LEYOU TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1089

ANNUAL REPORT 2019

Contents

Corporate Information	2
Financial Highlights	3
Chairman's Statement	4
Management Discussion and Analysis	10
Corporate Governance Report	22
Directors and Senior Management Profile	42
Report of the Directors	46
Environmental, Social and Governance Report	66
Independent Auditors' Report	89
Audited Consolidated Financial Statements	
Consolidated Statement of Profit or Loss	96
Consolidated Statement of Profit or Loss and Other Comprehensive Income	97
Consolidated Statement of Financial Position	98
Consolidated Statement of Changes in Equity	100
Consolidated Statement of Cash Flows	102
Notes to the Consolidated Financial Statements	104
Five-Year Financial Summary	208

Corporate Information

DIRECTORS

Executive Directors

Mr. Xu Yiran *(Chairman and Chief Executive Officer)*
Mr. Li Yang *(Deputy Chairman)*
Mr. Gu Zhenghao
Mr. Cao Bo

Non-Executive Directors

Mr. Eric Todd
Mr. Cheng Chi Ming Brian *(Resigned on 5 June 2019)*

Independent Non-Executive Directors

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

AUDIT COMMITTEE

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

REMUNERATION COMMITTEE

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Chan Chi Yuen
Mr. Xu Yiran

NOMINATION COMMITTEE

Mr. Xu Yiran *(Committee Chairman)*
Mr. Hu Chung Ming
Mr. Chan Chi Yuen

COMPANY SECRETARY

Mr. Chan Siu Tak

AUTHORISED REPRESENTATIVES

Mr. Xu Yiran
Mr. Chan Siu Tak

LEGAL ADVISORS AS TO HONG KONG LAW

MinterEllison LLP
Level 32, Wu Chung House,
213 Queen's Road East,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark, 11 Pedder Street,
Central, Hong Kong

STOCK CODE

1089

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of Communications Co., Ltd.

REGISTERED OFFICE

Cricket Square, Hutchins Drive, P.O. Box 2681,
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3201, Tower Two, Lippo Centre,
89 Queensway, Admiralty,
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.leyoutech.com.hk

Financial Highlights

	For the year ended 31 December		
	2019	2018	Change
	US$'000	US$'000	%
RESULTS HIGHLIGHTS			
Revenue	**214,235**	227,720	–5.9%
Gross profit	**121,781**	141,487	–13.9%
Gross profit margin (%)	**56.8%**	62.1%	–5.3%
(Loss)/profit for the year	**(6,489)**	20,367	N/A
(Loss)/profit for the year attributable to the owners of the Company	**(8,379)**	20,413	N/A
EBITDA[1]	**49,620**	66,982	–25.9%
Adjusted EBITDA[2]	**83,240**	85,293	–2.4%
Basic (loss)/earnings per share (US cents)	**(0.27)**	0.67	N/A
Diluted (loss)/earnings per share (US cents)	**(0.27)**	0.66	N/A
Dividend per share (US$)	**Nil**	Nil	N/A

	As at 31 December 2019	As at 31 December 2018	Change
	US$'000	US$'000	%
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS			
Total assets	**322,848**	310,703	+3.9%
Total interest-bearing borrowings[3]	**25,772**	42,868	-39.9%
Net assets	**251,806**	230,742	+9.1%
Net assets per share (US$)[4]	**0.08**	0.08	–
Current ratio	**1.57**	1.50	+4.7%
Gearing ratio[5]	**8.0%**	13.8%	–5.8%

1 EBITDA = Earnings before interest income, interest expense, taxation, depreciation and amortisation

2 Adjusted EBITDA = EBITDA less impairment losses and equity-settled share-based payment expenses

3 Total interest-bearing borrowings = Bank borrowings + debenture

4 Net assets per share (US$) = Net assets/Total number of shares at the end of the reporting period

5 Gearing ratio = Total interest-bearing borrowings/Total assets

Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the board ("Board") of directors ("Directors") of Leyou Technologies Holdings Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group"), I am pleased to present the annual report for the year ended 31 December 2019.

2019 was a challenging year. The Group recognised a slight year-on-year decrease of US$13.5 million in revenue to US$214.2 million during the reporting period. Loss for the year was US$6.5 million. The Group's EBITDA was US$49.6 million, representing a year-on-year decrease of 25.9%. After excluding impairment losses and equity-settled share-based payment expenses, adjusted EBITDA only reduced slightly by 2.4% to US$83.2 million in 2019.

Before going into the detailed analysis of the reasons behind the fluctuating annual results, I would like to share some of my observations and views on the changes and trend of the global gaming market in 2019.

Blockbuster-driven market: The inadequacy of new blockbuster games resulted in a slowdown of total revenue growth of the gaming market. According to 2019 Year In Review released by Superdata, total revenue of the global gaming industry was US$120.1 billion, a mere 4% growth year-on-year in contrast to the high growth rate of 13% in 2018. Relying heavily on hit games, the industry saw its revenue driven up in 2018 thanks to the launch of two masterpieces in *Fortnite* and *Red Dead Redemption 2*. Two conclusions could be drawn from this phenomenon. Firstly, players are looking for higher game quality, propelling developers to create better games. Well-made games become a definite trend, while slipshod products will be phased out. Secondly, considering the unpredictability of whether a game is a smash hit, teams with previous success in developing a hit and their experiences become valuable, because this is the complete solution of producing successful products, doubling the hit rate in future.

The release of new console: The highly anticipated next-generation consoles of Sony and Microsoft are likely to be launched in the end of 2020, denoting that current-generation consoles are gradually entering the end of their product life cycles. Several researches revealed that the sales of PlayStation 4 and Xbox One in 2019 had both declined 20% to 30% year-on-year, and the decline was further accelerating. The sale of Xbox hardware had dropped 48% during the fourth quarter of 2019 compared with same period in 2018. The shrinkage in the number of new console players was corresponding to the decrease in the units sold, while existing players showed less purchasing desire for games on current-generation consoles when expecting the launch of new ones. The two combined factors contributed to the year-on-year drop of 10% to 20% in sales revenue and subscription businesses of Sony and Microsoft.

Chairman's Statement

Personal computer ("PC") and console free-to-play ("F2P") online games: As premium games were still the mainstream in console platform, F2P online games only accounted for 10% in the console game market in terms of revenues. This was a relatively low figure when compared to the 16% in 2018, where *Fortnite* was the major contributing factor. In terms of the number of games, F2P online games accounted for merely over 1% in the console market. Few years ago, we anticipated a blue ocean in the console game market, which still exists these days, awaiting distinguished F2P online games to fill the void.

Successful PC or console games going mobile: The 2019 award-winning *Call of Duty Mobile* achieved approximately 150 million downloads in the first month of its mobile launch, raking in US$53.9 million in revenue. That proved again the potential of extending successful PC or console games to mobile devices, and led the trend of popular PC and console game IPs going to mobile versions. More similar cases are predicted in the next few years.

Three years ago when the Group started to build and integrate its business, we have established our core strategy to develop and publish high-quality PC and console F2P online games for players around the world, and have been committed to the same development direction throughout the years. The business model of offering F2P online games does not lesson our pursuit of and investment in game quality. Recognition and affirmation from players are our highest goal. Combining our experience in operating *Warframe* globally over the years, and our high-caliber game design team in China which has intensive experiences in bringing fun elements through social interactions in video games and commercialisation, the Group assembled a comprehensive development and operation system applicable to the F2P online gaming market worldwide, in order to continuously develop new hits.

Our views on the PC and console F2P market have been accurate. From the perspective of current market size, the blue ocean still prevails in the gaming market, especially in the console market. The industry development these years basically coincided with our prediction three years ago. We are gratified that a few F2P online games developed by the western development teams have become massive hits, bustling the market and cultivating the consumption habits of Western players for free online games.

Meanwhile, I have spoken publicly on occasions about the Group's strategy of transforming successful PC or console games into mobile version. Although we are not a mobile game developer and our strengths lay on PC and console properties, we embrace mobile games. The portability of mobile devices attracted an immense number of players, turning it into the biggest gaming platform in terms of both the number of users and revenue. Our strategy is to integrate the proven successful products on PC and consoles to mobile devices to provide a cross-platform gaming experience for our users, in order to leverage our own strengths while maximising the success rate of new products at the same time. We are expediting the strategic layout in this aspect.

Following the analysis of market and strategies, I shall discuss the Group's financial performance during the reporting period. Faced with the launch of several large-scale competing products from top international video game companies in 2019, *Warframe* was adversely affected with less exposure. Besides, suffering from the decline in the units of current-generation consoles sold, the number of new users had reduced. Another factor that caused *Warframe* to run below expectation in 2019 is its update strategy on size, type and cadence: since Fortuna update was released in the fourth quarter of 2018, the development team of *Warframe* has spent all of their efforts on the Empyrean update, which was eventually released in the end of 2019. There was no other major update during the interval, particularly the story quests that fans love. Nevertheless, the three abovementioned factors were temporary. Along with the ambitious 2020 plans that *Warframe's* development team are having, I believe these temporary factors will gradually diminish and the performance of *Warframe* will excel again.

Splash Damage Limited ("Splash Damage"), our major work-for-hire studio, saw growth during the reporting period after the reorganisation of its senior management team. It launched *Gears 5* and other well received products and acquired new customers and contracts, achieving a revenue growth of 9.6%. However, the growth in revenue of the work-for-hire business could only partially offset the decline in revenue of the game development and publishing business.

Looking forward, beyond *Warframe*, the Group embraces a wider market. For the past several years, the top concern from our investors was that the Group has a relatively small product portfolio and a high level of revenue concentration. That has been the most critical issue on strategic level that I have to solve other than further growing *Warframe*. Building a rich and high-quality product portfolio, managing and balancing the themes, genres and release years of the games can help the Group achieve revenue growth, diversify income base and reduce operational risks. All these are essential to building an emerging video game regime. Building such a product portfolio requires considerable investment, yet the Group is delighted to continuously devote time and resources in new product lines in hope of turning them into our future competitive advantages. After two years of dedication, we have built a high-quality diversified product pipeline including but not limited to *Transformers* and *Civilization Online*, which are under smooth progress. Some smaller-scale worthy projects were launched during the reporting period, while certain products with larger investment have also entered the final stage of development and will gradually commence online testing stage. Among these smaller-scale worthy products, *Endless World* is a F2P casual online game developed and published by the Group. First tested online in August 2019 on Steam, *Endless World* was elected 2019 Game of the Year Award (New Release) on Steam in the same year. Besides, the progress of *The Lord of the Rings* was also encouraging as the Group entered into an agreement with Amazon Game Studios whereby the parties would co-develop and publish a F2P multiplayer online game based on *The Lord of the Rings*. We are proud that our reserve of top-level IPs and new products have surpassed many peers, consolidating our leading position in the industry.

Continuous investment in human resources is as important as the project investment. The gaming industry heavily relies on the creativity of game talents. Therefore, employees are the most vital intangible assets of the Group. As at the end of the reporting period, the Group's total number of employees was 1,046, increased by 17.7% year-on-year. Our employees are mainly located in Hong Kong, Beijing, Guangzhou, Shanghai, London of Canada, Los Angeles, and London of the United Kingdom. We constantly recruit skilled talents in game development and operation all around the world, and build an international inclusive game development team, and refine cross-studios and cross-countries co-development and collaboration, while forging learning culture and integrating the Chinese and Western markets and experiences.

In summary, despite the fluctuation in our financial performance to a certain extent during the reporting period, the management is confident in the Company's mid to long-term results. In the next few years, the Group will launch more flagship products in the market and bring more joy and pleasure to players. In the meantime, the Group understands that while it is an arduous journey to grow a game development business, we will continue to be pragmatic and persistent so as to bring us further.

During the reporting period, the Group received tremendous attention from the capital market, and even acquisition intentions with competitive terms from some well-heeled peers and investors. We are grateful for potential investors' recognition in our strategies and achievements. The transaction is still under progress. Whether the acquisition transaction will complete or not, the company will continue to leverage its proven strategy, excellent products and reliable team, to maximise returns to all shareholders.

I would like to take this opportunity to express my heartfelt gratitude to our shareholders, potential shareholders, members of the Board, senior management and all our staff for their dedication and contribution during the year. On the behalf of the Board, I would like to thank our clients, suppliers, and business partners for their relentless support and trust. Going forward, we shall strive to explore further opportunities and overcome challenges, as we remain steadfast and committed to attaining better results for the Group.

Mr. Xu Yiran
Chairman

Hong Kong, 25 March 2020

Management Discussion and Analysis

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2019, the Group witnessed a certain decline in results compared to the previous year. Total revenue for the year was US$214.2 million, representing a year-on-year decrease of 5.9%. The decrease was due to a drop in the game development and publishing segment revenue from US$201.9 million in 2018 to US$182.2 million in 2019. The decline was partially offset by an increase in work-for-hire segment revenue. Gross profit margin reduced from 62.1% in 2018 to 56.8% in 2019, and gross profit decreased by US$19.7 million year-on-year to US$121.8 million. Such decrease of gross profit margin was mainly attributable to the increase in labour costs for game development and impairment of development expenditure. The Group's EBITDA was US$49.6 million (2018: US$67.0 million), representing a year-on-year decrease of 25.9%. It was mainly because of the drop in gross profit and increase in selling and marketing cost and net exchange loss. After excluding impairment losses and equity-settled share-based payment expenses, adjusted EBITDA only reduced slightly by 2.4% to US$83.2 million in 2019. Nevertheless, owing to the impact of non-recuring items, loss attributable to the owners of the Company of US$8.4 million was recorded during the reporting period. During the reporting period, game development and publishing, work-for-hire and other businesses contributed 85.1%, 14.5% and 0.4% of total revenue to the Group, respectively.

Game Development and Publishing Business

The game development and publishing business is currently the Group's main source of revenue. As at 31 December 2019, this segment comprised several F2P online games distributed globally, as well as a series of new products in development. In terms of financial results, the revenue and profit of this segment were mainly contributed by *Warframe*, a flagship product of the Group.

The following table shows the main operational data of *Warframe*:

	Year ended 31 December		
	2019	2018	Change
	(in thousands, unless otherwise stated)		
Total number of registered users	**57,465**	48,094	+19.5%

Warframe

Warframe is a F2P science fiction-themed multiplayer third-person action game available on PC and consoles (including PlayStation 4, Xbox One and Switch). The game is developed and published by one of the Group's subsidiaries, Digital Extremes Ltd. ("Digital Extremes"). It was first launched in March 2013 and celebrated its sixth anniversary during the reporting period. Since its initial launch, *Warframe* has been one of the most popular F2P properties worldwide, and has been striking new highs each year. *Warframe* steadily sits amongst the top 10 of all game genres in terms of the number of players and playtime on Steam, and has a 92% positive review score from players. *Warframe* is also one of the top F2P games on PlayStation 4 and Xbox One in terms of revenue. The consistent success of *Warframe* is attributable to the unique and strong development and publishing capabilities of the Group for F2P online games. The Group provides frequent updates of premium game content for all platforms across the world, offering efficient and timely customer services, helping build a cohesive, passionate gamer community and facilitating communications between gamers and the development team through online and offline interactions.

During the reporting period, the revenue of *Warframe* reduced by 12.2% year-on-year, mainly driven by three reasons. Firstly, large-scale AAA games with themes and gameplay similar to *Warframe* were launched and endorsed by reputable game studios and publishing companies. The strong market promotion of these highly competitive new products inevitably diverted market attention from *Warframe* to a certain extent. Secondly, with the next-generation consoles to be released by the end of 2020, sales of current models have been declining, which contributed to a reduced number of new console players. Thirdly, due to the size and scale of development work related to *Empyrean*, a milestone content update for *Warframe*, the update cadence was temporarily affected and less new game content was released during the reporting period. Nevertheless, the Company believes that *Warframe* demonstrates a strong edge in the highly competitive gaming market. As the game will remain a popular F2P online game, the abovementioned factors are likely to be fleeting. Meanwhile, the management is proactively responding to the above hindrances. On one hand, the Group increased the frequency of its game updates, and further optimised the marketing channel and direction to boost product exposure. On the other hand, the Group was preparing to expand *Warframe* to more platforms, such as the next-generation consoles and other devices, to hedge the risk of contracting new users on consoles. The Group is confident that *Warframe* will enter into a new stage of development, after overcoming these temporary setbacks.

In 2019, *Warframe* adhered to its strategy in content updates. Subsequent to the successful release of *Plains of Eidolon* in 2017 and *Fortuna* in 2018, the Group launched *Empyrean*, another milestone content update for *Warframe*. The launch of *Empyrean* embarked the interstellar exploration in the *Warframe* world. *Warframe's* team has been devoting tremendous efforts in refining the concept idea and enriching the gameplay. Similar to the addition of open world environments, *Empyrean* will become another pillar of the *Warframe* experience which further expands the possibilities for players and future development. Upon winning the Steam Platinum Best-selling Game (12 games with the highest annual total revenues) and the Games with Highest Simultaneous Online Users (6 games with the highest numbers of simultaneous online users) in both 2017 and 2018, *Warframe* won these two top titles in 2019 again, being the only non-Valve (Steam's developer) F2P online game with such accolades on Steam.

Looking ahead to 2020, content updates for *Warframe* in the story quest, *The New War* and another open world are planned to be launched in 2020. Besides, we will have further content updates of *Empyrean*, and will optimise the beginner guidance process and beginner's level. 2020 will be another prospering year for *Warframe*, and more plans will be announced to players in TennoCon in July 2020.

Telltale Games

The Group's publishing subsidiary, Athlon Games, took part as a publishing partner in the revival of Telltale Games, a well-known US game brand shut down in 2018, and obtained the exclusive publishing rights of certain games, including *Batman* and *The Wolf Among Us*. As the narrative games returned to the market with high profile in 2019, the Group was honoured to participate in this meaningful deal, and launched *Batman: Shadows Edition* in late 2019, extending the popularity of this IP product.

Endless World

Endless World is a F2P idle role-playing game ("RPG") on the Steam platform developed and published by the Group. Despite paltry marketing efforts, *Endless World* received nearly 80% positive review score from players and ranked among Top Sellers, and was thereby elected 2019 Game of the Year Award (New Release) on Steam.

New Product Line

Concurrent with the persistent quality updates and optimisation of our existing games, the Group also attaches great importance to the development of new products, by either creating original IPs or working with globally renowned ones. The Group boasts a high-caliber game design team which understands well both the fun elements brought by social interactions in video games and the healthy monetisation through game as a service (GaaS), and draws on the successful design and operational experience of *Warframe* from the European and American mainstream game market, combining the Group's experienced teams with strong research and development capabilities in China, to make smooth progress in the development of new game products.

During the reporting period, the Group and Amazon Game Studios entered into an agreement to co-develop and co-publish a F2P massively multiplayer online game based on *The Lord of the Rings*. Combining the huge organic traffic of popular IP, strategic partnership with international internet titan, with the Group's leading game development and publishing capabilities, the Group is capable to maximise the success rate of turning the new product into a blockbuster. As at 31 December 2019, besides *The Lord of the Rings*, the Group had *Transformers, Civilization Online* and multiple unannounced new products in various development stages which were progressing well. Some of these products have entered the final stage of development and are expected to be launched in 2020.

Work-for-hire and Other Businesses

During the reporting period, the Group's work-for-hire business (being mainly Splash Damage), recorded a total revenue of US$31.2 million, representing an increase of 22.3% compared to 2018. After the changes in the senior management team at the end of 2018 and early 2019, the studio adopted a more pragmatic management style with a greater focus on exceptional production quality. Two high quality releases were launched during the year: *Gears 5*, co-developed by Splash Damage for Xbox Game Studios, earned a 9.0 review from IGN.com; the studio also brought *Halo: Reach* to Xbox Game Studios' *The Master Chief Collection*, which went on to achieve a score of 9.5 from IGN.com. The highly anticipated *Gears Tactics*, developed by Splash Damage for Xbox Game Studios, will be launched on 28 April 2020.

Not only did both results and reputation improve, this segment also had success in business development. During the reporting period, the Group won multiple new deals, achieving steady revenue growth for the business. As at 31 December 2019, the Group had a number of new business deals on hand, which will bring stable cash income to the Group.

Other businesses mainly include the sale of merchandise goods, which generated revenue of US$0.9 million during the reporting period (2018: US$0.3 million).

Material Transactions And Events

Material transactions and events of the Group for the year ended 31 December 2019 were identified and are set out in the section headed “Report of the Directors” of this annual report.

Critical Accounting Estimates and Judgements

The results of the Group reflect the choice of accounting policies, assumptions and estimates that underlie the preparation of the consolidated financial statements. The significant accounting policies, including the policies which include critical accounting estimates and judgements, are described in Note 4 to the consolidated financial statements. The accounting policies listed below are highlighted as they involve a high degree of uncertainty and have a material impact on the consolidated financial statements:

- Valuation of financial instruments: In determining the fair value of financial instruments, a variety of valuation techniques are used, some of which feature significant unobservable inputs and are subject to substantial uncertainty. See Note 39(c) to the consolidated financial statements.

- Goodwill impairment: A high degree of uncertainty is involved in estimating the future cash flows of the cash generating units (“CGUs”) and the rates used to discount these cash flows. See Note 17 to the consolidated financial statements.

Environmental, Social and Governance

For the year ended 31 December 2019, the Group has made continuous efforts and investment in minimising risks associated with environmental, social and governance (“ESG”) factors, improving employee well-being and contributing back to the community. No non-compliance with laws and regulations in relation to the ESG aspects was recorded. Engagement with internal and external stakeholders has resulted in raised concerns on material issues, which included: intellectual property rights, customer data protection, employment, anti-corruption and labour standards. These aspects had been strictly managed by the Group. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing its ESG management.

Events after the Reporting Period

Further details of the events after the reporting period are set out in Note 49 to the consolidated financial statements.

Outlook

As a game changer in the global video game market, the Group is committed to providing more compelling games to a diverse user base while at the same time increasing the revenue growth momentum of the games. The Group will strive to increase the players’ engagement in and loyalty to existing major games and release more game content with higher average revenue per user. The comprehensive product line will lay a solid foundation for the Group’s profit growth in the next few years and bring better returns to its shareholders.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by 5.9%, from US$227.7 million for the year ended 31 December 2018 to US$214.2 million for year ended 31 December 2019, primarily due to the decline in revenue from *Warframe,* market competition and reduced number of new console players. Such decrease was partially offset by an increase in work-for-hire segment revenue.

Revenue by Nature of Business

The following table sets out the breakdown of the Group's revenue by nature of business for the years ended 31 December 2019 and 2018, respectively:

	2019	2018
	US$'000	US$'000
Game development and publishing	**182,207**	201,909
Work-for-hire	**31,160**	25,488
Sale of merchandise goods	**868**	323
	214,235	227,720

Revenue by Geographical Market

The following table sets forth a breakdown of the Group's revenue by geographical market based on the locations of the principal operations of the subsidiaries for the years ended 31 December 2019 and 2018, respectively:

	2019	2018
	US$'000	US$'000
Canada	**174,875**	194,481
United Kingdom ("UK")	**26,524**	33,103
United States of America ("US")	**11,761**	–
People's Republic of China ("PRC")	**1,075**	136
	214,235	227,720

Gross Profit

The Group's total gross profit decreased by 13.9%, from US$141.5 million for the year ended 31 December 2018 to US$121.8 million for the year ended 31 December 2019, and the gross profit margin decreased from 62.1% for the year ended 31 December 2018 to 56.8% for the year ended 31 December 2019, primarily due to the increase in direct labour costs for game development and impairment of development expenditure.

Other Revenue and Gains

Other revenue and gains decreased by 85.1%, from US$8.2 million for the year ended 31 December 2018 to US$1.2 million for the year ended 31 December 2019, primarily due to the net exchange loss recorded during the year ended 31 December 2019 (2018: net exchange gain of US$6.3 million).

Selling and Marketing Expenses

Selling and marketing expenses increased by 64.3%, from US$13.5 million for the year ended 31 December 2018 to US$22.1 million for the year ended 31 December 2019, which was mainly driven by the increased marketing activities to further promote the brand awareness of *Warframe* and *Endless World*.

Administrative Expenses

Administrative expenses increased by 44.1%, from US$34.6 million for the year ended 31 December 2018 to US$49.8 million for the year ended 31 December 2019. Administrative expenses primarily consist of staff costs, legal fee, impairment losses and depreciation. The increase was primarily driven by greater staff costs and impairment losses on trade and other receivables.

Amortisation of Intangible Assets

Amortisation of intangible assets decreased by 6.0%, from US$18.5 million for the year ended 31 December 2018 to US$17.4 million for the year ended 31 December 2019, primarily as a result of impairment of intangible assets of US$2.5 million during the year ended 31 December 2019.

Impairment of Intangible Assets

Impairment of intangible assets for the year ended 31 December 2019 amounted to US$2.5 million (2018: US$4.9 million), which was mainly due to the underperformance of a developed game.

Finance Costs

Finance costs increased significantly by 2.4 times, from US$0.8 million for the year ended 31 December 2018 to US$2.7 million for the year ended 31 December 2019, primarily as a result of interest on bank borrowings drawdown during the second half of 2018. Finance costs included interests on bank borrowings of US$1.6 million (2018: US$0.7 million) and interest on lease liabilities in respect of the adoption of HKFRS 16 of US$1.1 million (2018: Nil), which was made effective at the beginning of 2019.

Equity-settled Share-based Payment Expenses

Equity-settled share-based payment expenses increased by 39.0%, from US$4.4 million for the year ended 31 December 2018 to US$6.1 million for the year ended 31 December 2019, primarily as the Company granted 154,479,884 share options under the share option scheme during the year.

Taxation

Taxation decreased by 18.5%, from US$23.5 million for the year ended 31 December 2018 to US$19.1 million for the year ended 31 December 2019.

