the date up to which the latest published audited accounts of the Group were made up; and

(ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole.

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration proceedings of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) Main SPA;

(b) Optionholder SPAs;

(c) a side agreement dated 5 December 2014 entered into between Multi Dynamic Games and Perfect Online in respect of the interest of Perfect Online in an exclusive distribution agreement and the shares of Digital Extremes;

(d) Supplemental SPA;

(e) Second Acquisition Agreement;

(f) an equity transfer agreement and a supplemental agreement dated 10 March 2016 entered into by Mr. Ma Jingcai, Mr. Ye Xinghai, Leyou World (Shenzhen) Science and Technology Co. Ltd. (a wholly-owned subsidiary of the Company) in relation to the transfer of the entire equity interest in 惠州智彬科技有限公司 (Huizhou Zhibin Technology Ltd.) to the Group (the "**Huizhou Acquisition Agreement**");

(g) a cancellation agreement dated 9 November 2016 entered into among the parties to the Huizhou Acquisition Agreement in relation to the termination of the Huizhou Acquisition Agreement;

(h) a sale and purchase agreement dated 10 August 2016 entered into between the Company and Ms. Fu Jianping in relation to the disposal by the Company of Sumpo International Holdings Limited, together with its subsidiaries;

(i) a subscription agreement dated 28 April 2016 entered into between the Company and Chance Talent Management Limited in relation to a fixed coupon redeemable bond to be issued by the Company in an aggregate principal amount of US$42,000,000; and

(j) a termination and settlement agreement dated 17 January 2017 entered into between Warchest and Nexon America in relation to the termination of the exclusive right and licence to maintain, publish, operate and distribute Dirty Bomb granted to Nexon America.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Company since 31 December 2015, the date to which the latest audited financial statements of the Company were made up.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have been named in this circular or have given their opinion or advice contained in this circular:

Name	Qualification
Haitong International Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Bennett Jones LLP	Legal adviser to the Company as to Ontario law
KWM Europe LLP	Legal adviser to the Company as to English law
Hogan Lovells	Legal adviser to the Company as to the sanction law
Frost & Sullivan International Limited	Industry consultant

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion or letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the above experts does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts does not have any direct or indirect interest in any assets which have since 31 December 2015 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

10. INTELLECTUAL PROPERTY RIGHTS OF THE SUBJECT COMPANIES

(a) Trademarks

As at the Latest Practicable Date, the Subject Companies have registered the following trademarks which are considered to be material in relation to the business of the Subject Companies:

No.	Registrant	Trademark	Registration Number	Place of Registration	Class	Registration Date	Expiry Date
Acquired Group							
1.	Digital Extremes	EVOLUTION ENGINE	3909603	USA	9 (US 21, 23, 26, 36, 38)	25 January 2011	25 January 2021
2.	Digital Extremes	Digital Extremes	4488376	USA	9 (US 21, 23, 26, 36, 38)	25 February 2014	25 February 2024
3.	Digital Extremes	WARFRAME	4419480	USA	9 (US 21, 23, 26, 36, 38) 41 (US 100, 101, 107)	15 October 2013	15 October 2023
4.	Digital Extremes	Lotus (Design)	4681057	USA	9 (US 21, 23, 26, 36, 38) 25 (US 22, 39) 41 (US 100, 101, 107)	3 February 2015	3 February 2025
5.	Digital Extremes	WARFRAME	4659588	USA	16 (US 2, 5, 22, 23, 29, 37, 38, 50) 20 (US 2, 13, 22, 25, 32, 50) 25 (US 22, 39) 28 (US 22, 23, 38, 50)	23 December 2014	23 December 2024
6.	Digital Extremes	Lotus (Design)	TMA926283	Canada	9, 16, 25, 41, 42	18 January 2016	18 January 2031
7.	Digital Extremes	Evolution Engine	TMA771289	Canada	9	6 July 2010	6 July 2025
8.	Digital Extremes	DIGITAL EXTREMES	TMA670415	Canada	9, 12, 14, 16, 18, 21, 25, 28, 35, 41, 42	18 August 2006	18 August 2021
9.	Digital Extremes	Warframe	TMA872129	Canada	6, 9, 14, 16, 19, 20, 21, 25, 41, 42	25 February 2014	25 February 2029
10.	Digital Extremes	warframe	5670729	Japan	9, 41	16 May 2014	16 May 2024
11.	Digital Extremes	warframe	5899557	Japan	16, 25, 28	25 November 2016	25 November 2026
12.	Digital Extremes	WARFRAME	11792215	EU	9, 16, 41, 42	25 September 2013	3 May 2023
13.	Digital Extremes	WARFRAME	015530678	EU	16, 20, 28	13 October 2016	10 June 2026
14.	Digital Extremes	WARFRAME	2013 94605[(1)]	Turkey	9, 16, 41, 42	21 November 2013[(2)]	21 November 2023
15.	Digital Extremes	WARFRAME	14015301	China	9	14 March 2015	13 March 2025
16.	Digital Extremes	WARFRAME	14020915	China	28	14 March 2015	13 March 2025
17.	Digital Extremes	WARFRAME	14020952	China	41	14 April 2015	13 April 2025
18.	Digital Extremes	WARFRAME	1598369	Australia	9, 28, 41	23 July 2014	23 December 2023
19.	Digital Extremes	WARFRAME	303797669	Hong Kong	9, 16, 25, 28, 41, 42	6 June 2016	5 June 2026