Financial Positions

Property, Plant and Equipment

Property, plant and equipment comprise mainly the Group's leasehold land and buildings, office equipment and motor vehicles. As at 31 December 2019, property, plant and equipment amounted to US$36.2 million (2018: US$39.9 million). The decrease was mainly attributable to the depreciation and impairment loss which amounted to US$2.2 million and US$3.3 million, respectively, during the year.

Goodwill

Goodwill was allocated to cash-generating units in Canada, UK and PRC. As at 31 December 2019, goodwill amounted to US$79.3 million (2018: US$76.4 million). The increase was mainly attributable to the exchange alignment during the year.

Intangible Assets

Intangible assets comprise brand name, completed game, game engine, game under development and trademark. As at 31 December 2019, intangible assets amounted to US$14.1 million (2018: US$31.5 million). The significant decrease was mainly attributable to amortisation of intangible assets which amounted to US$17.4 million during the year.

Development Expenditure

Development expenditure represents payment to independent video game developers under development agreements. As at 31 December 2019, development expenditure amounted to US$84.7 million (2018: US$48.3 million). The significant increase was mainly due to the continuous involvement of several projects under development during the year.

Financial Assets at Fair Value Through Other Comprehensive Income

As at 31 December 2019, financial assets at fair value through other comprehensive income amounted to US$10.1 million (2018: US$9.1 million). The increase was mainly due to the change in the fair value of financial assets at fair value through other comprehensive income during the year.

Financial Assets at Fair Value Through Profit or Loss

As at 31 December 2019, financial assets at fair value through profit or loss amounted to US$2.7 million (2018: US$8.5 million). The decrease in financial assets at fair value through profit or loss during the year was mainly attributable to disposal of financial assets and fair value loss.

Trade receivables

As at 31 December 2019, trade receivables amounted to US$22.6 million (2018: US$44.3 million). The significant decrease was in line with business activities during the fourth quarter of current year.

Bank borrowings

As at 31 December 2019, the Group had bank borrowings of US$25.2 million (2018: US$42.3 million). The bank borrowings were secured by leasehold land and buildings as the Group's office premises are located in Hong Kong ("HK"), and were included in property, plant and equipment with carrying amount of US$30.3 million (2018: US$34.0 million) and a corporate guarantee given by a subsidiary of the Group for an amount up to US$25 million (2018: US$25 million). The significant decrease was due to repayment of bank borrowings during the year.

Deferred tax liabilities

Deferred tax liabilities comprise withholding tax on tax liabilities on upward valuation of intangibles arising from business combination and accelerated tax depreciation. As at 31 December 2019, deferred tax liabilities amounted to US$4.8 million (2018: US$9.1 million). The decrease in deferred tax liabilities was in line with amortisation of intangible assets during the year.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

The Group generally finances its operations with internally generated cash flow and debt financing activities for its capital requirements. All financing methods will be considered as long as such methods are suitable and beneficial to the Group.

As at 31 December 2019, cash and bank balances amounted to US$22.1 million (2018: US$32.7 million), which were denominated in US$, Canadian Dollars ("CAD"), British Pound ("GBP"), Renminbi ("RMB") and Hong Kong Dollars ("HK$"). The decrease in cash and bank balances was mainly due to the increase in development expenditure and repayment of bank borrowings during the year.

Interest-bearing Borrowings and Gearing Ratio

As at 31 December 2019, the total amount of interest-bearing borrowings was US$25.8 million (2018: US$42.9 million). The significant decrease was mainly attributable to repayment of bank borrowings during the year. Details of the Group's bank borrowings, including the maturity profile, currency and interest rate, are set out in Note 29 to the consolidated financial statements.

As at 31 December 2019, the gearing ratio of the Group was 8.0% (2018: 13.8%). The gearing ratio was calculated by dividing total interest-bearing borrowings by total assets of the Group as at 31 December 2019.

SEGMENTAL INFORMATION

Details of segmental information are set out in Note 5 to the consolidated financial statements.

PROSPECT

As introduced in the section headed "Business Overview" in this annual report, the Company will devote its efforts to achieving the goals set by the Board and the management.

OTHER INFORMATION

Human Resources

As at 31 December 2019, the Group had 1,046 employees (2018: 889).

Staff Costs

Total staff costs, including directors' emoluments, amounted to US$38.0 million for the year ended 31 December 2019 (2018: US$29.8 million). All members of the Group are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered.

Retirement Costs Benefits

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

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

The employees of the Group's subsidiaries which operate in Canada may make voluntary contributions to the Registered Retirement Savings Plan. The subsidiaries match the employee contributions up to an annual maximum. These subsidiaries have no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

A defined contribution plan is a pension plan under which the Group's subsidiaries which operate in UK pay fixed contributions into a separate entity. The Group's subsidiaries have 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.

The Group's subsidiary in the US participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, the Group's subsidiary matches voluntary employee's contribution at a rate of 100% for the first 6% of the employee's eligible compensation. Employee contributions are voluntary.

For defined contribution plans, the Group's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group's subsidiaries have 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.

Share Option Scheme

The share option scheme of the Company ("Share Option Scheme") was adopted for a period of 10 years on, and commenced from, 25 August 2017. Details of the rules of the Share Option Scheme were set out in the circular of the Company dated 8 August 2017. As at the date of this report, the total number of outstanding share options granted under the Share Option Scheme was 415,607,021 share options.

MATERIAL RISKS FACTORS

Equity Price Risk

The Group's held-for-trading investments are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity price risk due to the fluctuation of fair value of held-for-trading investment. Our management closely monitors the market condition of the listed securities and regularly reviews the exposure to the equity price risk on held-for-trading investment.

Foreign Exchange Risk

The Group's main operations are in Canada, UK, PRC (including HK) and US. Most of the assets, income, payment and cash balances are denominated in US$, RMB, HK$, CAD and GBP. Any significant exchange rate fluctuations of US$ against RMB, HK$, CAD and GBP may have financial impacts on the Group. The Group did not enter into any foreign exchange hedging arrangement. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies.

Given the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items above, it is possible that the outcomes in the next financial year could differ from the expectations on which management's estimates are based, resulting in the recognition and measurement of amounts materially different from those estimated by management in the consolidated financial statements.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the year ended 31 December 2019, the Group did not have other plans for material investments and capital assets.

PLEDGE OF ASSETS

As at 31 December 2019, bank borrowings of the Group with carrying amount of US$25.2 million (2018: US$42.3 million) were secured under a mortgage arrangement over the Group's office premises located in HK and a corporate guarantee given by a subsidiary of the Group.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2018, the Group had operating lease commitments of US$24.3 million.

As at 31 December 2019, the Group had capital commitments of US$97.0 million (2018: US$43.4 million).

CONTINGENT LIABILITIES

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

Corporate Governance Report

INTRODUCTION

The Company believes that good corporate governance will not only improve management accountability and investor confidence, but will also lay a good foundation for the long-term development of the Company. Therefore, the Company strives to develop and implement effective corporate governance practices and procedures. The Company has adopted a corporate governance code based on the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as guidelines for corporate governance of the Company and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Deviations from the Code

In the opinion of the Directors, the Company has complied with all relevant code provisions (the "Code Provision(s)") set out in the Code, except for Code Provision A.2.1 as explained below.

Under Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Xu Yiran has been performing the dual roles of Chairman and Chief Executive Officer ("CEO") of the Company since 5 September 2017. In light of the rapid development of the Group, the Board believes that by vesting the roles of both chairman and chief executive officer in the same person, the Group can enjoy consistent leadership which in turn facilitates strategic planning and prompt and effective execution of business plans. In addition, under the current composition of the Board, namely four executive Directors, one non-executive Director and three independent non-executive Directors, the Board believes that the interests of shareholders of the Company are adequately and fairly represented. The Board considers that the present corporate governance arrangement does not impair the balance of power and authority within the Group.

Save as aforesaid, in the opinion of the Directors, the Company has met all the code provisions set out in the Code during the year ended 31 December 2019.

DIRECTORS

Role and composition of the Board

The Board, led by the Chairman, steers the Company's business direction. The Board is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors during the year and up to the date of this annual report are:

Executive Directors:
Mr. Xu Yiran *(Chairman and Chief Executive Officer)*
Mr. Li Yang *(Deputy Chairman)*
Mr. Gu Zhenghao
Mr. Cao Bo

Non-executive Directors:
Mr. Eric Todd
Mr. Cheng Chi Ming Brian *(Resigned on 5 June 2019)*

Independent Non-executive Directors:
Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

An updated list of the Directors by category identifying their role and function and whether they are independent non-executive Directors is at all times available on the websites of the Company and the Stock Exchange.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section headed "Directors and Senior Management Profile" of this annual report on pages 42 to 45.

The Directors have no relationship (whether financial, business, family or other material/relevant relationship(s)) with each other.

Attendance at Board and general meetings

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the Directors in person or through other electronic means of communication.

During the year, the Board held 16 meetings and the Company held its annual general meeting on 28 June 2019 and one extraordinary general meeting on 16 December 2019 to consider and ratify the grant of excess options under the Share Option Scheme. The attendance records of each Director at the Board meetings and general meetings held in 2019 are set out below:

Directors	Board Meetings	General Meetings
Executive Directors		
Mr. Xu Yiran	16/16	2/2
Mr. Li Yang	12/16	1/2
Mr. Gu Zhenghao	16/16	2/2
Mr. Cao Bo	16/16	2/2
Non-executive Directors		
Mr. Eric Todd	14/16	2/2
Mr. Cheng Chi Ming Brian *(Resigned on 5 June 2019)*	2/9	N/A
Independent Non-executive Directors		
Mr. Hu Chung Ming	16/16	2/2
Mr. Chan Chi Yuen	14/16	2/2
Mr. Kwan Ngai Kit	12/16	2/2

Notice of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers, together with all appropriate, complete and reliable information, are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or Board committee meeting, except agreed otherwise among the Directors, to ensure that they have sufficient time to review the Board papers, to adequately prepare for the meeting, to keep abreast of the latest developments and financial position of the Company, to enable the Directors to include any matter in the agenda and to make informed decisions.

When necessary and upon making request to the Board, Directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and Board committee meetings are kept by the company secretary of the Company. All of the above minutes record in sufficient detail the matters considered and decisions reached by the relevant members, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant Board committees for comment within a reasonable time after each meeting.

According to the current Board practice, if a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened Board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction concerned will be present at the Board meeting. Directors are required to abstain from voting and are not counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and CEO should be separate and should not be performed by the same individual.

Mr. Xu Yiran has been performing the dual roles of Chairman and Chief Executive Officer of the Company since 5 September 2017. In light of the rapid development of the Group, the Board believes that by vesting the roles of both chairman and chief executive officer in the same person, the Group can enjoy consistent leadership which in turn facilitates strategic planning and prompt and effective execution of business plans.

In addition, under the current composition of the Board, namely four executive Directors, one non-executive Director and three independent non-executive Directors, we believe that the interests of shareholders of the Company are adequately and fairly represented. The Board considers that the present corporate governance arrangement does not impair the balance of power and authority between the Board and the management of the Group, given the appropriate delegation of power of the Board and the effective functions of the independent non-executive Directors.

As the Chairman, Mr. Xu Yiran is responsible for, among other things, the following:

- ensuring, with the assistance of the management of the Company, that the Directors receive adequate, accurate, clear, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings;

- providing leadership for the Board;

- ensuring that the Board works effectively, performs its responsibilities, discusses all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;

- drawing up, approving and considering whether to include the matters proposed by other Directors into the agenda for each Board meeting (this responsibility has been delegated to the company secretary of the Company and a designated Director);

- encouraging all Directors to fully and actively contribute to the Board's affairs and express different views and discuss issues in sufficient depth before reaching any consensus in Board's decisions;

- facilitating the effective contribution of Directors, in particular, the non-executive Directors, and promoting the constructive relations between the executive and non-executive Directors; and

- ensuring the effective communication between the Board and shareholders as a whole through different channels, including (i) printed or electronic copies (as elected by the shareholders) of corporate communications required by the Listing Rules; (ii) the annual general meeting which provides a forum for the shareholders to raise comments and exchange views with the Board; (iii) the Company's website which allows the shareholders to acquire the updated and key information on the Group and to provide feedback for the Company; and (iv) handling of the enquiries from the shareholders and investors generally.

Independent Non-executive Directors

The independent non-executive Directors play an important role on the Board. They are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Group as a whole.

Throughout the year ended 31 December 2019, the Board met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing at least one-third of the Board, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number and mix of independent non-executive Directors on the Board for the year under review have met the applicable requirements under the Listing Rules.

Pursuant to Rule 3.13 of the Listing Rules, the Company has received an annual confirmation from each independent non-executive Director confirming his independence. The Company has assessed the independence of the independent non-executive Directors and considers that for the year ended 31 December 2019, all of them are independent based on the independence criteria under the Listing Rules, their non-involvement in the daily operation and management of the Company, and the absence of any relationships which may interfere with the exercise of their independent judgements.

Pursuant to Article 84(1) of the articles of association of the Company (the "Articles"), at each annual general meeting, not less than one-third of the Directors for the time being shall retire from office by rotation and every Director, including those who are appointed for a specific term and the non-executive Directors, shall be subject to retirement by rotation at least once every 3 years while those retiring Directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting. Mr. Eric Todd, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Non-Executive Director

The term of appointment of non-executive Directors is not more than three years (subject to re-appointment or re-election). Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

Nomination of Directors

On 28 March 2012, the Board established a nomination committee (the "Nomination Committee") pursuant to the requirements of the Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. The Nomination Committee considers matters regarding the nomination and/or appointment or re-appointment of Directors.

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

The company secretary of the Company (the "Company Secretary") works closely with the newly appointed Directors both immediately before and after his appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out directors' duties and responsibilities under the Listing Rules, Companies Ordinance and other relevant legal and regulatory requirements is provided to each newly appointed Director. The Directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time.

The Board views that the non-executive Directors are well aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgement at Board meetings, taking the lead where potential conflicts of interest arise, scrutinising the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and Nomination Committee as required.

The Directors are required to disclose to the Company at the time of their appointment, the number and nature of offices held in public companies or organisations and other significant commitments. They are also required to inform the Company of the identity of other public companies or organisations they serve and the time involved in serving these public companies or organisations. The Directors are also required to notify the Company in a timely manner any change in the above information.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation which he/she is charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as amount of attention devoted. The attendance at Board meetings, Board committee meetings and general meetings reflects the constant participation of all Directors, including executive and non-executive Directors, and ensures the better understanding of the views of the shareholders by the Directors. The Company believes that the extent of participation and contribution should be viewed both quantitatively and qualitatively.

In the event the Directors consider it necessary to obtain additional information other than that provided by the management of the Company, the Directors are encouraged to make inquiries during the Board meetings and Board committee meetings. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

Every newly appointed Director will receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has a proper understanding of the Group's operations and business, and is fully aware of the statutory and regulatory obligation of a listed issuer's director.

The Directors are continually updated with business and market changes, as well as legal and regulatory developments to facilitate the discharge of their responsibilities, through various Board meetings, Board papers, memoranda and updates on corporate governance practices and director's responsibilities under the Listing Rules, applicable laws and other relevant statutory requirements.

According to the records maintained by the Company, the Directors received the following training, with an emphasis on the roles, functions and duties of a director of a listed company, in compliance with the requirement of the Code on continuous professional development during the year under review:

Directors	Corporate governance/ Updates on law, rules and regulations	Accounting/ Finance/ Management/ Other professional skills	Updates on business and market changes
Executive Directors			
Mr. Xu Yiran	✓	✓	✓
Mr. Li Yang	✓	✓	✓
Mr. Gu Zhenghao	✓	✓	✓
Mr. Cao Bo	✓	✓	✓
Non-executive Directors			
Mr. Eric Todd	✓	✓	✓
Mr. Cheng Chi Ming Brian *(Resigned on 5 June 2019)*	✓	✓	✓
Independent non-executive Directors			
Mr. Hu Chung Ming	✓	✓	✓
Mr. Chan Chi Yuen	✓	✓	✓
Mr. Kwan Ngai Kit	✓	✓	✓

Based on the records maintained by the Company, the Company is of the view that all Directors have complied with Provision A.6.5 of the Code.

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made of all Directors and they confirmed that throughout the year ended 31 December 2019, each of them has complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2019 are set out in the "Report of the Directors" of this annual report.

The Board has also established written guidelines on terms no less exacting than the Model Code for certain employees, including any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of inside information in relation to the Company or its securities, in respect of their dealings in the Company's securities. No incident of non-compliance of the written guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure operational efficiency and that specific issues are being handled by persons with relevant expertise. All Board committees are provided with accurate and sufficient information in a timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company.

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior Board approval.

The functions reserved to the Board and those delegated to management have been formalised and are reviewed periodically to ensure that they remain appropriate.

The types of decisions to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or re-appointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies;
- corporate governance duties;
- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct applicable to employees and Directors; and
- reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report.

The Board may from time to time delegate certain functions to the management where appropriate. The types of decisions that the Board has delegated to the management include:

- approving the expansion of the Group's activities into a new geographic location or a new business (provided that such expansion does not amount to a material change in business of the Group);
- approving the assessment and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving any fully exempt connected transactions under the Listing Rules;
- approving the nomination and appointment of personnel other than members of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters and day-to-day operation of the Group (including transactions other than notifiable transactions and non-fully exempt connected transactions under the Listing Rules and cessation of immaterial part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

BOARD COMMITTEES

The Board currently has three principal board committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee (collectively, the "Board Committees").

Nomination Committee

Role and function

The Nomination Committee is governed by its terms of reference, which were revised by the Board on 4 February 2019 to take effect on 1 January 2019 and are available on the websites of the Company and the Stock Exchange.

The main duties of the Nomination Committee include the following:

- reviewing the structure, size, composition and diversity of the Board;
- identifying suitably qualified individuals to become members of the Board;
- assessing the independence of the independent non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, and any proposed change to the Board to complement the Company's corporate strategy; and
- reviewing the time required of a Director to perform his responsibilities.

Composition and meetings

The Nomination Committee currently comprises one executive Director, namely Mr. Xu Yiran (as Committee Chairman), and two independent non-executive Directors, namely Mr. Hu Chung Ming and Mr. Chan Chi Yuen.

During the year, 1 Nomination Committee meeting was held. The attendance records of each member of the Nomination Committee at the Nomination Committee meeting are set out below:

Members of Nomination Committee	Attendance/Number of Meeting held during the tenure of memberships
Executive Director	
Mr. Xu Yiran *(Committee Chairman)*	1/1
Independent Non-Executive Directors	
Mr. Hu Chung Ming	1/1
Mr. Chan Chi Yuen	1/1

Work performed during the year

During the year, the Nomination Committee reviewed and/or approved the following:

- the structure, size and composition of the Board;
- the independence of independent non-executive Directors;
- the re-election of Directors;
- the sufficiency of time commitment of Directors; and
- the independence of Mr. Hu Chung Ming, who has been serving on the Board for more than nine years by December 2019.

The Nomination Committee adopted a "Procedure and Criteria for Nomination of Directors" in 2011, the details of which are set out below:

1. When there is a vacancy on the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination as Directors, which shall be attended by one or more members of the Board.
5. Conduct verification of information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors

   (a) Character and integrity
   (b) Willingness to assume board fiduciary responsibility
   (c) Present needs of the Board for particular experience or expertise and whether the candidate could satisfy those needs
   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organisation, industry experience and familiarity with the products and processes used by the Company
   (e) Significant business or public experience relevant and beneficial to the Board and the Company
   (f) Breadth of knowledge about issues affecting the Company
   (g) Ability to objectively analyse complex business problems and exercise sound business judgement
   (h) Ability and willingness to contribute special competencies to Board activities
   (i) Fit with the Company's culture

2. Criteria Applicable to Non-executive Directors and Independent Non-executive Directors

   (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
   (b) Accomplishments of the candidate in his/her field
   (c) Outstanding professional and personal reputation
   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules for the nomination of independent non-executive Director

The Company provides the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice wherever necessary and at the Company's expense, in order to perform its responsibilities.

The Company adopted a board diversity policy ("Board Diversity Policy") in August 2013 which sets out its approach to achieving and maintaining diversity on the Board in order to enhance its effectiveness.

The Company recognises the benefits of board diversity and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent – by drawing from the diverse competencies and perspectives, it enables the Company to be in the best position to deal with key issues facing it. The Company endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve board diversity through considering a number of factors, including professional qualifications and experience, cultural and educational background, gender, age and length of service when reviewing the composition of the Board. The Company also takes into consideration factors based on its own business model and specific needs from time to time in determining the optimal composition of the Board.

The Board will assess annually on the Company's diversity profile and its progress in achieving its diversity objective. Further, the Company will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Company considers that the current composition of the Board is characterised by diversity, whether considered in terms of professional background or skills. Nevertheless, the Board also notes that it currently does not consist of any female Director. The Company values the importance of gender diversity, and will take the opportunity to increase the number of female Directors over time when selecting and recommending suitable candidates for Board appointment. The Board endeavours to ensure that gender diversity can be achieved with reference to the recommended best practice, stakeholders' expectation and the actual need of the Company.

Remuneration Committee

Role and function

The Remuneration Committee is governed by its terms of reference, which were revised by the Board on 29 March 2012 pursuant to the Code. The terms of reference are made available on the websites of the Company and the Stock Exchange.

The Remuneration Committee was established in December 2010. The Remuneration Committee consults the Chairman and/or CEO about the remuneration proposals for other executive Directors. The Remuneration Committee meets when required to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Composition and meetings

The Remuneration Committee comprises two independent non-executive Directors, namely Mr. Hu Chung Ming (as Committee Chairman) and Mr. Chan Chi Yuen, and one executive Director, namely Mr. Xu Yiran.

During the year, 5 Remuneration Committee meetings were held. The attendance records of each member of the Remuneration Committee at the Remuneration Committee meetings are set out below:

Members of Remuneration Committee	**Attendance/Number of Meeting(s) held during the tenure of memberships**
Executive Director	
Mr. Xu Yiran	5/5
Independent Non-Executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	4/5
Mr. Chan Chi Yuen	5/5

Work performed during the year

The work performed by the Remuneration Committee during the year included the following:

- considered the remuneration adjustment of Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, as an independent non-executive Director;
- reviewed the Company's emolument policy and structure for all Directors and senior management of the Company;
- reviewed salary adjustment and 2018 bonus proposal of the Group and recommended the same to the Board for consideration; and
- determined the policy for the remuneration of executive Directors, assessed performance of executive directors and approved the terms of executive Directors' services contracts.

The Remuneration Committee has adopted the model set out under the Code Provision B.1.2(c)(ii) to make recommendations to the Board on the remuneration package of the individual executive Director and senior management.

The human resource department of the Company provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Emoluments of Directors

The emoluments of the Directors of the Company for the year ended 31 December 2019 are set out on Note 11 to the consolidated financial statements.

Audit Committee

Role and function

The Audit Committee is governed by its terms of reference, which were revised by the Board on 17 December 2015 and further revised by the Board on 4 February 2019 to take effect on 1 January 2019. The terms of reference are made available on the websites of the Company and the Stock Exchange.

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

Composition and meetings

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Hu Chung Ming (as Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit. Mr. Hu Chung Ming is the chairman of the Audit Committee, who has considerable experience in accounting and financial management.

During the year, 3 Audit Committee meetings were held and the attendance of each member at the Audit Committee meetings is as follows:

Members of Audit Committee	Attendance/Number of Meeting(s) held during the tenure of memberships
Independent Non-Executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	3/3
Mr. Chan Chi Yuen	3/3
Mr. Kwan Ngai Kit	3/3

Work performed during the year

The work performed by the Audit Committee during the year included consideration of the following matters:

- the completeness and accuracy of the 2019 interim report and the 2019 annual report;
- the Company's compliance with statutory and regulatory requirements, developments in accounting standards and the effect on the Company;
- the internal control report for year ended 31 December 2019;
- the connected transactions for year ended 31 December 2019;
- the scope of audit of risk management and internal control of the Group;
- findings and recommendations from the management on internal control;
- the terms of engagement of the external auditors;
- the nature and scope of work of the external auditors;
- the management letter prepared by the external auditors; and
- recommendations to the Board on the re-appointment of HLB Hodgson Impey Cheng Limited ("HLB") as the external auditors.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee has been also provided with sufficient resources to perform its duties.

The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting, HLB be re-appointed as the Company's external auditors for the forthcoming year.

The Audit Committee meets with the management from time to time to review the interim and annual results, the interim and annual reports and other financial, internal control, corporate governance and risk management matters of the Group. It considers and discusses the results announcements and the reports with the Group's internal and external auditors, with a view to ensuring that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in HK. It also meets at least once a year with the Group's principal external auditors, HLB, to consider their reports in respect of the scope, strategy, progress and outcome of its independent review on the interim financial report and annual audit of the consolidated financial statements. In addition, the Audit Committee holds regular private meeting(s) with the external auditors and internal auditor separately without the presence of the management.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Group had net assets of US$251.8 million as at 31 December 2019 and recorded a loss attributable to owners of the Company of US$8.4 million for the year ended 31 December 2019.

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors have acknowledged their responsibilities for the preparation of the Group's consolidated financial statements for each financial period which gives a true and fair view of the Group's financial position, financial performance and cash flows for that period.

The statement by the external auditors of the Company regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" on pages 89 and 95 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the consolidated financial statements set out on pages 96 to 207 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives is explained in the section headed "Management Discussion and Analysis" set out on pages 10 to 21 of this annual report.

The management of the Company provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company.

The management of the Company also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under the Listing Rules.

Risk Management and Internal Controls

The Board acknowledges its responsibility to ensure the Company maintains a sound and effective risk management and internal control system, as well as to review their effectiveness. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Company has established an internal audit function which generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems. The Group's internal control system is designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Review of the Group's internal controls covers major financial, operational and compliance controls, as well as risk management functions.

The Group's risk management framework includes risk identification, risk assessment, risk treatment and monitoring, and the review of the measures' effectiveness. This risk management framework is guided by the three-tier risk management approach:

(i) As the first line of defense, business units are responsible for the day-to-day risk management and control processes to identify, assess and monitor risks associated with each business or deal.

(ii) The management, as the second line of defense, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defense is effective.

(iii) As the final line of defense, the Audit Committee, with the professional advice and opinions from the external professional consultant by whom internal audit work of the Group was conducted on an annual basis, ensures that the first and second lines of defense are effective through constant inspection and monitoring.

The risk management and internal controls were reviewed by the external professional consultants for the year ended 31 December 2019, covering major financial, operational and compliance controls, as well as risk management functions. In addition, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made. Based on the risk management process that includes risk identification, risk assessment and prioritisation, risk owner appointment, risk treatment and upward reporting and monitoring of identified risks to the Group and the Audit Committee. The senior management's input on changes of risk exposures across the business lines was solicited through a structured risk identification and update questionnaire to refresh the Group's risk universe. Identified risks were further assessed and evaluated by a scale rating process by management across the business lines to evaluate their impact to the Group and likelihood of their occurrence as a result of changes in internal and external factors, future events or otherwise. The risks were then prioritised based on the evaluation results and further interviews with senior management for confirmation. The top risks of the Group, as well as whether these risks are being effectively managed; and if not, the need for establishing further actions, were reported through the risk management report.

The Board, as supported by the Audit Committee, has from time to time reviewied the effectiveness of the risk management and internal control systems of the Group during the year ended 31 December 2019, and the Board is of the view that such systems are effective and adequate with no significant areas of concern which may have an effect on the Group being identified. The Group has also commenced the review for next fiscal year and will continue to build on the established risk management process further enhance its approach to manage risks.

Handling and dissemination of inside information

In order to align with the disclosure requirement provided in the Securities and Futures Ordinance (the "SFO") and the Listing Rules, the Company has developed its disclosure policy to provide the general guideline on handling inside information, monitoring of information disclosure and response to queries to its Directors, officers, senior management and the relevant employees. The Company has executed supervision programs to confirm the strict prohibition from unauthorised access to and use of inside information.

Connected Transactions

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted on normal commercial terms better, are fair and reasonable and are properly disclosed and (if necessary) approved by the independent Shareholders in accordance with Listing Rules. Details of the connected transactions of the Company during the year ended 31 December 2019 are set out in the Report of the Directors.

Auditors' Remuneration

For the year under review, the remuneration paid for services provided by the external auditors are as follows:

	US$'000
Audit services	218
Non-audit services (including taxation compliance and agreed upon procedures)	38

COMPANY SECRETARY

Mr. Chan Siu Tak ("Mr. Chan") has been acting as the Company Secretary since 2017. The biographical details of Mr. Chan are set out under the section headed "Directors and Senior Management Profile" of this annual report.

Mr. Chan took not less than 15 hours of relevant professional training during the year ended 31 December 2019 pursuant to Rule 3.29 of the Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company endeavours to uphold a high level of corporate transparency. Keeping shareholders, investors, analysts, bankers and other stakeholders informed of our corporate strategies and business operations has been one of the key objectives of our investor relations team.

The general meetings of the Company provide the best opportunity for communication between the Board and shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations. The Chairman and chairman of the Board Committees or, in their absence, other members of the respective committees are available to answer questions at the shareholders' meetings.

The external auditors of the Company, HLB, also attended the Company's annual general meeting held on 28 June 2019 to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

In compliance with the Code, a shareholders communication policy was formulated on 29 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with the shareholders. The effectiveness of the shareholders communication policy will be reviewed by the Board from time to time.

During the year under review, there has been no changes to the Articles of Association.

Voting by Poll

As stated in each relevant corporate communication of the Company, shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting will explain the voting procedures and answer any questions from the shareholders regarding voting by poll in general meetings. The poll voting results of the Company's general meetings will be published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

Shareholders' Rights

(i) Procedures for Shareholders to Convene an Extraordinary General Meeting

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

(ii) Procedures by which Enquiries May Be Put to the Board

Shareholders and other stakeholders may send their enquires and concerns to the Board in writing for the attention of the Company Secretary at Suite 3201, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong or by sending e-mail to enquiry@leyoutech.com.hk. The Company Secretary will forward the enquiries or concerns to the CEO and Chairman or senior management as appropriate for handling.

(iii) Procedures for Putting Forward Proposals at Shareholders Meetings

Shareholders are welcomed to put forward proposals relating to the operation, strategy and/or management of the Group to be discussed and considered at shareholders' meetings. Proposals shall be sent to the Board and the Company Secretary by written requisition (contact details are set out above). Pursuant to the Articles, shareholders who wish to put forward a proposal should convene an extraordinary general meeting in accordance with the procedures set out in the section headed "Procedures for Shareholders to Convene an Extraordinary General Meeting" above.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. Timely disclosure of relevant corporate information includes annual and interim reports, regulatory announcements, corporate presentation and press releases which are available on the Company's website at www.leyoutech.com.hk and the Stock Exchange's website. Enquiries and proposals to be put forward at the shareholders' meetings can be sent to the Board or senior management of the Company in the manner prescribed above, or raised during the question and answer session at the shareholders' meetings of the Company.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Xu Yiran ("Mr. Xu")

Mr. Xu, aged 47, has been an executive Director and Chief Executive Officer of the Company since 30 June 2017. In addition, he was appointed as the chairman of the Board, the chairman of the nomination committee of the Company, a member of the remuneration committee of the Company and an authorised representative of the Company under the Listing Rules. Mr. Xu also serves as a director of several subsidiaries of the Company.

Mr. Xu graduated from Tsinghua University in the PRC with a Bachelor's degree in Automation in 1996. He obtained a Master's degree in Precision Instruments and Mechanology from Tsinghua University and a Master of Business Administration in Finance from the Chinese University of Hong Kong in 1999 and 2007 respectively. Mr. Xu has over 20 years of experience in the gaming industry. Mr. Xu served as Game Director at Sohu Inc (NASDAQ: SOHU) from 2003 to 2005, Investment Director at Giant from 2008 to 2010. Mr. Xu served as Senior Vice President and Chief Business Officer at Perfect World Co., Ltd. (NASDAQ: PWRD) from 2010 to 2015 and president of game business at Qihoo 360 Technology Co., Ltd. from 2015 to 2017 respectively. He was a director of SNK Corporation (KOSDAQ Stock Code: 950180) from 1 September 2015 to 30 October 2019.

Mr. Li Yang ("Mr. Li")

Mr. Li, aged 48, was appointed as deputy chairman of the Board and an executive Director on 23 November 2018 with a term of 3 years. He obtained a junior college degree of Electronic Engineering from Shenzhen University in 1992 and his EMBA from Shenzhen College of Economics and Management (深圳經濟管理學院) in 2000. Mr. Li also completed a master degree programme of the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院), majoring in World Economics in 2001. Mr. Li has approximately 20 years of experience in investment activities and business management.

Mr. Li previously acted as a deputy chairman and an executive director of China Best Group Holding Limited (Stock Code: 370) from September 2014 to June 2018. He was appointed as a director of Brand Marvel Worldwide Consumer Products Corporation (TSXV symbol: BMW), a Canadian publicly traded company on the TSX Venture Exchange, from December 2010 to January 2016. Mr. Li was appointed as the chairman and director of Guanghe Landscape Culture Communication Co., Ltd., Shanxi* (山西廣和山水文化傳播股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (SHA Stock Code: 600234) from July 2015 to September 2016. He was an independent non-executive director of Sino Haijing Holdings Limited (Stock Code: 1106) from February 2017 to December 2018. Mr. Li also serves as a director of several subsidiaries of the Company.

Mr. Gu Zhenghao ("Mr. Gu")

Mr. Gu, aged 49, has been an executive Director since 14 March 2017.

Mr. Gu graduated with a Bachelor's degree in Economics from Renmin University of China in July 1992. Mr. Gu has over 20 years of experience in the banking and investment industry. Mr. Gu worked in China Construction Bank Co., Ltd. Shenzhen Branch (中國建設銀行股份有限公司深圳市分行) from July 1992 to July 2013, and also worked in Shenzhen Zhanfei Investment Limited (深圳市展飛投資有限公司) from August 2013 to March 2016.

Mr. Cao Bo ("Mr. Cao")

Mr. Cao, aged 33, has been an executive Director since 5 September 2017. He graduated from The University of Bath with a Bachelor's degree in Science in Mathematical Sciences with first-class honours in June 2008 and obtained a Master's degree of Science in Mathematical and Computational Finance from The University of Oxford in October 2009. He served as the trust manager of the trust business division of China Credit Trust Co., Ltd. from August 2009 to January 2017. He has been serving as the managing director of the Trust Investment Department of Zhongrong International Trust Co., Ltd since January 2017.

NON-EXECUTIVE DIRECTOR

Mr. Eric Todd ("Mr. Todd")

Mr. Todd, aged 58, has been a non-executive Director since 24 July 2015.

Mr. Todd possesses extensive professional experience in the auditing, financial management, investment and media industry. Mr. Todd holds a bachelor of science degree in business administration from Boston University in the United States. He was a certified public accountant in the State of California, the United States from September 1989 to January 2010. Mr. Todd started his career at the Hong Kong office of KPMG (formerly known as KPMG Peat Marwick) from 1985 to 1990 and subsequently joined the Standard Chartered Bank Group and worked from 1991 to 1995. Prior to joining the Company, he had been employed as a business consultant and also served as finance director for several companies engaged in the media industry.

Mr. Todd is currently an executive director of DeTai New Energy Group Limited (stock code: 559), Chinese Food and Beverage Group Limited (stock code: 8272) and Shi Shi Services Limited (formerly known as Hang Sheng Holdings Limited and Kong Shun Union Property Management (Holding) Limited) (stock code: 8181). Mr. Todd was also an executive director of Hsin Chong Group Holdings Limited (previous stock code: 404; delisted now) from March 2017 to March 2019 and an independent non-executive director of Boill Healthcare Holdings Limited (formerly known as "Ngai Shun Holdings Limited") (stock code: 1246) from July 2016 to August 2017. The securities of these companies are listed on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Chung Ming ("Mr. Hu")

Mr. Hu, aged 47, has been an independent non-executive Director since 17 December 2010. Mr. Hu is also the chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee.

Mr. Hu has been a certified practising accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow member of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings Limited（中國軟包裝控股有限公司）from 2003 to 2007, Yunnan Junfa Real Estate Company Limited（雲南俊發房地產有限責任公司）from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (Stock Code: 1938) from 2009 to 2011 respectively. Mr. Hu was the chief financial officer and the company secretary of Mobile Internet (China) Holdings Limited (Stock Code: 1439; formerly known as China Packaging Holdings Development Limited) from January 2014 to February 2020. Mr. Hu has been an independent non-executive director of Ying Hai Group Holdings Company Limited (Stock Code: 8668) since 3 September 2019. Mr. Hu graduated from the University of Queensland with a bachelor's degree in commerce in December 1996.

Mr. Chan Chi Yuen ("Mr. Chan")

Mr. Chan, aged 53, has been an independent non-executive Director since 24 July 2015. He is also a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. He obtained a Bachelor's degree with honours in Business Administration in January 1992 and a Master of Science with distinction in Corporate Governance and Directorship in November 2007. He is a fellow of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales. Mr. Chan Chi Yuen is a practising certified public accountant and has extensive experience in financial management, corporate development, corporate finance and corporate governance.

Mr. Chan is currently an executive director and the chief executive officer of Hong Kong ChaoShang Group Limited (formerly known as "Noble Century Investment Holdings Limited") (stock code: 2322), an executive director and the chairman of Royal Century Resources Holdings Limited (stock code: 8125), an independent non-executive director of Asia Energy Logistics Group Limited (stock code: 351).

Mr. Chan was an executive director of Great Wall Belt & Road Holdings Limited (formerly known as e-Kong Group Limited) (Stock Code: 524) from June 2015 to October 2019, an independent non-executive director of U-RIGHT International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited) (Stock Code: 627) from November 2010 to December 2017, an independent non-executive director of Jun Yang Financial Holdings Limited (now known as Power Financial Group Limited) (Stock Code: 397) from January 2005 to October 2017, an independent non-executive director of Affluent Partners Holdings Limited (Stock Code: 1466) from December 2016 to September 2018, an independent non-executive director of China Baoli Technologies Holdings Limited (Stock Code: 164) from April 2006 to September 2019, an independent non-executive director of Media Asia Group Holdings Limited (stock code: 8075) from September 2009 to March 2020 and an independent non-executive director of New Times Energy Corporation Limited (stock code: 166) from May 2006 to March 2020. The shares of all the aforesaid companies are listed and traded on the Stock Exchange.

Mr. Kwan Ngai Kit ("Mr. Kwan")

Mr. Kwan, aged 40, has been an independent non-executive Director and a member of the Audit Committee since 5 July 2017.

Mr. Kwan has been the chief financial officer and the company secretary of Modern Dental Group Limited (stock code: 3600) since 26 October 2016, and is responsible for corporate finance, merger and acquisition matters, financial and accounting management, investor relations, corporate governance as well as compliance affairs. Prior to March 2014, he worked as a senior manager in both the assurance department and the professional practice department of Ernst & Young during which he acquired extensive capital market transaction experience. He has been an independent non-executive director of Rare Earth Magnesium Technology Group Holdings Limited (formerly known as Group Sense (International) Limited) (Stock Code: 601) since 6 June 2016, Lai Group Holding Company Limited (Stock Code: 8455) since 24 March 2017 and A & S Group (Holdings) Limited (Stock Code: 1737) since 21 February 2018 respectively. Mr. Kwan is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwan obtained a Master's degree in Business Administration from The Chinese University of Hong Kong in November 2014 and a Bachelor's degree from The Hong Kong Polytechnic University in November 2002.

COMPANY SECRETARY

Mr. Chan Siu Tak, aged 42, has been the financial controller and company secretary of the Company since 2017. Mr. Chan is an associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan graduated from the Hong Kong Polytechnic University with a Bachelor's degree in Accountancy. Mr. Chan has over 18 years of experience in accounting and financial management, audit, corporate governance and company secretarial matters. Prior to joining the Company, Mr. Chan worked for another listed company in Hong Kong and an international accounting firm.

Report of the Directors

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are set out in Note 46 to the consolidated financial statements.

RESULTS

The financial performance of the Group for the year ended 31 December 2019 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 96 to 207 of this annual report.

FINAL DIVIDEND

The Board adopted a dividend policy on 4 February 2019 to take effect on 1 January 2019.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

- the Group's actual and expected financial performance;
- shareholders' interests;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject;
- possible effects on the Group's creditworthiness;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;
- liquidity position and future commitments at the time of declaration of dividend;
- taxation considerations;
- statutory and regulatory restrictions;
- general business conditions and strategies;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems appropriate.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

BUSINESS REVIEW

A discussion and analysis of the Group's performance during the year and the financial key performance indicators affecting its results and financial position are set out in the section headed "Management Discussion and Analysis" on pages 10 to 21 of this annual report.

A fair review of, and an indication of likely future development in, the Group's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees, customers and suppliers are discussed in this section and also under the section headed "Environmental, Social and Governance Report" on pages 66 to 88 of this annual report.

Principal Risks and Uncertainties

The followings are the major risks and uncertainties currently faced or anticipated by the Group.

Operational risk

In order to achieve sustainable growth of our business, we must retain our existing users, attract new users, maximise the network effect of our platform and ultimately improve our monetisation capabilities. This requires that we consistently launch popular games and release updates for our existing games, so as to keep our users engaged and therefore remain on our gaming platform. However, we cannot guarantee that our existing popular games can sustain their current level of popularity. Users may lose interest in our games over time despite our efforts in improving or upgrading our established titles. Although the Group is dedicated to maintaining its hardware and providing software updates to enhance the gaming experience for our players, the gaming experience may still be adversely affected by any server or software problem which may in turn affect the games' and the Company's reputation.

A majority of the games we publish are free to download and play. Adopting an item-based revenue model, and being in line with the industry norm, only a small percentage of users who play our games in any period are paying users. As such, in order to sustain our revenue growth, we must effectively monetise our user base by converting active users to paying users and by encouraging paying users to increase their spending on our games. We invest in user data analysis to better understand our users' in-game consumption patterns.

We regard the intellectual property rights granted to us by our game developer partners, as well as our own copyrights, trademarks and other intellectual property, as critical to our success. Unauthorised use of these intellectual property rights may harm our brands and reputation and adversely affect our business. Although the contracts with our business partners prohibit the unauthorised use of our brands and intellectual property rights, we cannot assure that they will always comply with these terms. Further, these agreements may not effectively prevent disclosure of confidential information to unauthorised third parties and may not provide adequate remedy in the event of such unauthorised disclosure. While we actively take steps to protect the proprietary rights of our Group and those of our game developer partners, such steps may not be adequate to prevent infringement or misappropriation of such proprietary rights.

Our performance and future success depend on the talents and efforts of highly skilled individuals, especially art design, research and development, and sales and marketing personnel. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel in all areas for our organisation. We will continue to offer competitive reward packages to attract new employees and to retain and motivate existing employees, especially key individuals.

Competition risk

The Group faces competition in the online game industry. New technologies such as Virtual Reality and the ever-changing hardware in both PC and mobile devices intensify competition among game developers in the market. We may be unable to compete successfully against our competitors or new market entrants, which may adversely affect our business and financial performance. We have dedicated considerable efforts in addressing feedback from existing players from time to time developing and improving our games, in order to retain players and prolong their playing time. We also conduct research and develop new ideas on an ongoing basis to attract new players.

Regulatory risk

The Group faces different regulators when distributing our games in different countries. There is a risk that we may not be able to comply with all applicable regulatory requirements, therefore leading to disruption in our game release plans. The Group will make adjustments to both the graphics and language used in our games to comply with all applicable regulations.

Financial risk

The Group is exposed to a variety of financial risks in our normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to Note 39(b) to the consolidated financial statements. The Board is dedicated to ensuring the risk management practices of the Group are sufficient to mitigate the risks in our businesses and operations as efficiently and effectively as possible.

Environmental Policy and Performance

Environmental policies and performance are generally subject to the increasing attention of and stricter environmental regulations and policies set by the relevant government authorities of the communities in which our business operates.

The Group follows closely on the applicable environmental regulations and policies, as well as changes in other external factors, in order to monitor their impact on the Group's business development. The Group is dedicated to fulfilling our environmental and social responsibilities to improve and maintain the long-term sustainability of the communities in which our business operates. The Group endeavours to comply with the relevant environmental laws and regulations, as well as to implement effective measures in order to achieve efficient utilisation of resources, energy saving and waste reduction. The Group has adopted green initiatives and measures in our daily operations, which includeresource recycling, energy saving measures and water saving practices.

In the event that any member of the Group is found to be in breach of the applicable environmental regulations or policies, the Group may be liable to pay a fine and to adopt rectification measures. Nonetheless, as the Group does not engage in manufacturing business activities as at the date of this annual report, the Directors believe that the impact of the applicable environmental regulations and policies on the operations of the Group is limited.

Compliance with the Relevant Laws and Regulations

During the year under review, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

Relationships with Employees, Customers and Suppliers

The Group's management policies, working environment, career prospects and employee benefits have contributed to building good employee relations and promoting employee retention within the Group. The Group offers competitive remuneration packages which are commensurate with industry practice, as well as various fringe benefits to employees including medical benefits, social insurance, provident fund, bonuses and share options under the Company's Share Option Scheme. The management regularly reviews its employee remuneration packages to ensure they are competitive with prevailing market standard.

The Group has established long-term business relationships with its major suppliers and customers. The Group will endeavour to maintain its established relationship with these existing suppliers and customers and build good relationship with any future suppliers and customers.

During the year in review, there was no material and significant dispute between the Group and its employees, customers and suppliers.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 208 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share options and share capital during the year, together with the reasons therefore, are set out in Notes 34 and 35 to the consolidated financial statements.

Share Option Scheme

The Company has adopted the Share Option Scheme on 25 August 2017. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 25 August 2017.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of the Share Options Scheme's participants ("Participants"), namely any full-time or part-time employee of the Group (including any executive and non-executive director or proposed executive and non-executive director), adviser, consultant, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group, and to provide incentives and help the Company retain its existing employees and recruiting additional employees and provide them with a direct economic interest in attaining the long-term business objectives of the Company.

An offer for grant of options must be accepted within 20 business days from the offer date, together with an amount payable of HK$1.00 by each participant to the Company upon acceptance of the offer, the subscription price for a share of the Company ("Share") at which a grantee may subscribe for on the exercise of an option under the Share Option Scheme is a price determined by the Board in its absolute discretion at the time of grant, which in any case shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of the shares.

Unless otherwise determined by the Board and stated in the letter of offer for grant of options, there is no minimum period for which an option must be held before it can be exercised.

As at 31 December 2019, the total number of shares available for issue under the Share Option Scheme was 417,557,021 Shares, representing 13.55% of the total number of issued Shares as at the date of this annual report.

The maximum number of the Shares issued and to be issued upon the exercise of share options granted and to be granted to each Participant (including both exercised and outstanding Options) under the Share Option Scheme within any 12-month period is limited to 1% of the Shares in issue as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of his associates, are subject to approval of the independent non-executive Directors. In addition, any grant(s) of share options to a substantial shareholder or an independent non-executive Director, or to any of his associates, in excess of 0.1% of the shares in issue with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million within any 12-month period is subject to shareholders' approval in a general meeting.

During the year, part of the share options granted on 2 May 2019 and all of the share options granted on 20 May 2019 and 5 June 2019 to subscribe for an aggregate number of 125,233,084 Shares of the issuer were granted in excess of the Scheme Mandate Limit (as defined in the Share Option Scheme). Subsequently in June 2019, 144,063 of such share options lapsed. Accordingly, 125,089,021 share options outstanding were then in excess of the Scheme Mandate Limit, but all of which were subsequently approved, confirmed and ratified at the extraordinary general meeting of the Company held on 16 December 2019.

The movement in the share options granted under the Share Option Scheme during the year ended 31 December 2019 is shown as follows:

				Number of share options				
Grantees	**Date of grant of share options**	**Exercise period**	**Exercise price of share options**	**Outstanding as at 1 January 2019**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2019**
Executive Directors								
Mr. Xu Yiran	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	29,246,800
Mr. Gu Zhenghao	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	29,246,800
Mr. Li Yang	2 May 2019	2 May 2020 to 2 November 2022	HK$2.50	–	4,250,000	–	–	4,250,000
	2 May 2019	2 May 2021 to 2 November 2022	HK$2.80	–	4,250,000	–	–	4,250,000
	2 May 2019	2 May 2022 to 2 November 2022	HK$3.10	–	4,250,000	–	–	4,250,000
Sub-total				58,493,600	12,750,000	–	–	71,243,600

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Number of share options: Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2019
Employees	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	29,246,800
	24 October 2017	24 October 2018 to 24 October 2022	HK$1.91	29,246,791	–	–	–	29,246,791
	24 October 2017	24 October 2019 to 24 October 2022	HK$1.91	29,246,791	–	–	–	29,246,791
	24 October 2017	24 October 2020 to 24 October 2022	HK$1.91	29,246,818	–	–	–	29,246,818
	2 May 2019	2 May 2020 to 2 November 2022 (Note (b))	HK$2.50	–	41,849,987	–	–	41,849,987
	2 May 2019	2 May 2021 to 2 November 2022 (Note (b))	HK$2.80	–	41,849,987	–	–	41,849,987
	2 May 2019	2 May 2022 to 2 November 2022 (Note (b))	HK$3.10	–	41,850,026	–	–	41,850,026
	20 May 2019	20 May 2020 to 20 November 2022	HK$2.50	–	2,059,959	–	(48,021)	2,011,938
	20 May 2019	20 May 2021 to 20 November 2022	HK$2.80	–	2,059,959	–	(48,021)	2,011,938
	20 May 2019	20 May 2022 to 20 November 2022	HK$3.10	–	2,059,966	–	(48,021)	2,011,945
	5 June 2019	5 June 2020 to 5 December 2022	HK$2.50	–	333,333	–	–	333,333
	5 June 2019	5 June 2021 to 5 December 2022	HK$2.80	–	333,333	–	–	333,333
	5 June 2019	5 June 2022 to 5 December 2022	HK$3.10	–	333,334	–	–	333,334
Sub-total				116,987,200	132,729,884	–	(144,063)	249,573,021

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Number of share options: Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2019
Consultants	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	87,740,400	–	–	–	87,740,400
	20 May 2019	20 May 2020 to 20 November 2022	HK$2.50	–	2,500,000	–	–	2,500,000
	20 May 2019	20 May 2021 to 20 November 2022	HK$2.80	–	2,500,000	–	–	2,500,000
	20 May 2019	20 May 2022 to 20 November 2022	HK$3.10	–	2,500,000	–	–	2,500,000
	5 June 2019	5 June 2020 to 5 December 2022	HK$2.50	–	500,000	–	–	500,000
	5 June 2019	5 June 2021 to 5 December 2022	HK$2.80	–	500,000	–	–	500,000
	5 June 2019	5 June 2022 to 5 December 2022	HK$3.10	–	500,000	–	–	500,000
Sub-total				87,740,400	9,000,000	–	–	96,740,400
Total				263,221,200	154,479,884	–	(144,063)	417,557,021

Notes:

(a) The share options were vested upon grant.

(b) The share options will be vested in three tranches in accordance with a vesting schedule, conditional upon the achievement by the grantee of certain performance targets. For details of the vesting schedule and exercise price of the share options, please refer to the announcement of the Company dated 2 May 2019.

(c) The exercise price of the share options was subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.