Notes:

(1) This is the trademark grant number on the relevant trademark registration certificate.

(2) This was the date of application to register the relevant trademark before the Turkish Patent Institute. The date of grant of the relevant trademark registration certificate was 24 November 2014.

No.	Registrant	Trademark	Registration Number	Place of Registration	Class	Registration Date	Expiry Date
Target Group							
1.	Splash Damage		UK00002488680	UK	9, 16, 25, 28, 35, 38, 41, 42, 45	30 January 2009	28 May 2018
2.	Splash Damage	SPLASH DAMAGE	UK00002488681	UK	9, 16, 25, 28, 35, 38, 41, 42, 45	30 January 2009	28 May 2018
3.	Splash Damage	SPLASH DAMAGE	011283371	EU	9, 35, 38, 41, 42	11 March 2013	22 October 2022
4.	Fireteam	FIRETEAM	010288702	EU	9, 35, 38, 41, 42	25 April 2012	17 November 2021
5.	Fireteam	FIRETEAM	1165132	South Korea (Part of International Application)	9, 28, 35, 38, 41, 42	IR Registration Date: 4 October 2012; South Korean Registration Date: 10 June 2015	4 October 2022
6.	Fireteam	FIRETEAM	1165132	Russia (Part of International Application)	9, 28, 35, 38, 41, 42	4 October 2012	4 October 2022
7.	Fireteam	FIRETEAM	IR No. 1165132 US Reg No. 4531359	USA (Part of International Application)	9 (US 21, 23, 26, 36, 38) 28 (US 22, 23, 38, 50) 35 (US 100, 101, 102) 38 (US 100, 101, 104) 41 (US 100, 101, 107) 42 (US 100, 101)	International Filing Date: 4 October 2012 US Registration Date: 20 May 2014	4 October 2022
8.	Fireteam	FIRETEAM	1165132	Japan (Part of International Application)	9, 28, 35, 38, 41, 42	4 October 2012	4 October 2022
9.	Warchest	DIRTY BOMB	010444719	EU	9, 35, 38, 41, 42	18 June 2012	27 January 2022
10.	Warchest	DIRTY BOMB	563652	Russia	9, 35, 38, 41, 42	3 February 2016	17 June 2024
11.	Warchest	DIRTY BOMB	4490532	USA	9 (US 21, 23, 26, 36, 38) 35 (US 100, 101, 102) 38 (US 100, 101, 104) 41 (US 100, 101, 107) 42 (US 100, 101)	4 March 2014	4 March 2024
12.	Warchest	EXTRACTION	012094975	EU	9, 35, 38, 41, 42	31 January 2014	28 August 2023
13.	Warchest	RAD SOLDIERS	010778744	EU	9, 35, 38, 41, 42	15 September 2012	2 April 2022
14.	Warchest	RAD SOLDIERS	1160523	Japan – IR Designate	9, 35, 38, 41, 42	4 October 2012	4 October 2022
15.	Warchest	RAD SOLDIERS	1160523	South Korea – IR Designate	9, 35, 38, 41, 42	4 October 2012	4 October 2022