(d) The market price of shares on the date of grant on 24 October 2017 was HK$1.88; the market prices of the shares on the dates of grant on 2 May 2019, 20 May 2019 and 5 June 2019 were HK$2.32, HK$2.24 and HK$2.30 respectively.

(e) Save as disclosed above, no option under the Share Option Scheme was outstanding, granted, exercised, cancelled or lapsed during the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Capital and Share Options" in this Report of the Directors, no other equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2019.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling approximately US$329,000 (2018: US$342,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

RESERVES

As at 31 December 2019, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses, amounted to approximately US$50,053,000 (2018: US$71,094,000).

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 100 to 101 of this annual report and Note 45 to the consolidated financial statements respectively.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and officers of the Company is currently in force and was in force throughout the year ended 31 December 2019.

The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for certain legal actions brought against the Directors and officers of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, sales to the Group's largest and five largest customers accounted for 31.4% and 81.4% of the Group's total sales respectively. For the year ended 31 December 2019, purchases from the Group's largest and five largest suppliers accounted for 5.0% and 15.3% of the Group's total cost of sales respectively.

None of the Directors or any of their associates or any shareholders of the Company (which to the best of the knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers for the year ended 31 December 2019.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. Xu Yiran *(Chairman and Chief Executive Officer)*
Mr. Li Yang *(Deputy Chairman)*
Mr. Gu Zhenghao
Mr. Cao Bo

Non-executive Directors:

Mr. Eric Todd
Mr. Cheng Chi Ming Brian *(Resigned on 5 June 2019)*

Independent Non-executive Directors:

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

In accordance with Article 84(1) of the Company's Articles of Association, Messrs. Eric Todd, Chan Chi Yuen and Kwan Ngai Kit will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 42 to 45 of this annual report.

DISCLOSURE ON CHANGES IN THE INFORMATION OF DIRECTORS IN ACCORDANCE WITH RULE 13.51(B)(1) OF THE LISTING RULES

In October 2019, Mr. Xu Yiran, the Chairman and Chief Executive Officer, resigned as a director of SNK Corporation (KOSDAQ stock code: 950180).

In February 2020, Mr. Hu Chung Ming, an independent non-executive Director, resigned as the chief financial officer and the company secretary of Mobile Internet (China) Holdings Limited (formerly known as China Packaging Holdings Development Limited (stock code: 1439)).

In March 2020, Mr, Eric Todd, a non-executive Director, was appointed as an executive director of DeTai New Energy Group Limited (stock code: 559) and Chinese Food and Beverage Group Limited (stock code: 8272). Moreover, in March 2020, Mr. Chan Chi Yuen, an independent non-executive Director, resigned as an independent non-executive director of Asia Group Holdings Limited (stock code: 8075) and New Times Energy Corporation Limited (stock code: 166).

MATERIAL TRANSACTIONS AND EVENTS

Disposal of 31% of the issued share capital of Dreamscape Horizon Limited in return for consideration shares in Meitu, Inc. (“Meitu”)

On 19 February 2019, Dream Beyond Holdings Limited (“Dream Beyond”) (a direct wholly-owned subsidiary of the Company), the Company, Meitu (a company the shares of which are listed on the Stock Exchange) and Meitu Investment Ltd (“Meitu Investment”) (a direct wholly-owned subsidiary of Meitu) entered into a sale and purchase agreement, pursuant to which, among other matters, Dream Beyond conditionally agreed to sell and Meitu Investment conditionally agreed to purchase 31% of the issued share capital of Dreamscape Horizon Limited (an indirect wholly-owned subsidiary of the Company) at a consideration of HK$2,686,577,470 (equivalent to approximately US$342,539,000) which shall be satisfied by the allotment and issue by Meitu to the Company of 991,357,000 new listed ordinary shares of Meitu (“Dreamscape Transaction”).

The Company considered the Dreamscape transaction to be in the interest of the Company as it would strengthen the strategic alliance between the Group and Meitu and its subsidiaries, which included, among other things, the design and development by the Group for Meitu of various large-scale online games and casual games, with reference to the age, gender and view and knowledge of the world of Meitu’s large base of loyal users. On the other hand, with the massive user data of Meitu, the Group could better understand the preferences and habits of users, thereby developing and improving the existing products, expanding the user base horizontally, ultimately generating synergies and accelerating the penetration of the Group’s online and causal games around the world.

However, according to the poll results announcement of Meitu dated 18 April 2019, the resolutions proposed at the extraordinary general meeting of Meitu held on 18 April 2019 for approving the Dreamscape Transaction were not passed by the shareholders of Meitu. Meitu did not seek its shareholders’ approval for the Dreamscape Transaction (which was a condition precedent to the completion of the Dreamscape Transaction) again prior to the relevant long stop date, ie 30 June 2019. Accordingly, the said condition precedent was not fulfilled by 30 June 2019, after which the relevant sale and purchase agreement lapsed and had no further effect.

Further details of the Dreamscape Transaction were set out in the circular of the Company dated 29 March 2019 and the announcements of the Company dated 28 January 2019, 19 February 2019, 22 February 2019 and 24 April 2019.

Co-development of *The Lord of the Rings* (the "Game") with Amazon Game Studios

In 2018, the Group secured an IP license from the owner of certain IP rights in *The Lord of the Rings* literary works to develop and publish a free-to-play massively multiplayer online ("MMO") game based on the fantasy literary work *The Lord of the Rings* of J.R.R. Tolkien (the "Game"). In 2019, the Company and subsidiaries of Amazon.com, Inc. ("Amazon"), entered into a co-development agreement whereby the Group and Amazon Game Studios (a division of Amazon) would co-develop and publish the Game. Under the co-development agreement, the parties would separately and exclusively market, publish and operate the Game in their respective territories. The Company would manage the marketing and operation of the Game in Mainland China, Hong Kong, Macau and Taiwan, while Amazon Game Studios would manage such aspects of the Game in the rest of the world.

The Group believed that co-development of *The Lord of the Rings* with Amazon Game Studios was more beneficial to the Company and its shareholders than the Company developing the Game on its own, allowing the Game to be developed on a larger scale with greater complexity of characters and richness in content and be available on more platforms. In addition, Amazon Game Studios could leverage its resources in multiple gaming and other on-line business divisions to enhance the user acquisition and retention aspects of the Game.

Combining the huge organic traffic of popular IPs with the Group's leading game development and publishing capabilities, the Group was able to maximise the success rate of the Game becoming a hit.

Further details of the above co-development agreement were set out in the announcement of the Company dated 10 July 2019.

Investment Agreement

On 7 March 2019, Famous Champion Limited (an indirect wholly-owned subsidiary of the Company) ("Famous Champion"), Chengyou (Shanghai) Development Company Limited ("Chengyou"), the two The People's Republic of China ("PRC") individual owners of Chengyou (the "PRC Owners") and the Company entered into the investment agreement ("Investment Agreement"), pursuant to which, among other matters, (i) Famous Champion conditionally agreed to subscribe for approximately 70% of the equity interests in Chengyou by way of capital injection in the amount of RMB100,000,000 (equivalent to approximately US$14,910,000) into Chengyou's registered capital, and (ii) Famous Champion conditionally agreed to purchase and the PRC Owners conditionally agreed to sell 30% of the equity interests in Chengyou, free from encumbrances, at a consideration ranging between approximately RMB121,270,000 (equivalent to approximately US$18,081,000) to RMB200,000,000 (equivalent to approximately US$29,820,000) (collectively "Chengyou Investment").

The Company considered the Chengyou Investment to be in the interest of the Company for the reasons that Chengyou, through contractual arrangements, would own and control Xiangshan Dacheng Tianxia Culture Development Co. Ltd. ("Dacheng Tianxia") and its subsidiaries, which were engaged in the business of radio or television program and film production, and by investing in and controlling Chengyou, and hence Dacheng Tianxia and its subsidiaries, the Group would be able to grow and diversify its business portfolio and in particular to develop businesses which would bring synergies to its existing game development and publishing business, thereby increasing the Group's operating income.

After amicable discussion and careful consideration of all the circumstances surrounding the Chengyou Investment, the parties to the Investment Agreement decided not to proceed with the Chengyou Investment as certain conditions precedent for the completion of the said capital injection were unlikely to be satisfied before the relevant long stop date. On 27 December 2019, the parties to the Investment Agreement entered into a termination agreement pursuant to which the parties agreed to terminate the Investment Agreement in accordance with the termination provisions set out in the Investment Agreement with effect from the date of the termination agreement.

Further details of the Chengyou Investment were set out in the announcements of the Company dated 7 March 2019, 30 April 2019, 2 October 2019 and 27 December 2019.

DIRECTORS' SERVICE CONTRACTS

None of the Directors seeking re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed, no Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party at any time during the year or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors is considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with that of the Group.

DIRECTORS' EMOLUMENTS

The Directors' emoluments are subject to shareholders' approval at general meetings. The emoluments payable to the Directors are determined by the Board based on the adopted remuneration policy and reviewed by the Remuneration Committee, with reference to the Directors' qualifications and experience, responsibilities undertaken, contribution to the Group and the prevailing market level of remuneration for similar positions.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent of calibre, the Company provides a competitive remuneration package to the Group. This comprises basic monthly salary and long-term incentive plan which includes share option scheme to subscribe for shares. The Group conducts job evaluation and job matching to ensure that remuneration offered is equitable within the Group, taking into account qualifications of and responsibilities undertaken by the relevant personnel. The Group also takes into account market surveys and statistics in determining remuneration levels to ensure that the remuneration offered is competitive in the market.

Details of the Directors' and senior management's emoluments for the year are set out in Notes 11 and 12 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of the Directors and chief executives in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

Name of Director/ Chief Executive of the Company	Nature of interests	Number of shares held	Number of underlying shares held under equity derivatives	Total number of shares interested	Approximate percentage of total issued share capital of the Company
Mr. Xu Yiran	Beneficial owner	–	29,246,800 (L)	29,246,800 (L)	0.95%
Mr. Gu Zhenghao	Beneficial owner	–	29,246,800 (L)	29,246,800 (L)	0.95%
Mr. Li Yang	Beneficial owner and interest of controlled corporation	2,895,000 (L) (Note)	12,750,000 (L)	15,645,000 (L)	0.51%

Abbreviation:

"L" stands for long position

Note: 2,895,000 shares include (i) 1,895,000 shares beneficially owned by Mr. Li Yang; and (ii) 1,000,000 shares beneficially owned by DC Capital Management Inc., a company 100% controlled by Mr. Li Yang. Accordingly, Mr. Li Yang is deemed to be interested in the shares in which DC Capital Management Inc. is interested.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, so far as was known to the Directors and the chief executive of the Company, the persons (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity/ nature of interests	Number of shares held	Number of underlying shares held under equity derivatives	Total number of shares interested	Approximate percentage of the issued share capital of the Company (%)
Port New Limited (Note 1)	Beneficial owner	1,539,894,522 (L)	518,700,000 (L)	2,058,594,522 (L)	66.80%
Novel New Limited (Note 1)	Beneficial owner	74,100,000 (L)	–	74,100,000 (L)	2.40%
Mr. Yuk Kwok Cheung Charles ("Mr. Yuk") (Note 1)	Interest of controlled corporation	1,613,994,522 (L)	518,700,000 (L)	2,132,694,522 (L)	69.21%
Kingston Finance Limited (Note 2)	Security interest in shares	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
Ample Cheer Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
Best Forth Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
Mrs. Chu Yuet Wah (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
LaGuardia Venture Limited (Note 4)	Beneficial owner	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Beneficial owner	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
Alpha Frontier Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
Giant Investment(HK) Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
巨人網絡集團股份有限公司 (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
Mr. Shi Yuzhu (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%

Abbreviations:

"L" stands for long position
"S" stands for short position

Notes:

1. Each of Port New Limited and Novel New Limited is a company incorporated in the British Virgin Islands and is wholly controlled by Mr. Yuk. Accordingly, Mr. Yuk is deemed to be interested in the shares in which Port New Limited and Novel New Limited are respectively interested. Meanwhile, Mr. Li Zhigang, a former non-executive Directors, is one of the two directors of Port New Limited.

2. Kingston Finance Limited, a company incorporated in Hong Kong, is wholly controlled by Ample Cheer Limited, a company incorporated in the British Virgin Islands. Ample Cheer Limited is controlled as to 80% by Best Forth Limited and 20% by Insight Glory Limited. Each of Best Forth Limited and Insight Glory Limited is a company incorporated in the British Virgin Islands and is wholly controlled by Mrs. Chu Yuet Wah.

3. The four references to the long position of 1,539,894,522 shares relate to the same block of shares.

4. LaGuardia Venture Limited, a company incorporated in the British Virgin Islands, is wholly controlled by Alpha Frontier Limited, a company incorporated in the Cayman Islands. Alpha Frontier Limited is controlled as to approximately 0.02% by Giant Investment(HK) Limited, a company incorporated in Hong Kong. Giant Investment(HK) Limited is wholly controlled by 巨人網絡集團股份有限公司, a company incorporated in the PRC, which is controlled as to 35.83% by Mr. Shi Yuzhu.

5. The five references to the long position of 518,700,000 shares and the short position of 518,700,000 shares relate to the same block of shares.

6. As at 31 December 2019, the number of issued shares was 3,081,695,000 shares.

7. The percentages are subject to rounding difference, if any.

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the Group entered into the following connected transaction.

On 9 November 2018, the Company entered into a cooperative agreement with MEGA Ample Holdings Limited ("Cooperative Agreement"), a company wholly-owned by Mr. Yuk, pursuant to which the parties conditionally agreed to enter into a joint arrangement for the development and operation of five specific video games which are being or will be developed under the Cooperative Agreement.

The parties have subsequently entered into four supplemental agreements to amend certain terms and conditions of the Cooperative Agreement, among others, to remove one game from the scope of the cooperation and to revise the long stop date. As at the date of this annual report, the parties are still in the course of negotiating the terms of their cooperation in respect of the remaining four games. Further details of the said transaction were set out in the announcements respectively dated 9 November 2018, 12 December 2018, 2 January 2019, 24 January 2019, 20 February 2019, 28 March 2019, 5 June 2019, 31 July 2019, 26 September 2019 and 30 December 2019.

The Directors consider that those related party transactions disclosed in Note 40 to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules but are exempt from any of the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. The Company has complied with the applicable requirements under the Listing Rules for those related party transactions.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

As at 31 December 2019, Mr. Yuk, the controlling shareholder of the Company, has pledged 1,539,894,522 ordinary shares in the issued share capital of the Company to Kingston Finance Limited. To the best of the knowledge of the Directors, such shares were not pledged to secure the Company's debts or to secure guarantees or other support of its obligations.

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

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

ISSUE OF EQUITY SECURITIES

On 25 April 2019, the Company entered into a subscription agreement with Mr. Ieong Chong Mang ("Mr. Ieong"), pursuant to which the Company conditionally agreed to allot and issue and the subscriber conditionally agreed to subscribe for a total of 30,500,000 ordinary shares of HK$0.1 each at the subscription price of HK$2.35 per subscription share (the "Subscription"). Mr. Ieong was a Macao resident and a third party independent of the Company and its connected persons. The market price of the Shares on 24 April 2019, being the last trading day immediately before the date of the subscription agreement, was HK$2.32.

The Directors were of the view that the Subscription would strengthen the financial position of the Group to meet capital needs for general working capital and potential investment opportunities. The Directors considered that, taking into account the market conditions then, raising funds by way of issuing and allotting the shares under the Subscription would enable the Company to obtain funds with lower financial costs. The Subscription was also a good opportunity to broaden the shareholder and capital base of the Company.

The completion of the Subscription took place on 14 May 2019. The gross proceeds and net proceeds (after deduction of relevant expenses and fees) from the Subscription were approximately HK$71.68 million and HK$71.59 million respectively.

Details of the intended and actual usage of the proceeds from the Subscription are as follows:

Event	Net proceeds	Intended use of net proceeds	Actual use of net proceeds as at 31 December 2019
Subscription of 30,500,000 Shares	Approximately US$9,135,000 (equivalent to HK$71,590,000)	(i) Approximately US$2,986,000 (equivalent to HK$23,400,000), to be used for part of the capital injection as contemplated under the Investment Agreement (details of which are set out in the announcements of the Company dated 7 March 2019 and 30 April 2019)	Since the Investment Agreement was terminated on 27 December 2019 (details of which are set out in the announcement of the Company dated 27 December 2019), US$2,986,000 of the net proceeds were used for the general working capital of the Group. As at the date of this annual report, these proceeds were fully utilised.
		(ii) Approximately US$6,149,000 (equivalent to HK$48,190,000), to be used for the general working capital of the Group.	Fully utilised for the general working capital of the Group

Further details of the above Subscription were set out in the announcements of the Company dated 25 April 2019 and 14 May 2019. Save as disclosed above, the Company did not conduct any other equity fund raising activity during the year.

INTERESTS OF CONTROLLING SHAREHOLDER IN CONTRACTS

Save as disclosed in this annual report, no contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholder and its subsidiaries at any time during the year.

ADVANCE TO ENTITIES

As at 31 December 2019, the following advance had been made to Certain Affinity, Inc. ("Certain Affinity"), a video game development studio based in the United States of America owned as to 20% by the Company, which exceeded 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules.

On 7 January 2019, the Company entered into an amendment agreement (the "Amendment Agreement") and a letter agreement (the "Contingent Funding Agreement") with Certain Affinity and Mr. Hoberman, who was the founder, President and controlling shareholder of Certain Affinity.

The Amendment Agreement supplemented and amended the game development agreement dated 15 October 2017 entered into between the Company and Certain Affinity (the "Game Development agreement") in relation to the development and production of a third person shooting game based on certain intellectual property, including the TRANSFORMERS property (the "Game"). Pursuant to the Amendment Agreement, the Company agreed, among other things, to increase the maximum principal amount of an interest-free loan facility under the Game Development Agreement from US$15 million to US$33 million (the "Loan"). The Loan would continue to be interest-free and be granted on a non-recourse basis and solely recoupable by the Company from its share of the revenues derived from exploitation of the Game. The reason for the increase in the principal amount of the Loan, which was essentially the development budget of the Game, was to enable Certain Affinity to develop and produce the Game with richer content and prepare to make the Game available on PC.

Pursuant to the Contingent Funding Agreement, Mr. Hoberman agreed, among other things, to fund the portion of the costs and expenses required for the Game Development which was in excess of the Loan in accordance with the terms of the Game Development Agreement (as amended by the Amendment Agreement) in the event that Certain Affinity failed to do so. Further details of the above Amendment Agreement were set out in the announcement of the Company dated 7 January 2019.

Save as disclosed above, as at 31 December 2019, no other advance had been made to an entity which exceeded 8% under the assets ratio defined under rule 14.07(1) of the Listing Rules.

EVENT(S) AFTER THE REPORTING PERIOD

Details of significant subsequent event(s) of the Group are set out in Note 49 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this annual report.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders' entitlement to attend and vote at the annual general meeting of the Company to be held on Thursday, 21 May 2020 ("AGM"), the register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the AGM, 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 54 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 15 May 2020.

CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 22 to 41 of this annual report.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the conclusion of the Company's forthcoming annual general meeting.

A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditor of the Company for the subsequent year will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

Mr. Xu Yiran
Chairman

Hong Kong, 25 March 2020

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

This is the fourth Environmental, Social and Governance ("ESG") report by Leyou Technologies Holdings Limited (the "Company", together with its subsidiaries, the "Group"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 to the Listing Rules and Guidance set out by the Stock Exchange.

The Group is a rapidly expanding developer and publisher of PC and home console video games around the globe, and market leader in the niche of free-to-play online multiplayer games. Flagship products of the Group include *Warframe*, developed by Digital Extremes.

This ESG report covers the Group's overall environmental and social performances of its major computer and video gaming operations. This includes the game development studio and cafeteria operation of Digital Extremes in Toronto, Canada, and game development studio of Splash Damage, in Kent, the UK, from 1 January 2019 to 31 December 2019, unless otherwise stated. The scope of this ESG report is unchanged as compared to the previous reporting period.

THE GROUP'S SUSTAINABILITY VISION AND COMMITMENT

The Group envisions to be a world leading online video game developer and provider to give satisfaction and happiness to its players as well as stakeholders, while being an environmentally and socially responsible corporation. Believing that addressing ESG issues can minimise risks associated with the long-term operations of its business, the Group operates with consideration to the principles of:

- lessening its impact on the environment,
- focusing on employee well-being,
- giving back to the community,
- ensuring compliance with legal and regulatory requirements; and
- adhering to high ethical standards.

Hence, the Group has a green agenda established specifically to list out the objectives that shall be followed annually. Some of the targets outlined during the reporting period include:

- increasing recycling rate by running various initiatives,
- purchasing electricity from renewable energy sources,
- working with companies that aim to reduce the use of packaging and disposable materials,
- purchasing Fair Trade food and drinks,
- switching to non-toxic cleaning supplies,
- supporting environmental charities, etc.

The Board understands that it has overall responsibility for the Group's ESG strategy and reporting. Thus, it takes careful precautions, and reviews and monitors several aspects in ESG such as risk management policies, annual budgets, business plans, performance objectives and implementation, and progress of goals and targets for addressing climate-related issues. It has also engaged an external ESG consultancy firm to review its ESG performance annually during the Board meetings. All its employees are also empowered to apply and embrace its ESG initiatives into their work routine.

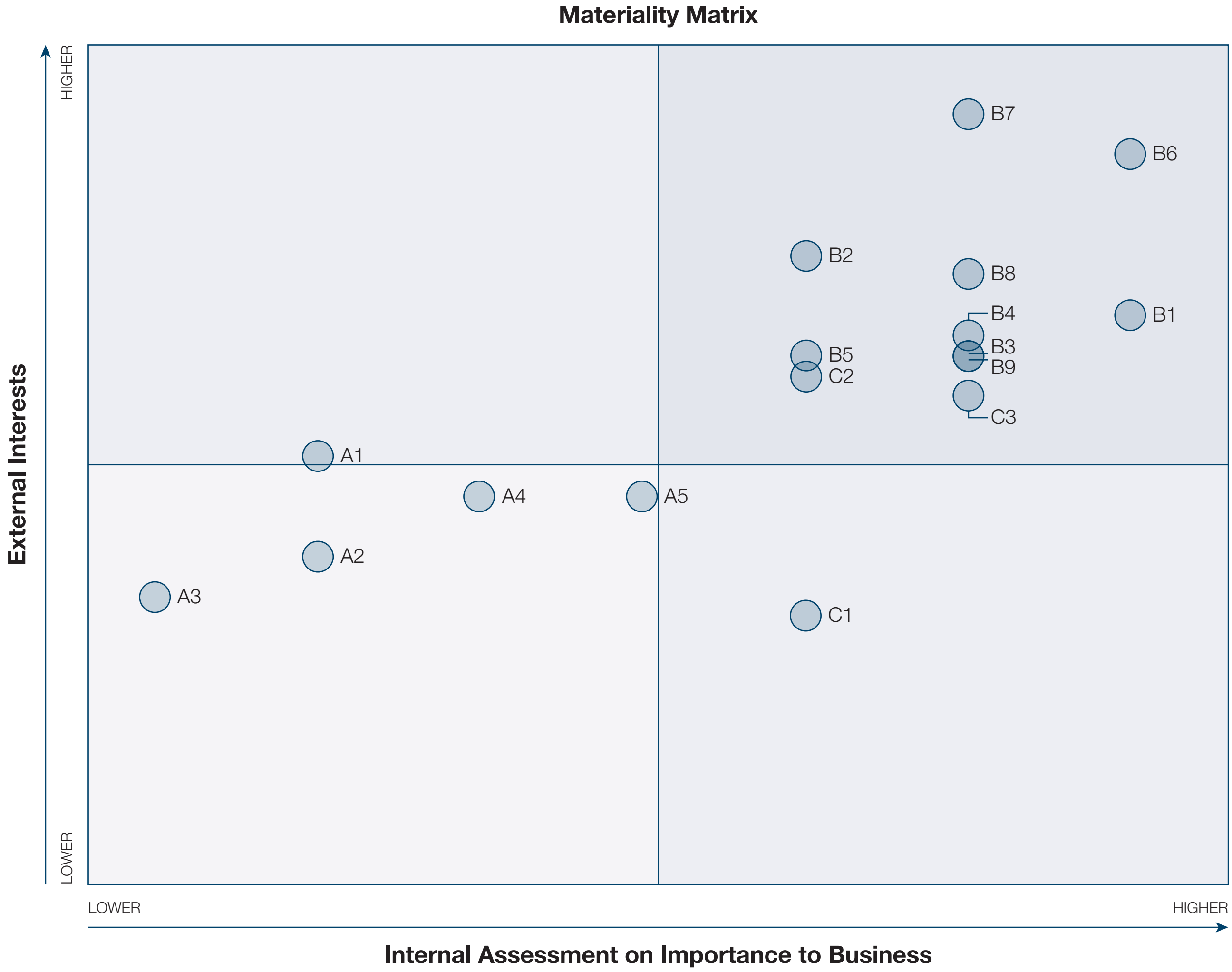
CORPORATE MEMBERSHIPS

To connect with peers and promote the interactive digital content industry, the Group actively participates in business advocacy, educational and networking events. The Group is a member of various non-profit and industry trade organisations, including the Canadian Federation of Independent Business, London Chamber of Commerce and Industry, Interactive Ontario, the Association for UK Interactive Entertainment, and Tech Alliance, to name a few.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values input and feedback of its stakeholders as they bring potential impacts to the Group's business. Internal and external stakeholders have been involved in regular engagement activities to share views regarding the Group's operation and performance. The Group has specifically engaged the Board, senior management, suppliers, clients, and internal staff to gain further insights on ESG material aspects and challenges in the reporting period. After conducting meetings and surveys, the Group assessed the importance of different topics to the Group and plotted a matrix as shown in Figure 1.

Figure 1 Materiality of Different Topics from Stakeholder Engagement carried out in 2019



Environmental		Social		Others	
A1	Energy	**B1**	Employment	**C1**	Food Safety
A2	Water	**B2**	Occupational Health and Safety	**C2**	Healthy Gaming
A3	Air Emission	**B3**	Development and Training	**C3**	Content Monitoring
A4	Waste and Effluent	**B4**	Labour Standards		
A5	Environmental Protection Measures	**B5**	Supply Chain Management		
		B6	Intellectual Property		
		B7	Customer Data and Privacy Protection		
		B8	Anti-corruption		
		B9	Community Investment		

The matrix shows that the five most material aspects for the Group's development are:

1. Intellectual Property
2. Customer Data and Privacy Protection
3. Employment
4. Anti-corruption
5. Labour Standards

As a result of the stakeholder engagement, the management was able to identify newly raised concerns in intellectual property rights, consumer data and privacy protection, and supply chain management. The Group will pay continuous effort in addressing the issues and improving the concerned aspects. It will also keep close communication with its stakeholders for advancing its ESG management.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your view with us via email at enquiry@leyou.com.hk.

A. ENVIRONMENTAL

The Group strictly abides by local environmental laws, rules and regulations. It aims to grow and deliver returns to shareholders without environmental detriment. During the reporting period, no material non-compliance in relation to air and greenhouse gas emissions, discharges into water and land, nor generation of hazardous and non-hazardous waste was recorded. Relevant policies are outlined in the following sections.

A1. Emissions

A1.1. Air Emissions

The Group consumed natural gas in the reporting period, which contributed to the emission of 0.77kg of nitrogen oxides ("NO_x") and an insignificant amount of sulphur oxides ("SO_x").

A1.2. Greenhouse Gas Emissions

During the reporting period, the Group's activities contributed to 311.23 tonnes of carbon dioxide equivalent emission (tCO_2), including carbon dioxide, methane and nitrous oxides. The intensity was 0.01 tCO_2/m^2 of total area, and 0.49 tCO_2/employee of the Group.

Table 1. Greenhouse Gas Emissions in 2019

Scope of Greenhouse Gas Emissions	Emission Sources*	Emission (in tCO_2e)	Sub-total (in tCO_2e)	Total Emission (in %)
Scope 1 Direct Emissions	Combustion of natural gas for stationary source^	7.51	18.73	6.02
	Refrigerant	11.21		
Scope 2 Energy Indirect Emissions	Purchased electricity~	34.03	34.03	10.93
Scope 3 Other Indirect Emissions	Paper waste disposal	0.83	258.47	85.05
	Electricity used for processing fresh water	1.52		
	Electricity used for processing sewage	0.82		
	Business air travel	255.31		
Total		311.23		100

* Emission factors were based on Appendix 27 of the Listing Rules and their referred documentation as set out by the Stock Exchange, unless stated otherwise.

^ Emission factor for calculation of emission from combustion of natural gas for stationary source was based on the Guide: Greenhouse Gas Emissions Reporting in Section 4(1) of Ontario Regulation 452/09.

~ Emission factor for calculation of emission from purchased electricity for the operations in Canada was 0.0355, with reference to the 2017 London Hydro Inc. GRI Sustainability Report. Emission factor for purchased electricity in the operations in the UK was 0, with reference to EDF Energy's Fuel Mix for low-carbon Blue products on the EDF Energy website.

A1.3. Mitigation Measures for Air and Greenhouse Gas Emissions

To promote the reduction of carbon footprint, employees are encouraged to take the least-polluting mode of transport when travelling to/from work. Aside from recommending the use of public transit, such as trains, buses, and carpooling, the Group also has bike parking facilities in order to ease bikers. As for external business travel needs, the Group actively considers the use of video conferencing for meetings with colleagues, suppliers and clients to reduce travelling. When meeting in-person is inevitable, the Group considers all kinds of routes of transportation and chooses the most energy-efficient method. Only when necessary would flights be taken, which would be kept well track of by the Group.

In an effort to reduce the emission induced by energy usage, the Group has commenced looking for electricity supplier offering low carbon alternatives since 2015. Following the search, the Group has switched to sourcing from renewable energy sources by purchasing energy from Blue Electricity[1] through EDF Energy. As a result, the greenhouse gas emissions inducing from electricity usage in the UK had been cut off.

A1.4. Hazardous Waste and Reduction Initiatives

The major hazardous wastes generated by the Group during the reporting period were cooking grease, printer toner cartridges, batteries, and fluorescent tubes.

Table 2 Hazardous Waste Produced in 2019

Hazardous Wastes	**Wastes Generated in 2019**
Cooking grease	473 litres
Printer toner cartridges	45 kg
Batteries	68 kg
Fluorescent tubes	17 pieces

All hazardous wastes, such as printer cartridges, batteries, and fluorescent tubes are regularly collected by qualified collectors. Electronic waste is recycled when no longer suitable for usage. A third-party specialist is also arranged to clean grease from grease traps with food waste which acts as natural soil conditioners regularly in Digital Extreme's cafeteria.

A1.5. Non-hazardous Waste and Reduction Initiatives

The Group generated a total of 42.8 tonnes of domestic waste, recyclable waste (including cards, paper and glasses) and organic waste during the reporting period.

1 Blue Electricity, also Blue for Business, is backed by Generator Declarations, power recommended by the GHG Protocol for low-carbon electricity supply. Blue for Business electricity gives a 100% guarantee of the source of the electricity supply.

Table 3 Non-hazardous Waste Produced in 2019

Non-hazardous Wastes	Wastes Generated (in kg)
Organic waste*	19,192
Domestic waste	14,673
Mixed Recycling	7,851
Wastepaper	1,076

* Some organic waste from the Group's cafeteria operation cannot be estimated as corresponding waste was collected by the building landlord and the waste collection data was not accessible.

The Group has a full recycling programme for non-hazardous waste, such as, plastics, glass, cardboard, paper, organic waste, coffee grouts, furniture, etc.

To limit the use of paper, employees are provided with whiteboards and remote access to their workstations in meeting rooms. Electronic administration, which encourages the maintenance of records electronically rather than by paper, is also adopted. For unavoidable paper consumption, Forest Stewardship Council ("FSC") certified paper is purchased to ensure that paper used is produced from sources with sustainable forest management. Recycling bins are also provided at each office desk and in common areas to encourage recycling of wastepaper. During the reporting period, the Group recycled 83.91% of its paper waste, contributing to a reduction of 4.33 tCO_2e greenhouse gas emission.

As for electronic waste, when malfunctioning equipment is identified, instead of replacing the entire hardware unit, only the faulty component will be replaced.

To reduce waste generated by the cafeteria, disposables cutlery, dishes and utensils are avoided. Moreover, leftover food remained in the kitchen are often repurposed by chefs to produce following meals. Food waste are also recycled when possible. A total of 2.7 tonnes of food waste has been recycled during the reporting period.

The Group is also working hard on reducing its waste produced from daily activities. For example, plastics usage has been reduced by avoiding the purchase of wrapped fruits and pastries; drink dispensers have been installed to reduce the consumption of single use plastic bottles. It is estimated that a reduction of 21,000 plastic bottles and 58,000 cans was achieved with this installation.

A2. Use of Resources

Although the Group has no official policy on efficient use of resources, it is committed to constantly identifying ways that can help minimise its impact on the environment.

A2.1. Energy Consumption and Efficiency Initiatives

The energy use involved in the Group's operation included the consumption of electricity and natural gas. Electricity was consumed for daily office operation and natural gas was consumed for cooking in the cafeteria operation in Canada. The Group consumed a total of 1,997.57 MWh energy in the reporting period. The intensity was 0.08 MWh/m^2 of total area, and 3.14 MWh/employee of the Group.

Table 4 Energy Consumption in 2019

Energy Consumption Sources	Direct Consumption	Energy Consumption (in MWh)
Natural gas	4,033.19 m^3	34.66
Electricity	1,962.91 MWh	1,962.91

The Group reduces electricity consumption by:

- purchasing only A++ electrical equipment,
- installing light fixtures that are energy efficient and motion activated to ensure lights are turned off during non-working hours,
- restricting heating and cooling devices with time controls,
- setting electronic devices to switch off at specified hours,
- upgrading kitchen appliances regularly to ensure their efficiency; and
- encouraging and educating employees to power down their workstations when they are not in use.

While the initiatives have not achieved any significant results, the Group will keep recording its energy usage to monitor the effectiveness of its measures.

A2.2. Water Consumption and Efficiency Initiatives

Water consumption record of Digital Extremes was not available as the consumption was managed by the office building landlord. A total of 3,767 m^3 of water was supplied by the municipal water supplier for Splash Damage during the reporting period. The water intensity for them was 1.16 m^3/m^2 of studio area, and 12.39 m^3/employee of the studio. There was no issue in sourcing water that is fit for purpose.

The Group encourages water saving behaviours. Dual flush toilet units are installed to reduce water consumption. The Group will keep recording its water usage to monitor the effectiveness of its measures.

A2.3. Packaging Materials

The Group uses packaging materials for *Warframe's* merchandises, such as posters, mugs, statues, clothing, etc. As packaging of these tangible merchandises is outsourced, the amount of packaging material used is not readily available. Still, plastic bags are used for shipping all products in general, merchandises that are more fragile may use protective bags and cardboard boxes as well. It is also noteworthy that most of the packaging materials of the Group's merchandises are recyclable.

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

The Group's operations do not cause any significant impact on the environment and natural resources. Having said that, it involves the consumption of natural gas, electricity, refrigerants, water, and small amounts of hazardous and non-hazardous wastes. To reduce its environmental footprint, the Group strives to keep its energy, water and resources usage minimal. The Group is also aware that business air travels contribute to a significant amount of its carbon emission. Hence, it continues to explore means to avoid business air travels.

B. SOCIAL

The Group strictly abides by local labour and operating practices laws, rules and regulations. It emphasises on developing with consideration to the people and community who have contributed to the growth of the Group. During the reporting period, no material non-compliance in relation to employment, occupational health and safety, labour standards, nor product responsibility, corruptive behaviours, was recorded.

Employment and Labour Practices

B1. Employment

The Group regards its employees as an important element to its business. It therefore has a range of policies on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare for employees. During the reporting period, no material non-compliance in relation to these aspects was recorded.

B1.1. Employment Figures

As of 31 December 2019, the subsidiaries in Canada and UK had a total of 642 employees. See Figures 2 to 6 for the distribution of the employees by different categories.

Figure 2 Distribution of Employees by Employment Type

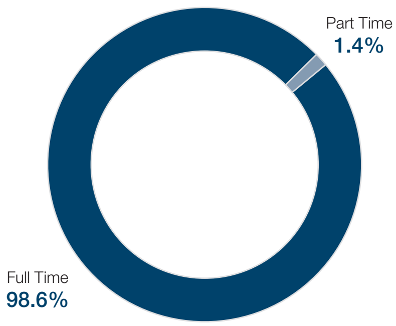


Figure 3 Distribution of Employees by Employment Category

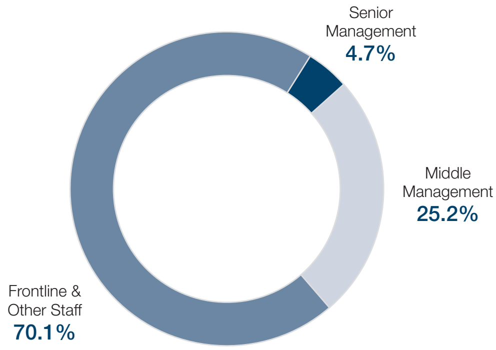


Figure 4 Distribution of Employees by Age Group

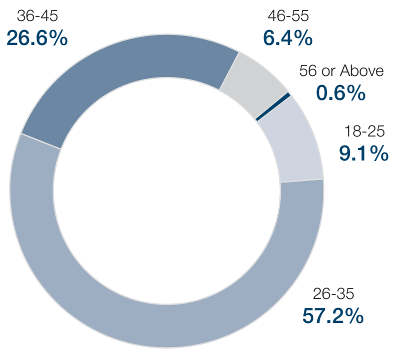


Figure 5 Distribution of Employees by Gender

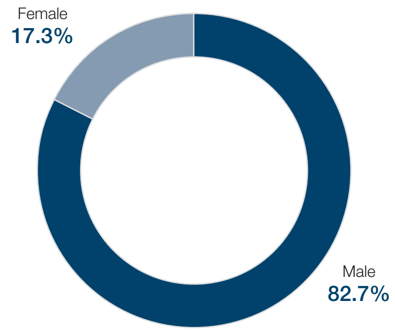
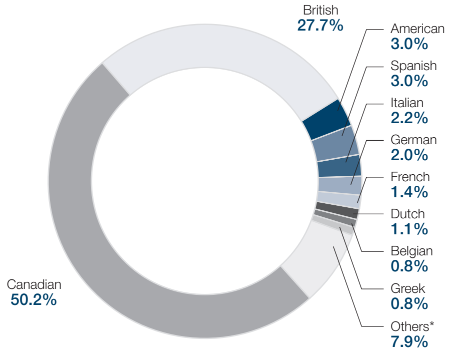


Figure 6 Distribution of Employees by Nationality



* "Others" include employees from China, New Zealand, Poland, Portugal, Romania (0.06% each); Australia, Sweden, Ukraine (0.05% each); Austria, Bulgaria, India, Norway, Russia, Switzerland (0.03% each); and Brazil, Egypt, Finland, Iran, Lithuania, Mexico, Montenegro, Slovakia, and Turkey (0.02% each).

B1.2. Turnover and Recruitment

A total of 107 employees left the Group during the reporting period, leading to a turnover rate of 16.8%. See Figures 7 to 11 for relevant information.

Figure 7 Turnover Rate by Employment Type

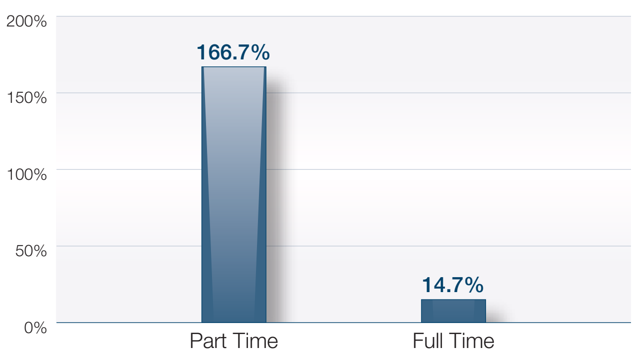


Figure 8 Turnover Rate by Employment Category

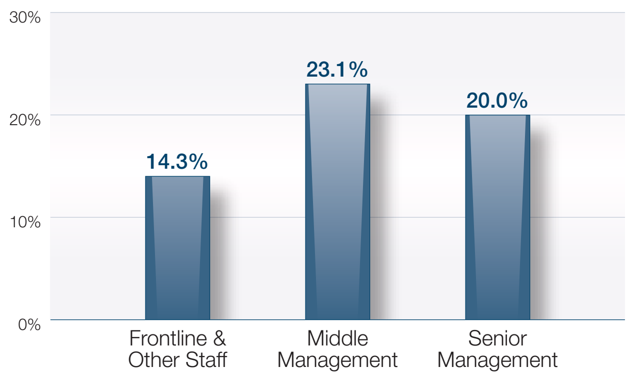


Figure 9 Turnover Rate by Age Group

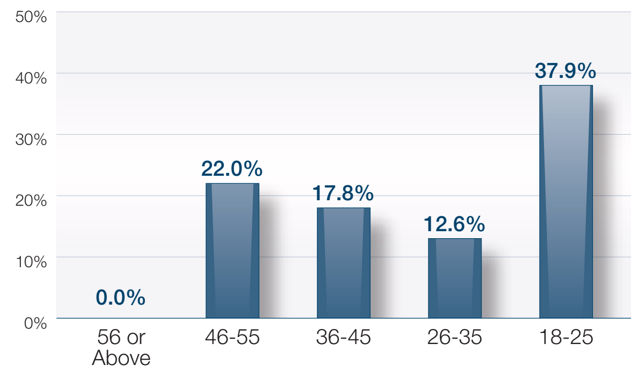


Figure 10 Turnover Rate by Gender

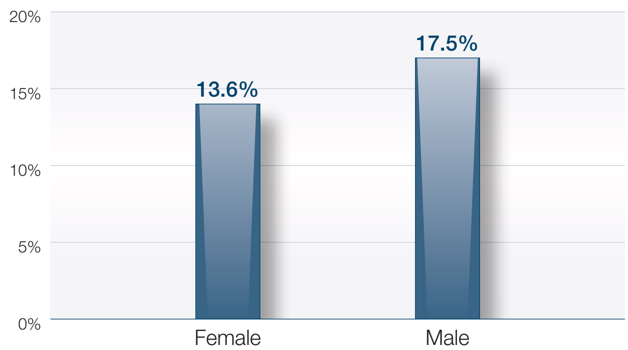
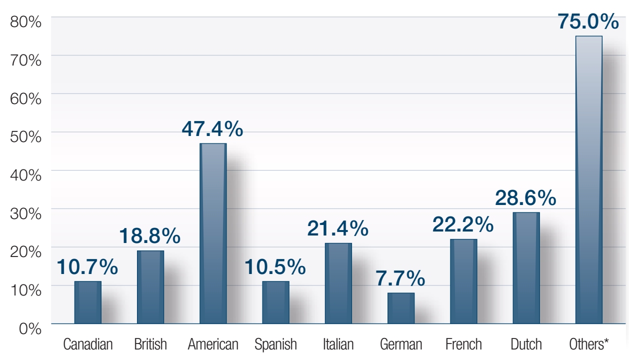


Figure 11 Turnover Rate by Nationality



* "Others" include nationals from Poland, Romania, Australia, Sweden, Ukraine, Austria, Bulgaria, India, Russia, Finland, Lithuania, Turkey, Argentina, South Africa, and South Korea. Employees from these countries made up 4.4% of the Group's labour force as of 31 December 2019, with Argentinean, South African, and South Korean no longer present in the Group.

To fill vacancies, the Group needs to constantly recruit new talents. Yet, recruitment for the studios had been a challenge due to the strong competition with the local region as well as with the wider global video game market and paucity of candidates market. To overcome these challenges, the Group introduced internal and external measures to attract high-calibre talents.

Internally, the Group continuously improves technologies to refine the hiring process and ensure that candidates are processed at a fast pace. This keeps candidates engaged throughout the hiring process and provides them a strong experience. The Group also implemented a referral scheme to reward employees bringing new talents into the Group directly. To widen the selection pool, direct hiring channels such as social media, job boards, networking events and advertisements are utilised. Linkedin's Talent Solutions system was also introduced during the reporting period, and it brought about a significant improvement in applications and made sourcing suitable new talents more convenient. The Group also employs a full suite of specialist agencies to assist in securing talents for the business. To acquire the best talents regardless of geographical location, Digital Extremes now allows employees to work from home, and offers moving and travel allowances whenever necessary. To recruit without obstacle of working permits, Splash Damage also works closely with the Home Office to ensure the smooth acquisition of working visas to broaden the talent pool regardless of their global location.

Externally, the Group maintains close ties with educational institutions to stay competitive in acquiring skilled graduates and interns. The Group does this by visiting universities and colleges for seminars and inviting students to the studio. The marketing department also strives to elevate brand awareness through advertising and editorial campaigns. It aims to maintain a strong presence in the game industry and relevant events globally to expand its talent network and develop robust candidate pipelines.

B1.3. Employee Compensation and Benefits

The Group meets and exceeds all applicable local laws and standards related to employment and labour practices. This includes respecting employee rights, offering competitive wages, insurance and paid leaves (such as maternity, parental, compassionate, sick leave, and health days above the legislated minimum requirement), providing safe work environments, and implementing non-discriminatory hiring practices. Contractual employees work 8 hours per day, 40 hours a week. Lunch breaks of 1 hour are provided to ensure that employees take rests regularly. In cases of overtime work, employees are compensated through hourly pay, time off in lieu of annual bonuses. Holiday allowances and bank holidays are also granted to employees.

The Group recruits in an open and transparent manner. Applications from external sources or internal referral undergo standard selection according to the requirements of the positions. Competitive salary with discretionary bonus is offered to attract talents. Salary is reviewed once to twice a year and is determined with reference to the market trend and employee's competency, qualifications and experience. A task force has been established by Splash Damage to review and improve the way employees are onboarded and exit interviews are conducted with departing employees to understand their reasons for leaving the company.

During the reporting period, Digital Extremes was selected as one of Canada's Top 100 Employers (2019) due to the following reasons:

- It has an employee social committee which maintains a busy social calendar for employees to engage with one another through events such as rooftop party, monthly happy hours, Christmas party, summer barbecue with live band, bouncy castle, games, and hosting longstanding Friday morning breakfasts with the President
- Its office has two in-house theatres, a stocked employee lounge, game library, and a commercial kitchen and dining room, with healthy meals prepared daily and special treats provided every Friday
- It provides maternity and parental leave top-up payments (to 80% of salary up to 34 weeks) to employees who are new mothers and allows them to extend their leave.

B1.4. Employee Communication

The Group particularly values feedback from its employees. Employees can raise their concerns through weekly company updates and anonymous surveys to rate satisfaction of their workplaces, products or services. There are also 1-to-1 conversations for employees with their line manager through their performance management system. Monthly Exec Q&A sessions are also available for employees to raise their concerns. Senior management will discuss on the raised topics, address areas of concern and take actions as appropriate.

There is also a whistle-blowing policy in place that was designed to promote an ethical environment where employees can work safely and appropriately, without fear of retaliation. The policy ensures all employees their rights to report any wrongdoing, harassment, or issues, without fear of retaliation or a negative impact on their employment status. Individuals can submit a concern or complaint to the Monitoring Committee, comprised of several executives. The Human Resources department also welcomes employees to reflect on any work-related issues. No complaints were received through the policy during the reporting period.

The Group believes that a sense of belonging is what allows employees to be their authentic selves without fear of different treatment or punishment. It therefore operates a candid culture. During the reporting period, the 360 Review, a scheme which allows employees to gather feedback on their performance without the fear of punishment, was introduced. The scheme allows the Group to communicate employees' shortcoming while letting them know that it is primarily for fostering their individual growth and development.

In addition, social events, such as employee appreciation events and holiday parties, are regularly organised. These events even welcome the participation of employees' families and friends. The Group also promotes camaraderie and wellbeing by engaging employees in different sports teams, including baseball, hockey, basketball and soccer teams.

Values Award are also given out monthly to staff members who embody the Group's values. All nominations come directly from staff members and always include a concrete example of the member of staff exemplifying the value they are nominated for. Stories are then shared with the entire studio at the awards ceremony. All these allow the staff to have a stronger sense of belonging and feel acknowledged and important as a member of the Group.

B1.5. Equal Pay and Opportunity

During the reporting period, Digital Extremes added a Pay Equity Policy, which complies with Ontario's Pay Equity Act. The policy ensures that all compensation is equitable, and that equal pay is provided for equal work. This means that the Group is required to take factors of skills, efforts, responsibilities, working conditions into consideration when determining whether employees' work is equal or of equal value. Splash Damage also formed voluntary, employee-led Employee Resource Groups (ERGs) that foster a diverse, inclusive workplace aligned with organisational mission, values, goals, business practices, and objectives.

The Group has yet to introduce any policy on anti-discrimination. Nevertheless, equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other grounds of discrimination prohibited by applicable laws. There is also a Diversity and Inclusivity Initiative which the Group makes use of to enable those with protected characteristics to bring their true selves in a fully inclusive working environment.

B1.6. Promotion, Disciplinary Policy and Dismissal

The Group expects satisfactory standards of performance, conduct and attendance from its employees. It is believed that employees' hard work, effort, and contribution shall be recognised and rewarded. When a manager think it is time to delegate more responsibility to an employee's existing set of responsibilities, a promotion is considered. Fair practices are followed, where a promotion shall be based on merit, a significant amount of feedback from 360 Review shall be gathered, and a full justification on why the employee is ready to be promoted shall be submitted by the manager.

While employees who have exceeded their expectations are acknowledged, those who have failed to meet certain standards are to be dealt with in accordance with the Group's Disciplinary Policy. Any minor misconduct shall be brought to employees' attention by their immediate supervisor in private informally. If the level of misconduct is more serious and formal action is necessary, an investigation will be conducted, followed by a formal hearing if necessary. The formal hearing will decide the appropriate disciplinary sanctions to be proceeded. The employee has the right to appeal against relevant decisions by writing to the HR manager within five working days of the employee receiving the written decision. Nevertheless, if the misconduct is so serious that the Group considers it a gross misconduct, the employee might be dismissed without notice or payment in lieu of notice. All relevant policies are enforced in accordance with relevant employment legislations.

B2. Employee Health and Safety

B2.1. Occupational Health and Safety

Besides complying with all local applicable occupational health and safety laws, the Group also has its internal policies regarding employee health and safety as well as ergonomic hazards at workplace. The Health and Safety Policy, for example, is drawn up in line with the Health and Safety at Work Act 1974 in the UK and is updated regularly. It strives to ensure the safety of every member of staff, visitor and guest by providing trainings on fire safety, display screen equipment, stress awareness, office health and safety awareness and manual handling. Specialised ergonomic equipment is also provided to employees upon request.

The cafeteria operation at Digital Extremes also strictly follows safe working practices. Employee allergies are documented and taken into consideration in the kitchen areas. Any health and safety concerns or incidents are to be brought to the attention of the Group's human resources department as well as the health and safety committee.

Together they ensure the source of concern is addressed in a sufficient manner to prevent recurrence. No material non-compliance in relation to health and safety laws and regulations was recorded during the reporting period.

Table 5. Occupational Health and Safety Data in 2019

Work-related fatality	0
Work injury cases that contributed to >3 lost working days	0
Work injury cases that contributed to ≤3 lost working days	0
Lost days due to work injury	0

B2.2. Food Safety

The cafeteria operated by Digital Extremes is subject to periodic inspections by the Canadian Food Inspection Agency and the local municipality public health unit. During the inspection, inspectors from the public health unit check whether the food premises meet the minimum requirements under the applicable food safety laws. The Group had not failed any inspection during the reporting period.