No.	Registrant	Trademark	Registration Number	Place of Registration	Class	Registration Date	Expiry Date
16.	Warchest	RAD SOLDIERS	1160523	Russian Federation – IR Designate	9, 35, 38, 41, 42	4 October 2012	4 October 2022
17.	Warchest	RAD SOLDIERS	1160523	USA – IR Designate	9 (US 21, 23, 26, 36, 38) 35 (US 100, 101, 102) 38 (US 100, 101, 104) 41 (US 100, 101, 107) 42 (US 100, 101)	International Filing Date: 4 October 2012 US Registration Date: 29 July 2014	4 October 2022
18.	Warchest	TEMPO	012132767	EU	9, 35, 41, 42	12 December 2014	15 October 2023
19.	Warchest	TEMPO	4741816	USA	9 (US 21, 23, 26, 36, 38) 35 (US 100, 101, 102) 41 (US 100, 101, 107) 42 (US 100, 101)	26 May 2015	26 May 2025
20.	Warchest	WARCHEST	010288686	EU	9, 35, 38, 41, 42	10 April 2012	17 November 2021
21.	Warchest	WARCHEST	1160832	South Korea – IR Designate	9, 35, 38, 41, 42	4 October 2012	4 October 2022
22.	Warchest	WARCHEST	1160832	Russian Federation – IR Designate	9, 35, 38, 41, 42	4 October 2012	4 October 2022
23.	Warchest	WARCHEST	1160832	USA – IR Designate	9 (US 21, 23, 26, 36, 38) 35 (US 100, 101, 102) 38 (US 100, 101, 104) 41 (US 100, 101, 107) 42 (US 100, 101)	International Filing Date: 4 October 2012 US Registration Date: 15 July 2014	4 October 2022

(b) Domain Names

As at the Latest Practicable Date, the Subject Companies have registered the following domain names which are considered to be material in relation to the business of the Subject Companies:

	Registrant	Domain Name	Expiry Date
Acquired Group			
1	Digital Extremes	digitalextremes.com	18 November 2021
2	Digital Extremes	warframe.com	18 August 2019
Target Group			
3	Splash Damage	fireteam.net	4 August 2017
4	Splash Damage	splashdamage.biz	12 January 2022
5	Splash Damage	splashdamage.co	21 October 2017
6	Splash Damage	splashdamage.co.uk	27 November 2017
7	Splash Damage	splashdamage.com	11 April 2018
8	Splash Damage	splashdamage.eu	30 June 2017
9	Splash Damage	splashdamage.info	13 January 2022
10	Splash Damage	splashdamage.net	13 January 2022
11	Splash Damage	splashdamage.org	13 January 2022
12	Splash Damage	splashdamage.tv	13 January 2022
13	Splash Damage	splashdamage.uk	5 January 2018
14	Splash Damage	warchest.com	26 September 2017
15	Splash Damage	warchestgames.com	25 November 2017
16	Splash Damage	dirtybombgame.com	21 November 2017

Registrant		Domain Name	Expiry Date
17	Splash Damage	dirtybombthegame.co.uk	21 November 2018
18	Splash Damage	dirtybombthegame.com	21 November 2017
19	Splash Damage	playdirtybomb.com	21 November 2017
20	Splash Damage	radsoldiers.asia	19 April 2018
21	Splash Damage	radsoldiers.biz	18 April 2017
22	Splash Damage	radsoldiers.co.uk	19 April 2018
23	Splash Damage	radsoldiers.com	29 March 2019
24	Splash Damage	radsoldiers.info	19 April 2017
25	Splash Damage	radsoldiers.net	19 April 2017
26	Splash Damage	radsoldiers.org	19 April 2017
27	Splash Damage	radsoldiers.pro	19 April 2018
28	Splash Damage	radsoliders.tv	19 April 2017
29	Splash Damage	radthegame.com	14 February 2019
30	Splash Damage	tempo-game.com	2 May 2017
31	Splash Damage	tempothegame.com	2 May 2017
32	Splash Damage	playtempo.com	2 May 2017
33	Splash Damage	squadcommunity.com	20 December 2017

11. GENERAL

(a) The registered office, the headquarters and principal place of business in the Cayman Islands of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suites 1020-22, 10th Floor, Two Pacific Place, 88 Queensway, Hong Kong.