To ensure all standards under the local food safety laws are met, staff of the cafeteria regularly check the thermometers to ensure that food is kept at proper temperature during storage, preparation, cooking and service. A wide range of precautions have been taken to protect food from cross-contamination, including setting guidelines for staff to regularly wash hands, knives, dishes and cloths, having a separate preparation area for raw meats, and sanitising all surfaces multiple times throughout the day. Measures are also taken to prevent contamination of food from sourcing to transportation to best protect employees' health (See Section B5 for more information).

B3. Development and Training

The Group is committed to developing its people both personally and professionally to enable them to deliver the Group's business objectives. The Group provides annual funding for full-time employees to develop their careers through various means, including external courses at accredited colleges or universities, in-house classroom-based training for soft skills, software training courses, technical online trainings, industry seminars, events and conferences, etc.

Performance reviews are conducted regularly through the Employee Growth Program ("EGP"), monthly appraisal conversations where managers discuss specific areas (such as learning and development and career planning) with employees. Underperforming employees will be provided with assistance and support under the Performance Improvement Plan to ensure that their training needs are catered for.

The training topics covered in the reporting period include but is not limited to:

- Payroll and Compensation,
- Translation,
- Level & Environmental Design,
- Programming,
- Communication,
- 3D Design,
- Information Technology Training,
- Human Resources,
- Management/Leadership, etc.

During the reporting period, Digital Extremes did not count its training hours. Splash Damage trained a total of 222 employees, adding up to 4490 hours training hours combined. See Figures 12 and 13 for the detailed distribution.

Figure 12 Percentage of Employees Trained (Splash Damage)

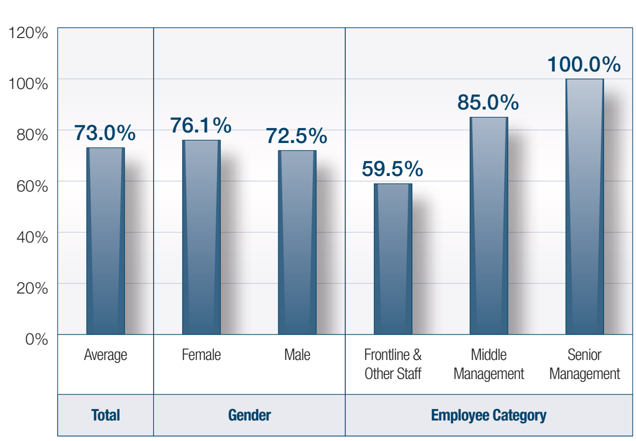
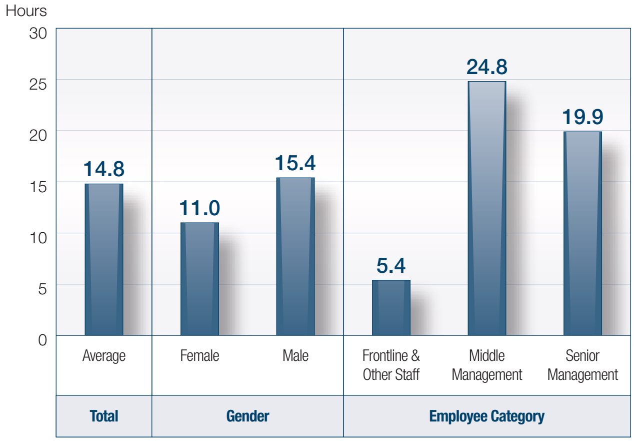


Figure 13 Average Hours of Training Received by Each Employee (Splash Damage)



B4. Labour Standards

There is no child labour nor forced labour in the Group. All employees signed and agreed to the terms set out in the employment contracts. Job applicants' identification documents are checked to ensure that they are legally entitled to work for the Group and in the respective countries to prevent any child labour or forced labour. Candidates considered are aged 17+ due to the nature of the Group's work. The Group however provides opportunities to students (aged from 15 to 23 years old) who want to gain work experience. Work experience guidelines, including guideline for young person's assessment, are followed in these cases. No material non-compliance in relation to prevention of child and forced labour was recorded during the reporting period.

Operating Practices

B5. Supply Chain Management

The Group has no policy on managing environmental and social risks of the supply chain of games development, but it has its own procurement procedures and is committed to procuring in a timely, efficient and effective manner with due regard to best practices. Vendor selection is based on a variety of factors which included the business reputation of the supplier in addition to cost effectiveness. Credit checks and margin checks are performed when necessary. Preference of vendor selection is also given to those who provide energy efficient equipment (energy label with A++ grade). The Group engages with reliable vendors and review their performances and cost on a regular basis. If a supplier is not meeting expectations, actions will be taken by the Group, depending on the specific circumstances and the contract terms. During the reporting period, the Group engaged with 768 suppliers. The majority of its suppliers were from the UK and US.

As for the suppliers of Digital Extreme's cafeteria and kitchen, the Group does have a carefully outlined instruction to ensure food safety and health of its staff. Only reputable food vendors certified with HACCP (Hazard Analysis and Critical Control Point) would be chosen as a supplier. All suppliers would also have to provide tracking systems such that all food provided is trackable to the specific processing plant or the farm it came from, in case of any issues with the food. Vehicles that transport food supplies must also be strictly temperature controllable, such that food will not be contaminated or spoiled during transportation.

B6. Product Responsibility

The Group follows best practices and ensures that all content complies with the standards set by the Entertainment Software Rating Board ("ESRB") or other rating boards as necessary.

To protect players from adverse consequences of gaming, players receive in-game alerts reminding them to take a break if they have been playing for more than an hour in certain jurisdictions. To accommodate players from all over the world, the Group has also localised games into multiple languages.

The Group continuously incorporates valid feedback from players into the game updates to ensure constant improvement. The determination of the Group in constantly improving its games enabled its game products to win and be nominated for various awards in 2019 as follows.

Warframe (Developed by Digital Extremes)

- The Webby Awards – People's Voice Award for Best Music / Sound Design (Won)
- The Webby Awards – People's Voice Award for Best Action Game (Won)
- The Clios Games: Video Game Weapon Prank – Experiential/Events (Silver)
- The Clios Games: Video Game Weapon Prank – Branded Entertainment and Content (Bronze)
- Forbes 30 Under 30: Rebecca Ford, Live Ops and Community Director
- Promax Games Awards– Best Use of Music (Gold)
- Promax Games Awards – Best Promotional Trailer: Current/Ongoing/New Content (Silver)
- Promax Games Awards – Best Promotional Live Stream for A Game (Silver)
- Promax Games Awards – Best Buzz Generating Tactic (Nominated)
- Promax Games Awards – Thinking Outside of The Box (Nominated)

Gears 5 (Co-developed by Splash Damage)

- Golden Joystick Awards – Xbox Game of the Year (Won)
- Golden Joystick Awards – Ultimate Game of the Year (Nominated)
- Gamescom - Best Xbox One Game (Won)
- Game Critics Awards – Best Action Game (Nominated)
- Game Critics Awards – Best Online Multiplayer (Nominated)
- The Game Awards – Best Audio Design (Nominated)
- The Game Awards – Best Performance (Nominated)
- The Game Awards – Best Action Game (Nominated)
- Titanium Awards – Best Action Game (Won)
- Titanium Awards – Best Spanish Performance (Nominated)

During the reporting period, there was no material non-compliance with laws relating to health and safety, advertising, labelling, privacy matters and Intellectual Property ("IP") rights relating to products and services provided.

B6.1. Intellectual Property Rights

The Group possesses a lot of internal IP as game merchandises are created using the Group's own proprietary technology which are filled with original characters, locations, sounds and music. Therefore, an internal policy has been established to ensure that adequate measures are in place to safeguard internal IPs and mitigate potential revenue loss in an event that any IP is inappropriately used by a third party. In case of an infringement, the Group sends a cease and desist letter to inform the individual of the illegal action. As of 31 December 2019, the Group has registered 58 trademarks and 126 domains. There has not been any noted IP right infringement.

The Group seeks to retain ownership of all copyright in works of general applicability to video games and anything self-funded or self-published. It also seeks trademark protection in respect of those brands or game titles that it creates and uses for its self-funded or self-published games. The Group has ownerships of certain tools and technologies that it uses in/for each of its business and seeks to ensure that it retains IP in modifications and improvements thereto.

Registration of a particular IP is determined depending on the assessment of how the IP will be used, monetary and time cost, and the risk of loss. Newly registered trademarks will be communicated internally via email or staff communication platforms. Employees are also aware of the Group-owned IPs through the rules and details in the employee handbook and contract. All employees are committed to respecting and protecting both internal and third-party IP rights. They must obtain written consent from senior management before working on any personal project under the Additional Work Request Policy, whereby no IP rights of the Group shall be used in the personal projects.

For business partners, IP rights will not be granted without a signed contract and a non-disclosure agreement in place. The Group checks online from time to time to ensure that no self-owned IPs are used without consent.

As for users of the games, they are required to agree upon the End User License Agreement and the Terms of Use Agreement before entering the games. This ensures that they understand and accept that the IPs belong to the Group and are not properties of the users.

B6.2. Product Assurance

The Group complies with polices outlined by regulatory bodies and works with server hosts to ensure service quality. There was no product recalled for safety and health reasons during the reporting period.

Before releasing any content, rating processes would be undergone. If the ESRB or any other regulatory body identifies any infractions of their policies, the Group will be notified, and all issues will be resolved. Moreover, monitoring services are developed to detect early signs of any potential issue that would affect players. This would be followed up by relevant technicians as quickly as possible to minimise negative impacts on players' user experience. The quality assurance department also performs extensive testing on all released content to find bugs, troubleshoot and implement fixes. Feedbacks on forums, social media and customer experience programmes, are closely studied as well, and respective changes are made frequently for the constant improvement of players' experience.

Fairness is a crucial element of an enjoyable game experience. Hence, whereas Digital Extremes allows purchases of content drop rates, characters, or weapon mechanics, periodic rebalances of such items are also made available to non-paying players in order to maintain fairness; similarly, while Splash Damage adopts a monetisation strategy, it is not a pay-for-power or pay-to-win kind of system.

B6.3. Information Security Management

The Group handles user data in a vigilant manner. Any sensitive user data, including personally identifiable information, financial and payment information, authentication information, phonebook or contact data, microphone and camera sensor data, and sensitive device data, shall be handled securely and only shared as authorised and accepted in the terms of use of the game. The Group has detailed policies on data protection and privacy and are available on both Digital Extremes and Splash Damage's websites. It also uses a third-party platform as an alerting and monitoring system. There was no breach or complaint from regulatory bodies regarding customer privacy during the reporting period. The Group's employee handbook contains provisions concerning confidentiality. Employees are prohibited from accessing confidential information without approval or from leaking the confidential information. Sensitive information, such as those that involve banking and billing details, is only accessible by specific personnel who have the authority to manage the information. Once a transaction is completed, such information would be discarded.

With the implementation of the EU General Data Protection Regulation ("GDPR"), the Group engaged a professional law firm to review both its internal and external privacy policies and audit its data storage to ensure compliance with the GDPR. Nevertheless, only several changes were made, and the ultimate impact was small as the Group's Information Security policies were already robust prior to GDPR. The only change was to adopt an opt-out instead of an opt-in approach for the Data Subject Request and the Right to be Forgotten.

To ensure compliance with GDPR-related legislations, the following actions have been taken. All business policies, data, and contracts, internal or external, were reviewed; policies, both internally and externally, were reviewed to ensure the language was fit for purpose; the Varonis software for monitoring and alerting was implemented; extensive trainings are arranged yearly to ensure that every employee understands the relevant data policies and their corresponding responsibilities.

B6.4. Advertisement

The Group does not have any formalised advertising guide. Having said that, it always adheres to its brand guide, that is to be friendly to customers and players, passionate and enthusiastic about the games, and honest with the claims it makes. It also adheres to the ESRB Advertising Principles and Guidelines which necessitate responsible advertising in order for its games to be rated.

B6.5. Abusive or Offensive Content Management

The Group is committed to ensuring that its games do not include restricted content unless otherwise authorised by the management. Restricted content has been clearly outlined in the Game Compliance Policy on the gaming companies' Wikipedia page. They include, but is not limited to, sexually explicit or pornographic content, racist, sexist, or misogyny hate speech, bullying and harassment, sensitive events, gambling, illegal activities, excessive cruelty, unauthorised use of copyrighted content, etc. The policy applies to both contents published by the Group in its games and contents posted in forums or chat rooms by users.

Regarding contents developed by the Group, they are always reviewed by more than one person to ensure that they are appropriate and in line with the Group's values and culture before they go live. On occasion, content creators from the game teams will reach out to the members of various Employee Resource Groups (BAME – Black, Asians, Minority Ethnic, Women, LGBTQ+) to ensure that the contents are inclusive for underrepresented groups.

As for content posted by players, a monitoring system that is enforced through automation and human monitoring against user-generated content is adopted. The system filters and removes speech and content posted by players that break rules. Players do have the opportunity to make an appeal when the content they have posted are removed. Appeals are moderated by a mix of internal, external, and volunteer moderators, with reference to the Volunteer Chat Moderator Responsibilities and Code of Conduct. Hardly ever is a removal unjustifiable after a review.

B6.6. Customer Service and Communication with Users

The Group has dedicated a customer service team for handling all types of support requests from end users, including billing, technical, equipment, quest and account information issues during working hours. Requests for support can be submitted via www.support.warframe.com, built by Zendesk. These requests or enquiries will be directed to the customer service representatives ("CSRs") based on their categories. Apart from providing adequate support to users, the Group actively engages its users through forums, livestreams and out-of-game events.

Digital Extremes holds annual events, such as Tennocon and TennoVIP, allowing community members from all over the world to gather and network with each other. When there are new features added to the game, the community team of Digital Extremes would stream live through Twitch. This allows the team to obtain players' comment and feedback on the new features and make respective adjustments if necessary. Numerous community contests are also held throughout the year, where submitted content may be displayed on livestreams.

Games from Splash Damage are developed with founder players' assistance in game testing. When a new character or storyline is being developed, the community is highly involved and consulted and their preferences and suggestions are taken into consideration in the final creation of the game. Their feedback is an integral part of the game creation and these 1-to-1 relationships with its players is at the core of Splash Damage. Fans' contribution has hence always been at the heart of the studio since the early days two decades ago, when games such as *Wolfenstein: Enemy Territory* and *Dirty Bomb* were developed. Therefore, continual accessible events are organised to reward players for their non-monetary participation. One of the events that occasionally takes place is the invitation for long-term fans (or VIPs) to the studio for a tour, meal, or spending quality time. There are also occasional meetups for fans and the wider audience to meet with developers and ask questions which allow them to understand more about the game industry development and enjoy interactions. Splash Damage also published a series of videos, *Ask Splash*, where developers answered questions from the community and shared their own experience. As a result of the well-established ties between the studio and the players, fans have supported the Group in different ways. In a fundraising gaming tournament held during the reporting period, Splash Damage managed to win all thanks to the fans' support.

B7. Anti-corruption

The Group is committed to integrity and ethical behaviour at workplace and works to foster and maintain an environment where employees can work safely and appropriately. It complies with all local applicable laws on prohibiting bribery, extortion, fraud and money laundering. The whistle-blowing policy also grants all employees the right to report any wrongdoing that may harm the interests of the Group, customers, shareholders, employees, investors, or the public at large. Complaints are to be sent via email to the Monitoring Committee. Following a complaint, the committee will conduct subsequent investigations which are confidential. Complainant and respondent will be treated fairly and respectfully with protection on privacy. Upon conclusion that an instance of workplace wrongdoing has indeed occurred, the respondent will be subject to disciplinary actions, which may result in suspension of duties, outright termination of employment and possible legal action depending on severity of the action.

The Group has not received any alerts through the whistle-blowing programme and no legal case regarding corrupt practices, such as bribery, extortion, fraud, money laundering, etc. was brought against the Group or its employees during the reporting period.

B8. Community Investment

The Group attaches great importance to contributing back to the community and gives vast support to charities, industry-related events and community events. The Group considers the communities' interests by asking the Community Team and employees for suggestions and opinions as the Group believes they understand the needs of the communities better. The choices of charities and beneficiaries are then approved by the Director of Community and Live Ops. Employees are empowered to participate in voluntary services of their own choice and the Group will support their cause with matching contributions; players are encouraged to contribute to charities through in-game promotions.

During the reporting period, Digital Extremes donated approximately CAD424,000 to different associations, of which a significant amount was donated to Canadian Mental Health Association, contributing to the advocacy and providence of resources for mental health problems and illnesses. Splash Damage also donated approximately GBP5,000 to various registered charities, with the majority donated to SpecialEffect, a charity that helps disabled persons play video games. Some of the beneficiaries receiving donations from the Group were:

- Albert Kennedy Trust
- Fanshawe College
- Forest City Comicon
- Forest City Film Festival
- Joy drop (Game slice)
- Just Giving
- L. B. Pearson School of Arts
- London Food Bank
- Mental Health Foundation
- Movember
- Music for Life Institute
- RideLondon 100
- St. Jude's Children's Hospital
- Toilet Twinning Charity, etc.

In the future, the Group hopes to widen the range of charities it supports across sectors that have different aims. Target charities include British Heart Foundation, Canada Learning Code, Canadian Red Cross, Children in Need, Children's Hospice, Comic Relief, Crisis, Friends of the Earth, Hands On London, Islamic Relief, London Health Sciences Foundation, Macmillan Cancer, Oxfam, Paws United, Rain Forest Alliance, Royal British Legion, Save the Children, Soroptomist, Walk the Walk London, etc.

In the long term, the Group hopes to be able reach and support a wider community and contribute to sustainability.

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
LEYOU TECHNOLOGIES HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Leyou Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 96 to 207, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter

Revenue recognition of game development and publishing services

Refer to Notes 3, 4 and 6 to the consolidated financial statements.

Game development and publishing revenue of approximately US$182,207,000 for the year ended 31 December 2019 was recognised over the estimated usage pattern that paying players typically play the game.

Management has estimated the usage pattern on a game by game basis for revenue recognition.

We focused on this area because the inherent uncertainties and subjectivities involved in estimation of usage pattern, which could result in differences in periods when revenue is recognised.

Our procedures in relation to revenue recognition of game development and publishing services included:

- Evaluating whether the Group's revenue recognition policies in compliance with HKFRSs for game development and publishing services;
- Assessing the appropriateness of the methodologies and assumptions used in the estimation of usage pattern by checking the mathematic formula as well as comparing them with historical data and industry practice;
- On sample basis, checking the key inputs used in the estimation with the original data directly extracted from the game service system;
- For selected samples, re-calculate the related usage pattern of selected games, and compared the results with usage pattern prepared by management; and
- Performing test of details, on a sample basis, by comparing the details and amount of the transactions selected with the details and amounts shown on the underlying documentation.

We found that the accounting estimates made by the management in relation to the revenue recognition to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill	
Refer to Notes 3, 4 and 17 to the consolidated financial statements.	
As at 31 December 2019, the Group has goodwill with net carrying amount of approximately US$79,250,000 relating to the computer and video games business. Management performed impairment assessment of the computer and video games business based on discounted cash flows estimation. We focused on these areas as the assessment made by management involved significant estimates and judgements in relation to the performance of computer and video games business and discount rates applied, which may be affected by unexpected changes in future market or economic conditions or significant events or circumstances related to the computer and video games business. Independent external valuation was obtained in order to support the management's estimation.	Our procedures in relation to the management's impairment assessment of goodwill included: • Evaluating the competency, capabilities and objectivity of the independent professional external valuer; • Assessing the appropriateness of the valuation methodology, key assumptions and estimates used based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by the management in relation to the value in use calculations and the fair value assessment of goodwill to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter

Allowance for expected credit loss recognised in respect for trade and other receivables

Refer to Notes 3, 4, 23 and 39(b) to the consolidated financial statements.

As at 31 December 2019, the Group had gross trade receivables of approximately US$22,646,000 and allowance for expected credit loss of approximately US$71,000, and gross deposits and other receivable of approximately US$26,857,000 and allowance for expected credit loss of approximately US$10,411,000, respectively.

Management performed periodic assessment on the recoverability of the trade receivables and deposits and other receivables and the sufficiency of allowance for expected credit loss based on information including credit profile of different counterparties, ageing of the receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going relationships with the relevant counterparties. Management also considered forward-looking information that may impact the counterparties' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We focused on this area due to the impairment assessment of trade receivables and deposits and other receivables under the expected credit losses model involved the use of significant management judgements and estimates.

Our procedures in relation to management's estimated allowance for expected credit losses of the trade receivables and deposits and other receivables as at 31 December 2019 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;

- Checking, on a sample basis, the ageing profile of the trade receivables and deposits and other receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts;

- Inquiring of management for the status of each of the material trade receivables and deposits and other receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the counterparties based on trade records and operation record, checking historical and subsequent settlement records of and other correspondence with the counterparties; and

- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We found that the management judgement and estimates used to assess the recoverability of the trade receivables and deposits and other receivables and determine the impairment provision to be supportable by available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The engagement director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895
Hong Kong, 25 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Revenue	6	**214,235**	227,720
Cost of sales		**(92,454)**	(86,233)
Gross profit		**121,781**	141,487
Other revenue and gains	7	**1,221**	8,192
Net loss on financial assets at fair value through profit or loss	10	**(1,059)**	(23,743)
Fair value change of contingent consideration payable		**–**	37,424
Amortisation of intangible assets	18	**(17,366)**	(18,467)
Impairment of intangible assets	18	**(2,540)**	(4,896)
Impairment of goodwill	17	**–**	(42,944)
Impairment of property, plant and equipment	16	**(3,315)**	–
Selling and marketing expenses		**(22,126)**	(13,470)
Administrative expenses		**(49,795)**	(34,553)
Finance costs	8	**(2,678)**	(790)
Other operating expenses		**(5,385)**	(13)
Equity-settled share-based payment expenses	10	**(6,085)**	(4,377)
Profit before taxation	10	**12,653**	43,850
Taxation	9	**(19,142)**	(23,483)
(Loss)/profit for the year		**(6,489)**	20,367
(Loss)/profit for the year attributable to:			
Owners of the Company		**(8,379)**	20,413
Non-controlling interests		**1,890**	(46)
		(6,489)	20,367
(Loss)/earnings per share			
Basic (US cents per share)	14	**(0.27)**	0.67
Diluted (US cents per share)	14	**(0.27)**	0.66

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019 US$'000	2018 US$'000
(Loss)/profit for the year	**(6,489)**	20,367
Other comprehensive income/(loss) for the year, net of income tax:		
Items that will not be reclassified to profit or loss:		
Changes in the fair value of equity investments at fair value through other comprehensive income	**1,000**	1,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**9,695**	(15,265)
Other comprehensive income/(loss) for the year, net of income tax	**10,695**	(14,265)
Total comprehensive income for the year	**4,206**	6,102
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	**2,509**	6,367
Non-controlling interests	**1,697**	(265)
	4,206	6,102

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment	16	**36,194**	39,945
Goodwill	17	**79,250**	76,419
Intangible assets	18	**14,086**	31,516
Development expenditure	19	**84,667**	48,297
Right-of-use assets	20	**17,349**	–
Financial assets at fair value through other comprehensive income	21	**10,100**	9,100
Deferred tax assets	15	**560**	–
		242,206	205,277
Current assets			
Inventories	22	**147**	174
Trade receivables	23	**22,575**	44,297
Deposits paid, prepayments and other receivables	24	**20,704**	17,113
Financial assets at fair value through profit or loss	25	**2,723**	8,522
Tax recoverable		**12,388**	2,662
Cash and bank balances	26	**22,105**	32,658
		80,642	105,426
Current liabilities			
Trade payables	27	**3,498**	2,109
Accruals and other payables	28	**10,646**	11,146
Bank borrowings	29	**25,157**	42,280
Lease liabilities	30	**5,314**	–
Contract liabilities	31	**6,751**	14,770
		51,366	70,305
Net current assets		**29,276**	35,121
Total assets less current liabilities		**271,482**	240,398

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Equity			
Share capital	35	**39,734**	39,345
Reserves		**206,808**	187,830
Equity attributable to owners of the Company		**246,542**	227,175
Non-controlling interests		**5,264**	3,567
Total equity		**251,806**	230,742
Non-current liabilities			
Deferred tax liabilities	15	**4,814**	9,068
Lease liabilities	30	**14,247**	–
Debenture	32	**615**	588
Total non-current liabilities		**19,676**	9,656
Total equity and non-current liabilities		**271,482**	240,398

Approved by the board of directors on 25 March 2020 and signed on its behalf by:

Mr. Xu Yiran
Executive Director

Mr. Li Yang
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to owners of the Company										
	Share capital US$'000	Share premium* US$'000	Capital reserve* US$'000	Exchange reserve* US$'000 (Note (a))	Financial assets at FVTOCI reserve* US$'000 (Note (b))	Other reserve* US$'000	Share option reserve* US$'000 (Note (c))	Retained earnings* US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
As at 1 January 2018	39,597	172,829	(437)	13,294	–	(47,911)	12,528	31,653	221,553	4,441	225,994
Profit/(loss) for the year	–	–	–	–	–	–	–	20,413	20,413	(46)	20,367
Other comprehensive (loss)/income for the year	–	–	–	(15,046)	1,000	–	–	–	(14,046)	(219)	(14,265)
Total comprehensive (loss)/income for the year	–	–	–	(15,046)	1,000	–	–	20,413	6,367	(265)	6,102
Repurchase and cancellation of shares (Note 35(b))	(252)	(4,849)	–	–	–	–	–	–	(5,101)	–	(5,101)
Transaction costs on repurchase of shares (Note 35(b))	–	(21)	–	–	–	–	–	–	(21)	–	(21)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	4,377	–	4,377	–	4,377
Lapse of share options	–	–	–	–	–	–	(881)	881	–	–	–
Dividend paid to non-controlling interests (Note 46)	–	–	–	–	–	–	–	–	–	(609)	(609)
As at 31 December 2018 and 1 January 2019	39,345	167,959	(437)	(1,752)	1,000	(47,911)	16,024	52,947	227,175	3,567	230,742
(Loss)/profit for the year	–	–	–	–	–	–	–	(8,379)	(8,379)	1,890	(6,489)
Other comprehensive income/(loss) for the year	–	–	–	9,888	1,000	–	–	–	10,888	(193)	10,695
Total comprehensive income/(loss) for the year	–	–	–	9,888	1,000	–	–	(8,379)	2,509	1,697	4,206
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	7,723	–	7,723	–	7,723
Ordinary shares issued (Note 35(c))	389	8,746	–	–	–	–	–	–	9,135	–	9,135
Lapse of share options	–	–	–	–	–	–	(1)	1	–	–	–
As at 31 December 2019	**39,734**	**176,705**	**(437)**	**8,136**	**2,000**	**(47,911)**	**23,746**	**44,569**	**246,542**	**5,264**	**251,806**

* These reserve accounts comprise the consolidated reserves of US$206,808,000 (2018: US$187,830,000) in the consolidated statement of financial position.

Notes:

(a) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations.

(b) Financial assets at FVTOCI reserve

Fair value reserve comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income ("FVTOCI") under HKFRS 9 that are held at the end of the reporting period.

(c) Share option reserve

Share option reserve relates to share options granted under the Company's share option scheme and which are reclassified to share capital and share premium when the share option were exercised, and to accumulated losses when the share options were lapsed or expired.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Operating activities			
Profit before taxation		**12,653**	43,850
Adjustments for:			
Interest income	7	**(702)**	(695)
Interest expenses	8	**2,678**	790
Net loss on financial assets at fair value through profit or loss	10	**1,059**	23,743
Net loss on disposal of property, plant and equipment	10	**17**	–
Depreciation of property, plant and equipment	16	**2,234**	1,523
Depreciation of right-of-use assets	20	**4,920**	–
Amortisation of intangible assets	18	**17,366**	18,467
Amortisation of development expenditure	19	**10,471**	3,048
Equity-settled share-based payment expenses	10	**6,085**	4,377
Change in fair value of contingent consideration payable	39(c)	**–**	(37,424)
Impairment of property, plant and equipment	16	**3,315**	–
Impairment of goodwill	17	**–**	42,944
Impairment of intangible assets	18	**2,540**	4,896
Impairment of development expenditure	19	**7,675**	4,360
Allowance for expected credit loss recognised in respect of trade receivables, net of reversal	10, 39(b)	**6,926**	1,379
Allowance for expected credit loss recognised in respect of deposits and other receivables	10, 39(b)	**7,079**	3,298
Operating cash flows before movements in working capital		**84,316**	114,556
Decrease/(increase) in trade receivables		**16,444**	(16,706)
Increase in deposits paid, prepayments and other receivables		**(10,368)**	(1,494)
Decrease in inventories		**35**	89
Increase in trade payables		**1,308**	278
Increase in accruals and other payables		**753**	3,633
(Decrease)/increase in contract liabilities		**(8,576)**	14,940
Proceeds from disposal of financial assets at fair value through profit and loss	10	**4,910**	–
Cash generated from operations		**88,822**	115,296
Interest paid		**(1,626)**	(686)
Income tax paid		**(29,559)**	(32,645)
Net cash generated from operating activities		**57,637**	81,965

	Notes	2019 US$'000	2018 US$'000
Investing activities			
Dividends paid	46	**–**	(609)
Interest received		**702**	695
Proceeds from disposal of property, plant and equipment		**239**	1,575
Purchase of property, plant and equipment	16	**(1,672)**	(20,047)
Net cash outflow from acquisition of subsidiaries that are not constitute business	36	**–**	(17,358)
Increase in intangible assets	18	**(1,343)**	(1,029)
Increase in development cost capitalised	19	**(52,394)**	(43,601)
Purchase of financial assets at fair value through profit and loss		**–**	(30,329)
Payment for repurchase of shares	35(b)	**–**	(5,122)
Settlement of consideration payable in relation to acquisition of subsidiaries		**–**	(15,492)
Decrease in deferred revenue		**–**	(9,836)
Net cash used in investing activities		**(54,468)**	(141,153)
Financing activities			
Repayments of bank borrowings		**(17,314)**	(4,203)
Proceeds from bank borrowings		**–**	46,483
Proceeds from the shareholder's loan		**–**	894
Repayments of the shareholder's loan		**–**	(894)
Repayment of lease liabilities		**(5,370)**	–
Issue of shares	35(c)	**9,135**	–
Net cash (used in)/generated from financing activities		**(13,549)**	42,280
Net decrease in cash and cash equivalents		**(10,380)**	(16,908)
Cash and cash equivalents at beginning of the year		**32,658**	45,898
Effect of foreign exchange rate changes, net		**(173)**	3,668
Cash and cash equivalents at end of the year		**22,105**	32,658

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

Leyou Technologies Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 22 February 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong ("HK"), respectively. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors of the Company (the "Directors") consider that Port New Limited, established in the British Virgins Island, is the parent company and ultimate holding company of the Company.

The consolidated financial statements included the financial statements of the Company and its subsidiaries (collectively referred to as the "Group"). The consolidated financial statements are presented in United States Dollars ("US$") and all values are rounded to the nearest thousand (US$'000) except otherwise indicated.

The principal activity of the Company is investment holdings. The activities of its principal subsidiaries are set out in Note 46 to the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
HKAS 19 (Amendments)	Plan Amendments, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated statement of financial position (extract)	**Carrying amount previously reported at 31 December 2018**	**Adjustments**	**Carrying amount under HKFRS 16 at 1 January 2019**
	US$'000	US$'000	US$'000
Non-current assets			
Right-of-use assets	–	18,966	18,966
Total non-current assets	205,277	18,966	224,243
Total current assets	105,426	–	105,426
Current liabilities			
Lease liabilities	–	4,158	4,158
Accruals and other payables	11,146	(1,525)	9,621
Total current liabilities	70,305	2,633	72,938
Net current assets	35,121	(2,633)	32,488
Non-current liabilities			
Lease liabilities	–	16,333	16,333
Total non-current liabilities	9,656	16,333	25,989
Net assets	230,742	–	230,742

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) HKFRS 16 Leases – Impact of initial application

HKFRS 16 replaces HKAS 17 *Leases* and related interpretations where the distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the consolidated statement of financial position for all leases by lessees, except for leases that have a lease term of 12 months or less and leases of low-value assets. The standard does not significantly change the accounting of lessors.

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

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities. The incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 4.3% to 8.4%. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standards:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-for-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying the HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) HKFRS 16 Leases – Impact of initial application (continued)

(i) Former operating leases

HKFRS 16 changes how the Group accounts for leases previously classified as operating leases under HKAS 17, which were off balance sheet.

Applying HKFRS 16, for all leases (except as noted below), the Group:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under HKAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under HKFRS 16, right-of-use assets are tested for impairment in accordance with HKAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by HKFRS 16. This expense is presented within "administrative expenses" in the consolidated statement of profit or loss.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (Decrease) US$'000
Assets	
Increase in right-of-use assets	18,966
Liabilities	
Increase in lease liabilities	20,491
Decrease in accruals and other payables	(1,525)
	18,966

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) HKFRS 16 Leases – Impact of initial application (continued)

(ii) Nature of the effect of adoption of HKFRS 16

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied ranged from 4.3% to 8.4%.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	US$'000
Operating lease commitments as at 31 December 2018	24,319
Discounted operating lease commitments as at 1 January 2019	(2,406)
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 and low-value assets	(1,422)
Lease liabilities as at 1 January 2019	20,491
Lease liabilities recognised as at 1 January 2019	
Of which are:	
Current lease liabilities	4,158
Non-current lease liabilities	16,333
	20,491

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	US$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	(a)	20,491
Less: Accrual lease liabilities	(b)	(1,525)
		18,966

Notes:

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

(b) These relate to accrued lease liabilities of several operating leases for leases of properties in deferred lease inducement. The carrying amount of the accrued lease liabilities under accruals and other payables as at 1 January 2019 was adjusted to right-of-use assets at transition.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) HKFRS 16 Leases – Impact of initial application (continued)

(ii) Nature of the effect of adoption of HKFRS 16 (continued)

The recognised right-of-use assets related to the following types of assets:

	As at 1 January 2019 US$'000
Properties	13,891
Office equipment	5,075
Total right-of-use assets	18,966

(iii) Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not yet applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 3 (Amendments)	Definition of Business[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[4]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]

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

2 Effective for business combinations and asset acquisition of which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020. The Directors anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretation issued by the HKICPA, and accounting principles generally accepted in HK. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Change in the Group's ownership interests in existing subsidiaries

Change in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another HKFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

The Group is an agent if its performance obligation is to arrange for the provision for the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer.

(a) Game development and publishing

Game development and publishing represents on-line game revenue from current operations.

The proceeds from the sale of virtual goods are initially recorded in contract liabilities. Revenue is recognised over time, recognised over the estimated usage pattern that paying players typically play the game. 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.

Revenues from game publishing is recognised at the point in time, recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has evaluated the roles and responsibilities of the Group, and the third-party distribution and payment channels in the delivery of game experience to the paying players and concluded the Group takes the primary responsibilities in rendering services. The Group is determined to be the primary obligor and, accordingly, the Group records revenue on a gross basis, and commission charges by third party distribution and payment channels are recorded as cost of sales.

(b) Work-for-hire

Revenue from work-for-hire is recognised over time, advances received from publishers are recognised as revenue based on the percentage-of-completion basis. Contractual amounts are recognised and receivable by the Group upon successful completion of contractual milestones. Contract execution payments, received in advance of services being rendered at the beginning of each contract, are deferred and recognised in revenue on a straight-line basis over the contract period. Royalties are received from publishers after the launch of the product. There are receivable quarterly based on a calendar year as calculated by the publisher.

(c) Sales of merchandise goods

Revenue from sales of merchandise goods is recognised at point in time, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (continued)

(d) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the allowance for expected credit loss). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Leases

Definitions of a lease (Upon application of HKFRS 16 in accordance with transitions in Note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating lease. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease (Note 20).

The Group as lessee (Upon application of HKFRS 16 in accordance with transitions in Note 2)

Short-term leases and leases of low-value assets

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as lessee (Upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not recent third party financing; and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as lessee (Upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Lease liabilities (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as lessee (Upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Property, Plant and Equipment” policy. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as lessee (Upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Allocation of consideration to components of a contract

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Definition of a lease (Prior to 1 January 2019)

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

The Group as lessee (Prior to 1 January 2019)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the periods in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as lessee (Prior to 1 January 2019) (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

The consolidated financial statements are presented in US$ which is the Group's presentation currency. US$, Renminbi ("RMB"), Canadian Dollars ("CAD"), Japanese Yen ("JPY"), Hong Kong Dollars (HK$) and British Pound ("GBP") are the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposal of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

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

The employees of the Group's subsidiaries which operate in Canada may make voluntary contributions to a Registered Retirement Savings Plan ("RRSP"). The subsidiaries match the employee contributions up to an annual maximum. These subsidiaries has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

A defined contribution plan is a pension plan under which the Group's subsidiaries which operate in the United Kingdom ("UK") pay fixed contributions into a separate entity. The Group's subsidiaries have 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs (continued)

The Group's subsidiary in the United States of America ("US") is participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, the Group's subsidiary matches voluntary employee's contribution at a rate of 100% for the first 6% of the employee's eligible compensation. Employee contributions are voluntary.

For defined contribution plans, the Group's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group's subsidiaries have 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.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and other providing similar services are measured at fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 34.

The fair value of the equity-settled share-based payments determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

Cash-settled share-based payments transaction

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share based payments.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit/loss before taxation” as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation entity by the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	Over the remaining unexpired term of lease
Buildings	10 – 35 years
Office equipment	3 – 10 years
Motor vehicles	5 – 10 years
Tools	3 – 5 years

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Expenditure on internally developed products such as costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group’s ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets. All other development costs are expensed as incurred.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Development expenditure

Development expenditure includes payments made to independent software developers under development agreements and expenditure on development activities. The 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 Group receives the exclusive publishing and distribution rights to the finished game title. These agreements allow the 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 Group fully recover the development expenditures, the Group and the developer will share the revenue at an agreed rate. The expenditure capitalised includes the costs of direct labour and an appropriate portion of overheads. Subsequent to establishing technological feasibility of the product, the Group capitalises all development and production service payments as development expenditures. Significant management judgements 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 Group. If that pattern cannot be determined reliably, the straight-line method shall be used.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Provisions

Provisions are recognised when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of available-for-sale financial assets/financial assets at FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the financial assets at FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the financial assets at FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "net gain/(loss) on financial assets at FVTPL" line item.

Impairment of financial assets

The Group recognises an allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits and other receivables, cash and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience an forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 180 days, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 1-year unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and deposits and other receivables are each assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a allowance for ECL account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at FVTPL or other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL, when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if: (continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Fair value is determined in the manner described in Note 39(c).

Other financial liabilities

Financial liabilities (including trade payables, financial liabilities included in accruals and other payables, debenture, bank borrowings and lease liabilities) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the financial assets at FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits/will continue to be held in the financial assets at FVTOCI reserve.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties transactions

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties transactions (continued)

A party is considered to be related to the Group if: (continued)

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

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

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

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

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

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Segment reporting

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

Individually material operating segments are not aggregate for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment and right-of-use assets

The Group reviews its property, plant and equipment and right-of-use assets for indications of impairment at the end of each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

As at 31 December 2019, the carrying amounts of property, plant and equipment and right-of-use assets are approximately US$36,194,000 (2018: US$39,945,000) and US$17,349,000 (1 January 2019: US$18,966,000), after taking into account the impairment losses of US$3,315,000 (2018: Nil) and Nil (1 January 2019: Nil) in respect of property, plant and equipment and right-of-use assets that have been recognised. Details of the impairment of property, plant and equipment and right-of-use assets are disclosed in Notes 16 and 20 respectively.

(b) Allowance for ECL recognised in respect for trade receivables and deposits and other receivables

The Group uses provision matrix to calculate ECL for the trade receivables and general approach for deposits and other receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each of the reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and deposits and other receivables with significant balances and credit impaired are assessed for ECL individually.

The allowance for ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and deposits and other receivables are disclosed in Note 39(b).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Depreciation

Items of property, plant and equipment and right-of-use assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Income taxes

Determining income tax provisions involve judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of intangible assets at the end of the reporting period were US$14,086,000 (2018: US$31,516,000) and impairment loss of US$2,540,000 (2018: US$4,896,000) was recognised during the year ended 31 December 2019.

(f) Impairment of development expenditure

Determine whether development expenditure is impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of development expenditure at the end of the reporting period were US$84,667,000 (2018: US$48,297,000) and impairment loss of US$7,675,000 (2018: US$4,360,000) was recognised during the year ended 31 December 2019.

(g) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of goodwill at the end of the reporting period were US$79,250,000 (2018: US$76,419,000) and no impairment loss (2018: impairment loss of US$42,944,000) was recognised during the year ended 31 December 2019.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(h) Revenue recognition on game development and publishing

The Group recognises revenue from durable and consumable virtual items in game publishing rateably over the estimated average playing period of paying players for the applicable game. The determination of the estimated average playing period is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimate is subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the estimated average playing period as a result of new information will be accounted for as a change in accounting estimate.

(i) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2019 was US$10,100,000 (2018: US$9,100,000). Further details are included in Note 21 to the consolidated financial statements.

(j) Determining the lease term

As explained in Note 2, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying assets to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

5. SEGMENT INFORMATION

During the year ended 31 December 2019, the Group operated in one operating segment which was the business of on-line game operation and retail game development. A single management team reported to the Directors (being the chief operating decision-maker) who comprehensively managed the entire business. Accordingly, the Group has not presented separate segment information.

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the year and the Group's non-current assets. The geographical locations of the customers are determined based on the locations of the principal operations of the subsidiaries.

The Group's non-current assets included property, plant and equipment, goodwill, intangible assets, development expenditure, right-of-use assets, financial assets at fair value through other comprehensive income and deferred tax assets. The geographical locations of property, plant and equipment and right-of-use assets are based on the physical location of the asset under consideration. In the case of goodwill, intangible assets, development expenditure, financial assets at fair value through other comprehensive income and deferred tax assets, they are based on the location of operations to which these assets are allocated.

Revenue from external customers

	2019 **US$'000**	2018 US$'000
Canada	**174,875**	194,481
UK	**26,524**	33,103
US	**11,761**	–
PRC	**1,075**	136
	214,235	227,720

Non-current assets

	2019 **US$'000**	2018 US$'000
Canada	**61,785**	64,638
UK	**66,441**	55,664
PRC	**23,046**	3,160
HK	**90,662**	81,810
US	**272**	5
	242,206	205,277

5. SEGMENT INFORMATION (CONTINUED)

Other information

Revenue from major products

The Group's revenue from its major products is as follows:

	2019 **US$'000**	2018 US$'000
Computer and video games	**214,235**	227,720

Information about major customers

Revenue from each of the three (2018: four) major customers with whom transactions amounted to 10% or more of the Group's revenue is set out below:

	2019 **US$'000**	2018 US$'000
Customer A[1]	**67,164**	72,382
Customer B[1]	**49,953**	49,557
Customer C[1]	**27,856**	31,294
Customer D[1, 2]	**–**	24,773

1 Revenue from game development and publishing

2 No information on revenue for the year ended 31 December 2019 is disclosed for this customer since it did not contribute over 10% of the Group's revenue.

6. REVENUE

	2019 US$'000	2018 US$'000
Game development and publishing	**182,207**	201,909
Work-for-hire	**31,160**	25,488
Sale of merchandise goods	**868**	323
	214,235	227,720
Timing of revenue recognition		
Over time	**201,606**	227,397
At a point in time	**12,629**	323
	214,235	227,720

As at 31 December 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts of game development and publishing is approximately US$6,751,000 (2018: US$14,770,000) and the Group will recognise this revenue in 2020.

All work-for-hire service are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

7. OTHER REVENUE AND GAINS

	2019 US$'000	2018 US$'000
Interest income on bank deposits	**702**	695
Net exchange gain	**–**	6,299
Sundry income	**519**	1,198
	1,221	8,192

8. FINANCE COSTS

	2019	2018
	US$'000	US$'000
Interest on:		
– Bank borrowings	**1,554**	734
– Lease liabilities	**1,068**	–
– Debenture	**56**	53
– Shareholder's loan	**–**	3
	2,678	790

9. TAXATION

	2019	2018
	US$'000	US$'000
Canada corporate income tax		
– current year	**23,255**	29,055
UK corporate income tax		
– current year	**1,047**	(2,662)
HK corporate income tax		
– current year	**2**	–
Deferred tax (Note 15)		
– current year	**(5,162)**	(2,910)
Income tax expense	**19,142**	23,483

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2019	2018
	US$'000	US$'000
Profit before taxation	**12,653**	43,850
National tax on profit before taxation calculated at rates applicable to profits in the countries concerned	**6,443**	16,676
Tax effect of the expenses not deductible for tax purpose	**17,753**	5,381
Tax effect of income not taxable for tax purpose	**(1,269)**	(5,657)
Tax effect of unrecognised temporary difference	**(5,162)**	(2,910)
Special tax relief	**(124)**	(367)
Tax effect of tax loss not recognised	**1,503**	10,360
Income tax at concessionary rate	**(2)**	–
	19,142	23,483

9. TAXATION (CONTINUED)

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group was not subject to any income tax in the Cayman Islands and BVI during the reporting period (2018: Nil).

(b) On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC were liable to PRC Enterprise Income Tax ("EIT") at a tax rate of 25% for the years ended 31 December 2019 and 2018.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada were liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the years ended 31 December 2019 and 2018.

(e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK were liable to UK CIT at a tax rate of 19% for the years ended 31 December 2019 and 2018. The Group took advantage of Video Games Tax Relief which provides tax relief of 25% of qualifying expenditure on qualifying video games as certified by the British Film Institute. Qualifying expenditure is 80% of development costs incurred within the European Economic Area.

(f) Pursuant to the income tax rules and regulations of US, the companies comprising the Group in US were liable to the federal corporate tax rate of 21% for the years ended 31 December 2019 and 2018.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2019 would not be distributed in the foreseeable future (2018: Nil).

10. PROFIT BEFORE TAXATION

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

	Notes	2019 US$'000	2018 US$'000
Equity-settled share-based payment expenses		**7,723**	4,377
Less: Capitalised in development expenditure		**(1,638)**	–
		6,085	4,377
Staff costs including Directors' remuneration		**29,634**	24,121
Retirement schemes benefits		**2,271**	1,291
Total staff costs		**37,990**	29,789
Depreciation charges			
– Owned property, plant and equipment	16	**2,234**	1,523
– Right-of-use assets	20	**4,920**	–
Amortisation of intangible assets	18	**17,366**	18,467
Amortisation of development expenditure[1]	19	**10,471**	3,048
Total depreciation and amortisation		**34,991**	23,038
Cost of inventories recognised as expenses		**312**	181
Auditors' remuneration			
– Audit service		**218**	223
– Other service		**38**	20
Operating lease rental expenses		**–**	2,799
Expenses relating to short-term leases		**1,054**	–
Net loss on disposal of property, plant and equipment		**17**	–
Net exchange loss/(gain)[2]		**5,365**	(6,299)
Impairment of intangible assets	18	**2,540**	4,896
Impairment of development expenditure[1]	19	**7,675**	4,360
Impairment of property, plant and equipment	16	**3,315**	–
Reversal of allowance for credit loss recongised in respect of trade receivables[3]	39(b)	**(4)**	–
Allowance for credit loss recognised in respect of trade receivables[3]	39(b)	**6,930**	1,379
Allowance for credit loss recognised in respect of deposits and other receivables[3]	39(b)	**7,079**	3,298

1 Included in cost of sales in the consolidated statement of profit or loss.
2 Included in other operating expenses/(other revenue and gains) in the consolidated statement of profit or loss.
3 Included in administrative expenses in the consolidated statement of profit or loss.

10. PROFIT BEFORE TAXATION (CONTINUED)

Net loss on financial assets at fair value through profit or loss:

	2019 US$'000	2018 US$'000
Proceeds on sales	**4,910**	–
Less: Cost of sales	**(5,110)**	–
Net realised loss on financial assets at fair value through profit or loss	**(200)**	–
Unrealised loss on financial assets at fair value through profit or loss	**(859)**	(23,743)
Net loss on financial assets at fair value through profit and loss	**(1,059)**	(23,743)

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c), and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 US$'000	2018 US$'000
Directors' fees	**110**	141
Other emoluments:		
– Salaries, allowances and benefits in kind	**1,353**	800
– Discretionary bonus	**102**	51
– Retirement schemes contributions	**8**	6
– Equity-settled share-based payment expenses	**467**	–
	1,930	857
	2,040	998

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Details for the emoluments of each director of the Company during the reporting period are as follows:

For the year ended 31 December 2019

	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonus US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment expenses US$'000	Total US$'000
Executive directors:						
Mr. Xu Yiran *(Chairman and CEO)*	–	616	51	2	–	669
Mr. Li Yang *(Deputy Chairman)* (Note (a))	–	615	51	2	467	1,135
Mr. Gu Zhenghao	–	61	–	2	–	63
Mr. Cao Bo	–	61	–	2	–	63
	–	1,353	102	8	467	1,930
Non-executive directors:						
Mr. Eric Todd	23	–	–	–	–	23
Mr. Cheng Chi Ming Brian (resigned on 5 June 2019) (Note (b))	18	–	–	–	–	18
	41	–	–	–	–	41
Independent non-executive directors:						
Mr. Hu Chung Ming	23	–	–	–	–	23
Mr. Chan Chi Yuen	23	–	–	–	–	23
Mr. Kwan Ngai Kit	23	–	–	–	–	23
	69	–	–	–	–	69
	110	1,353	102	8	467	2,040

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

For the year ended 31 December 2018

	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonus US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment expenses US$'000	Total US$'000
Executive directors:						
Mr. Xu Yiran *(Chairman and CEO)*	–	613	51	2	–	666
Mr. Li Yang *(Deputy Chairman)* (Note (a))	–	65	–	–	–	65
Mr. Gu Zhenghao	–	61	–	2	–	63
Mr. Cao Bo	–	61	–	2	–	63
	–	800	51	6	–	857
Non-executive directors:						
Mr. Eric Todd	15	–	–	–	–	15
Mr. Li Zhigang (Note (c))	38	–	–	–	–	38
Mr. Cheng Chi Ming Brian (Note (b))	43	–	–	–	–	43
	96	–	–	–	–	96
Independent non-executive directors:						
Mr. Hu Chung Ming	15	–	–	–	–	15
Mr. Chan Chi Yuen	15	–	–	–	–	15
Mr. Kwan Ngai Kit	15	–	–	–	–	15
	45	–	–	–	–	45
	141	800	51	6	–	998

Notes:

(a) Mr. Li Yang has been appointed as a deputy chairman of the board and an executive director with effect from 23 November 2018.

(b) Mr. Cheng Chi Ming Brian has resigned as a non-executive director of the board with effect from 5 June 2019.

(c) Mr. Li Zhigang has resigned as a non-executive director of the board with effect from 15 November 2018.

The chairman and chief executive officer's emoluments shown were mainly for his services in connection with the management of the affairs of the Group.

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Group.

The non-executive director's emoluments shown were mainly for his services as director of the Company.