(c) The Company's Hong Kong branch share registrar and transfer office is Tricor Investor Services Limited, situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Mr. Yau Yan Ming Raymond, who is a Fellow Member of the Hong Kong Institute of Certified Public Accountants, a Fellow Member of the American Institute of Certified Public Accountants, and a Certified Tax Adviser of the Taxation Institute of Hong Kong.

(e) The English text of the circular and the accompanying form of proxy shall prevail over their respective Chinese text for the purpose of interpretation.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the normal business hours at Unit 2001, Level 20, One International Finance Center, 1 Harbour View Street, Central, Hong Kong from the date of this circular up to and including the EGM date:

(a) the memorandum of association and the articles of association of the Company;

(b) the material contracts referred in the paragraph headed "7. Material contracts" in this Appendix;

(c) the annual reports of the Company for each of the three financial years ended 31 December 2013, 31 December 2014 and 31 December 2015;

(d) the interim report of the Company for the six months ended 30 June 2016;

(e) this circular;

(f) the letter from the Board;

(g) the accountants' report on the Target Group, the text of which is set out in Appendix I to this circular;

(h) the accountants' report on the Acquired Group, the text of which is set out in Appendix II to this circular;

(i) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular; and

(j) the written consent referred to under the section headed "9. Experts and consents" in this Appendix.

LEYOU TECHNOLOGIES HOLDINGS LIMITED
樂遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1089)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Leyou Technologies Holdings Limited (the "**Company**") will be held at Conference Suite, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 9 March 2017 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the Main SPA (as defined in the circular of the Company dated 22 February 2017 (the "**Circular**"), a copy of which has been produced before the EGM marked "A" and initialled by the chairman of the EGM for the purpose of identification), the Optionholder SPAs (as defined in the Circular), all other documents referred to therein respectively and the transactions contemplated respectively thereunder be and are hereby approved, ratified and confirmed; and

(b) any director of the Company (the "**Director**") be and is hereby authorised to sign, execute, perfect, perform and deliver all such other agreements, instruments, deeds and documents for and on behalf of the Company and do all such acts or things and take all such steps as he/she may in his/her absolute discretion consider to be necessary, desirable, appropriate or expedient to implement or give effect to or otherwise in connection with or incidental to the Main SPA and the Optionholder SPAs, all other documents referred to therein respectively and all the transactions contemplated respectively thereunder and to agree to such variations, amendments or waivers as are, in the opinion of such Director, in the interests of the Company."

By order of the board of directors of
Leyou Technologies Holdings Limited
Law Kin Fat
Vice Chairman

Hong Kong, 22 February 2017

Notes:

1. A member of the Company who is a holder of two or more shares of the Company, and who is entitled to attend and vote at the EGM is entitled to appoint more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM and any adjournment thereof. In such event, his form of proxy will be deemed to have been revoked.

2. A form of proxy for the EGM is enclosed with the Company's circular dated 22 February 2017. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed on the form together with a valid power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment of such meeting.

3. The Hong Kong branch register of members of the Company will be closed from 7 March 2017 to 9 March 2017 (both dates inclusive), for the purposes of determining the entitlements of the members of the Company to attend and vote at the EGM. No transfers of Shares may be registered during the said period. In order to qualify to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 6 March 2017.

As at the date of this notice, the board of directors of the Company comprises Mr. Lin Qinglin, Mr. Law Kin Fat, Mr. Wu Shiming, Mr. Hsiao Shih-Jin and Mr. Wong Ka Fai, Paul as executive directors, Mr. Eric Todd as non-executive director, and Mr. Hu Chung Ming, Mr. Yang Chia Hung and Mr. Chan Chi Yuen as independent non-executive directors.