The independent non-executive directors' emoluments shown were mainly for their service as directors of the Company.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

The remuneration shown above represents remuneration received and receivable from the Group by these Directors in their capacity as employees to the Group and/or in their capacity as the Directors during the years ended 31 December 2019 and 2018 respectively. None of the Directors agreed to waive or waived any emoluments during the year (2018: Nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

12. EMPLOYEES EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year included one director (2018: one) whose emolument is stated in Note 11. The emoluments of the remaining four (2018: four) highest paid individuals whose emoluments are reflected in the analysis below:

	2019	2018
	US$'000	US$'000
Salaries, allowances and benefits in kind	**3,460**	2,622
Equity-settled share-based payment expenses	**2,398**	–
Retirement schemes contributions	**2**	5
	5,860	2,627

The number of these non-directors, highest paid employees whose remuneration fell within the following band is as follows:

	For the year ended 31 December	
	2019	2018
HK$4,000,001 to HK$4,500,000	**–**	2
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$6,500,000	**1**	–
HK$6,500,001 to HK$7,000,000	**1**	–
HK$7,500,001 to HK$8,000,000	**–**	–
HK$8,001,000 to HK$8,500,000	**1**	2
HK$15,500,001 to HK$16,000,000	**1**	–

During the reporting period, no emoluments were paid by the Group to the Directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil). None of the chief executive and Directors waived or agreed to waive any emoluments during the reporting period (2018: Nil).

13. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

14. (LOSS)/EARNINGS PER SHARE

	2019 US$'000	2018 US$'000
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company for the purpose of calculating basic (loss)/earnings per share	**(8,379)**	20,413

Weighted average number of ordinary shares

During the years ended 31 December 2019 and 2018, the weighted average number of ordinary shares used as denominator in calculating (loss)/earnings per share was as follows:

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**3,070,581**	3,067,831
Effect of dilutive potential ordinary shares:		
– Share options (Note)	**–**	22,783
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**3,070,581**	3,090,614

Note:

The diluted loss per share is the same as the basic loss per share for the year ended 31 December 2019 because the effect of the Company's share options during the year were anti-dilutive.

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercised price lower than the average market price during the year ended 31 December 2018 and with the adjustment for the share options lapsed or exercised.

15. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019	2018
	US$'000	US$'000
Deferred tax assets	**560**	–
Deferred tax liabilities	**(4,814)**	(9,068)
	(4,254)	(9,068)

The followings are the major deferred tax balances recognised and movements thereon during the current and prior years:

	Tax losses	**Property, plant and equipment**	**Intangible assets**	**Total**
	US$'000	US$'000	US$'000	US$'000
As at 1 January 2018	–	755	12,740	13,495
Charge/(credit) to profit or loss (Note 9)	–	1,345	(4,255)	(2,910)
Exchange alignment	–	(456)	(1,061)	(1,517)
As at 31 December 2018 and 1 January 2019	–	1,644	7,424	9,068
Credit to profit or loss (Note 9)	(555)	(187)	(4,420)	(5,162)
Exchange alignment	(5)	70	283	348
At 31 December 2019	**(560)**	**1,527**	**3,287**	**4,254**

Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of US$94,930,000 (2018: US$99,014,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$560,000 (2018: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining US$91,983,000 (2018: US$99,014,000) due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost				
As at 1 January 2018	–	10,686	–	10,686
Additions	17,272	2,682	93	20,047
Disposals	–	(1,769)	–	(1,769)
Acquired through acquisition of assets (Note 36)	16,824	518	–	17,342
Exchange alignment	(27)	(782)	–	(809)
As at 31 December 2018 and 1 January 2019	34,069	11,335	93	45,497
Additions	–	1,672	–	1,672
Disposals	–	(359)	–	(359)
Exchange alignment	188	428	1	617
As at 31 December 2019	**34,257**	**13,076**	**94**	**47,427**
Accumulated depreciation and impairment				
As at 1 January 2018	–	4,565	–	4,565
Provided for the year	73	1,431	19	1,523
Eliminated on disposal	–	(194)	–	(194)
Exchange alignment	–	(342)	–	(342)
As at 31 December 2018 and 1 January 2019	73	5,460	19	5,552
Provided for the year (Note 10)	523	1,692	19	2,234
Impairment during the year (Note 10) (Note (c))	3,315	–	–	3,315
Eliminated on disposal	–	(103)	–	(103)
Exchange alignment	9	226	–	235
As at 31 December 2019	**3,920**	**7,275**	**38**	**11,233**
Net carrying amount				
As at 31 December 2019	**30,337**	**5,801**	**56**	**36,194**
As at 31 December 2018	33,996	5,875	74	39,945

Notes:

(a) As at 31 December 2019 and 2018, all of the Group's leasehold land and buildings have been pledged to secure banking facilities of the Group.

(b) From the year ended 31 December 2019, leased assets are presented as a separate line item in the statement of financial position, see Note 20. Refer to Note 2 for details about the adjustments of HKFRS 16 on 1 January 2019.

(c) Due to the significant decrease in comparable selling price of properties. The Group recognised an impairment related to leasehold land and buildings amounting to US$3,315,000 (2018: Nil).

Recoverable amount has been determined by fair value less cost to disposal. In determining the fair value of relevant properties, the Group engaged an independent external professional valuer to perform the valuation. The fair value of the owned properties was determined based on the market comparable approach that reflects recent transaction price of similar properties.

17. GOODWILL

	2019 **US$'000**	2018 US$'000
Cost		
At the beginning of the year	**119,363**	127,641
Exchange alignments	**4,283**	(8,278)
At the end of the year	**123,646**	119,363
Accumulated impairment loss		
At the beginning of the year	**42,944**	–
Impairment loss recognised during the year	**–**	42,944
Exchange alignments	**1,452**	–
At the end of the year	**44,396**	42,944
Net carrying amount at the end of year	**79,250**	76,419

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Digital Extremes Ltd. and its subsidiary ("Digital Extremes"): Computer and video games CGU in Canada.
- Splash Damage Limited, Warchest Limited and Fireteam Limited ("Splash Damage Group"): Computer and video games CGU in the UK.
- Guangzhou Radiance Software Technology Co. Ltd. ("Guangzhou Radiance"): Computer and video games CGU in the PRC.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The net carrying amount of goodwill was allocated to CGU as follows:

	2019 **US$'000**	2018 US$'000
Digital Extremes	**28,221**	27,041
Splash Damage Group	**50,665**	49,008
Guangzhou Radiance	**364**	370
	79,250	76,419

17. GOODWILL (CONTINUED)

Allocation of goodwill to cash-generating units (continued)

The recoverable amounts of the CGUs were determined on the basis of value in use calculation. The calculation uses cash flow projection based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The Group engaged Royson Valuation Advisory Limited and APAC Appraisal and Consulting Limited, independent valuers, as the valuers to perform the valuations of the CGUs of the Group as at 31 December 2019 and 2018.

Notes:

Set out below are information on the valuation method, details of the value of inputs used in the valuation, key assumption, details of the value of inputs used in the valuation, key assumption adopted by the valuer for performing the impairment assessment of the CGUs as at 31 December 2019 and 2018:

	Digital Extremes	Splash Damage Group	Guangzhou Radiance
Valuation method	Discounted cash flow	Discounted cash flow	Discounted cash flow
Major parameters on valuation			
(a) Expected compound annual growth	2019: 3%	2019: 10%	2019: 70%
rate in sales	2018: 3%	2018: 15%	2018: 30%
(b) Expected annual net profit margin	2019: 32%	2019: Ranged from 17% to 25%	2019: Ranged from 7% to 22%
	2018: 36%	2018: Ranged from 12% to 20%	2018: Ranged from 41% to 64%
(c) Corporate tax rate	2019: 26.5%	2019: 19%	2019: 25%
	2018: 26.5%	2018: 19%	2018: 25%
(d) Weighted average cost of capital	2019: 19%	2019: 21%	2019: 20%
(pre-tax)	2018: 21%	2018: 22%	2018: 28%
(e) Terminal growth rate	2019: 3%	2019: 3%	2019: 3%
	2018: 3%	2018: 3%	2018: 3%

The valuation methodology and assumptions were consistently adopted and applied in the valuations conducted by the respective valuers. The board of directors and audit committee of the Group considered that the basis and assumptions used for preparing the cash flow projection and the valuation methodology, basis and assumptions used for preparing the valuation report were reasonable and appropriate.

The carrying amounts of goodwill at the end of the reporting period were approximately US$79,250,000 (2018: US$76,419,000) and no impairment loss was recognised during the year ended 31 December 2019 (2018: impairment loss of US$42,944,000). The impairment loss recognised during the year ended 31 December 2018 was due to the decrease in recoverable amount of Splash Damage Group, taking account of the repositioning of business of the Splash Damage Group from developing both own IP games and work-for-hire business to focusing on standalone work-for-hire business. The recoverable of the Splash Damage Group was based on value in use calculation. The calculation based on the profit forecast approved by the management covering five-year period and a discount rate of 21% (2018: 22%) per annum which reflects current market assessment.

Any assumptions in value in use calculation will lead to further losses of impairment.

18. INTANGIBLE ASSETS

	2019 US$'000	2018 US$'000
Cost		
At the beginning of the year	**103,770**	110,822
Additions	**1,343**	1,029
Exchange alignment	**2,437**	(8,081)
At the end of the year	**107,550**	103,770
Accumulated amortisation and impairment		
At the beginning of the year	**72,254**	52,909
Amortisation during the year (Note 10)	**17,366**	18,467
Impairment during the year (Note 10)*	**2,540**	4,896
Exchange alignment	**1,304**	(4,018)
At the end of the year	**93,464**	72,254
Net carrying amount	**14,086**	31,516

* As a result of the under-performance of a developed game, the Directors determine the recoverable amount of the developed game was minimal, an impairment of intangible assets of US$2,540,000 (2018: US$4,896,000) was recognised during the year ended 31 December 2019.

The economic useful life of recognised intangible assets are as follows:

Intangible assets	Useful economic life
Brand name	10 years
Completed game	3 – 5 years
Game engine	3 – 5 years
Game under development	3 – 5 years
Trademark	10 years

18. INTANGIBLE ASSETS (CONTINUED)

Cost of intangible assets:

	2019 **US$'000**	2018 US$'000
Brand name	**9,908**	9,584
Completed game	**65,410**	62,676
Game engine	**11,920**	11,422
Game under development	**20,185**	19,972
Trademark	**127**	116
Total	**107,550**	103,770

19. DEVELOPMENT EXPENDITURE

Development expenditure represents payment to independent video game developers under development agreements and expenditure on development activities. The Group entered into written agreements to provide the independent video game developer with advance payments for development of video games on both PC and console platforms in exchange of exclusive publishing rights to the game.

	2019 **US$'000**	2018 US$'000
At the beginning of the year	**48,297**	12,364
Additions*	**54,032**	43,601
Amortisation during the year (Note 10)	**(10,471)**	(3,048)
Impairment during the year (Note 10)**	**(7,675)**	(4,360)
Exchange alignment	**484**	(260)
At the end of the year	**84,667**	48,297

* Included in additions, there are equity-settled share-based expenses capitalised of approximately US$1,638,000 (2018: Nil) and others addition of approximately US$52,394,000 (2018: US$43,601,000).

** As a result of the under-performance of a game, the Directors determine the recoverable amount of this game related development expenditure is minimal, an impairment loss of US$7,675,000 (2018: US$4,360,000) was recognised during the year ended 31 December 2019.

20. RIGHT-OF-USE ASSETS

The Group as lessee

	Properties leased for own use US$'000	Equipment leased for own use US$'000	Total US$'000
As at 1 January 2019	13,891	5,075	18,966
Additions	1,061	1,754	2,815
Depreciation charge during the year (Note 10)	(2,827)	(2,093)	(4,920)
Exchange alignment	320	168	488
As at 31 December 2019	**12,445**	**4,904**	**17,349**

Notes:

1. In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under HKAS 17 *Leases*, if any. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 2.

2. For both years, the Group leases various offices equipment and properties for its operations. Lease contracts are entered into for fixed term of 2 years to 10 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

3. The Group has options to purchase certain equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

4. At 31 December 2019, the Group is committed to US$378,000 for short-term leases.

5. The total cash outflow for leases amount to US$5,370,000 for the year ended 31 December 2019.

6. The Company has no expense relating to lease of low-value assets during the year ended 31 December 2019.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income comprise the equity security which is not held for trading, and which the Group has irrevocably elected at initial recognition to recognised in this category. This are strategic investment and the Group considers this classification to be more relevant.

	2019	2018
	US$'000	US$'000
Unlisted equity securities outside HK	**10,100**	9,100

The following is a list of financial assets at fair value through other comprehensive income as at 31 December 2019 and 2018:

Name of equity	Proportion share capital owned as at 31 December 2019 %	2018 %	Cost of investment US$'000	Fair value as at 31 December 2019 US$'000	Fair value as at 31 December 2018 US$'000
Certain Affinity, Inc. ("Certain Affinity") (Note)	**20**	20	8,100	**10,100**	9,100

Note:

Certain Affinity is a limited liability company organised under the laws of the State of Texas, the United States of America and principally engaged in the development of licensed games (including associated computer software product and add-ons).

On 15 October 2017, the Company and Certain Affinity have entered into (i) the sale and purchase agreement pursuant to which the Company has agreed to purchase series A preferred stock representing 20% of the issued share capital of Certain Affinity at a total consideration of US$10 million ("Sale and purchase agreement in Certain Affinity"); and (ii) the game development agreement pursuant to which Certain Affinity shall, under the direction of, and with input and cooperation from the Company, develop and produce for the Company the game based on certain intellectual property. The transaction was completed on 30 October 2017. At 31 December 2017, the consideration comprising of available-for-sale financial assets and financial assets at fair value through profit or loss amounted to US$8,100,000 and US$1,900,000, respectively. Further details of the transaction were set out in the announcement of the Company dated 16 October 2017. This investment was reclassified to financial assets at fair value through other comprehensive income upon the initial application of HKFRS 9.

The fair value of investment in Certain Affinity at 31 December 2019 was determined by the Directors by reference to the valuation carried out by an external independent valuer by using the discounted cash flow method which is based on the cash flow projections prepared by management of Certain Affinity derived from the most recent approved financial budgets for the next 5 years. The cash flows beyond 5 year period are extrapolated using a growth rate of 3% (2018: 3%).

The Group is unable to exercise significant influence over Certain Affinity as the Group do not have the power to appoint any of its director and do not participate in its policy-making processes. The investment in Certain Affinity is not accounted for as associates of the Group.

22. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2019 **US$'000**	2018 US$'000
Merchandise goods	**147**	174

23. TRADE RECEIVABLES

	2019 **US$'000**	2018 US$'000
Trade receivables	**22,646**	45,670
Less: Allowance for ECL (Note 39(b))	**(71)**	(1,373)
	22,575	44,297

The Group normally allows a credit period ranging from 7 to 60 days. The ageing analysis of trade receivables, based on invoice date, net of impairment is as follows:

	2019 **US$'000**	2018 US$'000
Within 30 days	**18,668**	32,022
31 days to 60 days	**1,988**	3,706
61 days to 180 days	**1,553**	8,563
Over 180 days	**366**	6
	22,575	44,297

The trade receivables are denominated in US$, CAD and GBP.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 39(b).

24. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	2019 **US$'000**	2018 US$'000
Deposits paid and prepayments	**7,560**	8,132
Amounts due from directors of subsidiaries (Note 40)	**631**	142
Other receivables	**22,924**	12,137
	31,115	20,411
Less: Allowance for ECL (Note 39(b))	**(10,411)**	(3,298)
	20,704	17,113

Further details on the Group's credit policy and credit risk arising from deposits and other receivables are set out in Note 39(b).

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **US$'000**	2018 US$'000
Held for trading:		
– Listed equity securities in HK (Note (a))	**–**	1,333
Derivative financial instruments, at fair value (Note (b))	**2,600**	2,400
Interest rate swap (Note (c))	**123**	127
Equity accumulator contract in Canada (Note (d))	**–**	4,662
	2,723	8,522

Notes:

(a) Held for trading – Listed equity securities in HK

Fair value was determined with reference to quoted market bid prices.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Notes: (continued)

(b) Derivative financial instruments, at fair value

Pursuant to Sale and purchase agreement in Certain Affinity, the Group was granted with a call option ("Call Option"), whereby the Group has the discretion to acquire the remaining equity interest in Certain Affinity at a consideration of US$1, which is exercisable within 3 months following the receipt of Certain Affinity's audited financial statements for the year ending 31 December 2020. As at 31 December 2019 and 2018, the fair values of the Call Option were US$2,600,000 and US$2,400,000, respectively, which were determined by an independent valuer based on binomial option pricing model. The key inputs into the model for the value of the option are as follows:

	2019	2018
80% of equity value (US$'000)	**44,961**	40,666
Maturity	**1.5 years**	2.5 years

(c) Interest rate swap

During the year, the Company entered into interest rate swap contract which was non-hedging derivative and was classified as current assets. For information about the methods and assumptions used in determining the fair value of derivative, please refer to Note 39(c).

The notional amount of the outstanding interest rate swap contracts as at 31 December 2019 was HK$189,586,800 (2018: HK$189,586,800).

(d) Equity accumulator contract in Canada

On 20 November 2018, the Group has entered into a prepaid range bonus accumulator with guaranteed payment with maturity date on 20 November 2019.

Based on the prepaid range bonus accumulator contract, the Group has an obligation to buy a specified amount of the CAD at specific date every month (the "Affected Date") up to the maturity date. If the spot exchange rate on the Affected Date is (i) less than when spot exchange rate is greater than or equal to CAD1.2650 per USD and less than or equal to CAD1.3800 per USD ("the Bonus Payout Range"), the Counterparty shall receive the USD repayment amount plus the guaranteed payment amount; (ii) within the Bonus Payout Range, the Group will receive the USD repayment amount plus the guaranteed payment amount and the Bonus Payout Amount; and (iii) greater than the Bonus Payout Range, the Group shall receive the CAD repayment amount plus the guaranteed payment amount. All other terms and conditions of the transaction shall remain in effect.

26. CASH AND BANK BALANCES

	2019 US$'000	2018 US$'000
Cash and bank balances	**22,105**	32,658

Cash and bank balances comprise cash held by the Group during the year. The bank balances are deposited with creditworthy banks with no recent history of default.

For the years ended 31 December 2018 and 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for ECL is provided.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of US$1,341,000 (2018: US$764,000) which are not freely convertible into other currencies.

27. TRADE PAYABLES

	2019 US$'000	2018 US$'000
Trade payables	**3,498**	2,109

The ageing analysis of trade payables presented based on invoice date is as follows:

	2019 US$'000	2018 US$'000
Within 30 days	**2,392**	1,660
31 days to 90 days	**775**	394
91 days to 180 days	**327**	1
Over 180 days	**4**	54
	3,498	2,109

The average credit period on purchases of certain goods is generally within 15 to 90 days.

28. ACCRUALS AND OTHER PAYABLES

	2019 **US$'000**	2018 US$'000
Accruals and other payables	**10,646**	11,146

29. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	2019 **US$'000**	2018 US$'000
Secured:		
– Term loan (Note (a))	**12,527**	20,754
– Mortgage loans (Note (b))	**12,630**	13,225
– Revolving loan (Note (c))	**–**	8,301
	25,157	42,280

As at 31 December 2019 and 2018, the bank borrowings were repayable as follows:

	2019 **US$'000**	2018 US$'000
Within 1 year or on demand	**25,157**	42,280

29. BANK BORROWINGS (CONTINUED)

The carrying amounts of the bank borrowings are denominated in the following currencies:

	2019	2018
	US$'000	US$'000
HK dollars	**12,630**	21,526
US dollars	**12,527**	20,754
	25,157	42,280

Notes:

The secured bank borrowings were secured by leasehold land and buildings included in property, plant and equipment with carrying amounts of US$30,337,000 (2018: US$33,996,000) and a corporate guarantee given by a subsidiary of the Company for an amount up to US$25,000,000 (2018: US$25,000,000).

Particulars of each bank borrowing are as follows:

(a) Term loan

The term loan is scheduled for repayment in June 2021. In addition, the related loan agreements contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion. Accordingly, the term loan is classified as current liability in the consolidated statement of financial position. The term loan carries interest at Hong Kong Interbank Offer Rate ("HIBOR") plus 3.9%. The effective interest rate as at 31 December 2019 ranged from 4.9% to 6.4% per annum (2018: 4.9% to 6.0% per annum).

The banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the draw down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2019, none of the covenants relating to draw down facilities had been breached (2018: Nil).

(b) Mortgage loans

The mortgage loans carry interest at HIBOR plus 1.2%. The effective interest rate as at 31 December 2019 ranged from 2.20% to 3.73% per annum (2018: 2.40% per annum).

(c) Revolving loan

On 26 November 2018, the Company entered into a revolving loan facility of up to HK$65,000,000 (equivalent to approximately US$8,333,000) for a term of one year. The revolving loan was intended for general corporate funding purposes of the Company. The revolving loan carries interest at HIBOR plus 0.9%. The effective interest rate as at 31 December 2019 ranged from 1.92% to 3.60% per annum (2018: 2.58% per annum). As at 31 December 2019, the Company had fully repaid the banking facilities (2018: the Company had fully utilised the banking facilities).

30. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the current reporting periods and at the date of transition of HKFRS 16:

	As at 31 December 2019		As at 1 January 2019	
	Present value of the minimum lease payments US$'000	**Total minimum lease payments US$'000**	Present value of the minimum lease payments US$'000	Total minimum lease payments US$'000
Within 1 year	**5,314**	**6,199**	4,158	5,070
After 1 year but within 2 years	**4,358**	**4,962**	4,135	4,880
After 2 years but within 5 years	**6,128**	**6,840**	5,764	6,709
After 5 years	**3,761**	**4,199**	6,434	7,155
	14,247	**16,001**	16,333	18,744
	19,561	**22,200**	20,491	23,814
Less: total future interest expenses		**(2,639)**		(3,323)
Present value of lease obligations		**19,561**		20,491

Analysed for reporting purposes as:

	As at 31 December 2019 US$'000	As at 1 January 2019 US$'000
Current liabilities	**5,314**	4,158
Non-current liabilities	**14,247**	16,333
	19,561	20,491

30. LEASE LIABILITIES (CONTINUED)

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2019
	US$'000
CAD	**6,317**
GBP	**11,059**
RMB	**2,185**
	19,561

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to lease which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 2.

31. CONTRACT LIABILITIES

	2019	2018
	US$'000	US$'000
Arising from sale of virtual currency (Note)	**6,751**	14,770

Note:

Contract liabilities comprised receipt from sale of virtual currency through their online game that is being recognised through profit or loss over the average estimated paying player life.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sale of virtual currency of online games
	US$'000
Revenue recognised from performance obligations satisfied in prior periods:	
From the year ended 31 December 2019	
Incomes from sales of virtual currency of online game, not previously recognised due to the constraint	**14,770**
From the year ended 31 December 2018	
Incomes from sales of virtual currency of online game, not previously recognised due to the constraint	8,898

32. DEBENTURE

	2019 US$'000	2018 US$'000
Unsecured debenture at 5%	**615**	588

On 20 January 2014, the Group had issued debenture amount of US$645,000 (equivalent to HK$5,000,000) to an independent third party.

The debenture bears an interest of 5% per annum, unsecured and repayable on 19 January 2021. The effective interest rate of the debenture is approximately 9.4% (2018: 9.4%).

33. CONSIDERATION PAYABLES

Consideration payables are unsecured and interest-free.

According to the sales and purchase agreements dated 1 July 2016, the Group should pay the vendor of Splash Damage Group earn-out consideration. The earn-out consideration is payable if Splash Damage Group achieves the respective base year profit targets, calculated on a predetermined basis, during the designated periods of time. With reference to the actual performance of the Splash Damage Group, there was no consideration payable as at 31 December 2018 and 2019. During the year ended 31 December 2018, a gain on change in fair value of contingent consideration payable amounting to approximately US$37,424,000 was recognised in the consolidated statement of profit or loss. The fair value of contingent consideration payable as at 31 December 2018 is based on the valuation performed by an independent professional valuer not connected with the Group.

34. SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 25 August 2017.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of the participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

The participants of the Share Option Scheme to whom options may be granted by the board shall include any employee, consultant, advisor, agent, contractor, client or supplier who in the sole discretion of the board has contributed or is expected to contribute to the Group.

During the period commencing one month immediately preceding the earlier of (a) the date of the board meeting for approval of the Company's interim or annual results or (b) the failure of the Company to publish its interim or the annual results announcement under the Listing Rules and ending on the date of the results announcement, no option should be granted.

34. SHARE OPTION SCHEME (CONTINUED)

The subscription price per share shall be rounded upwards to the nearest whole cent. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company within 20 business days from the offer date by way of consideration for the grant.

The subscription price for the shares under the Share Option Scheme will be a price determined by the board in its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the higher of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (2) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; or (3) the nominal value of HK$0.10 of each share.

The total number of the shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. No offer may be made under the Share Option Scheme if this will result in the aforementioned limit being exceeded.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carrying neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the year:

				Number of share options				
Category of grantee	**Date of grant**	**Exercisable period**	**Exercise price of share option**	**Outstanding as at 1 January 2019**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2019**
Executive Directors								
Mr. Xu Yiran	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	**29,246,800**
Mr. Gu Zhenghao	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	**29,246,800**
Mr. Li Yang	2 May 2019	2 May 2020 to 2 November 2022	HK$2.50	–	4,250,000	–	–	**4,250,000**
	2 May 2019	2 May 2021 to 2 November 2022	HK$2.80	–	4,250,000	–	–	**4,250,000**
	2 May 2019	2 May 2022 to 2 November 2022	HK$3.10	–	4,250,000	–	–	**4,250,000**
Sub-total				58,493,600	12,750,000	–	–	**71,243,600**

34. SHARE OPTION SCHEME (CONTINUED)

Category of grantee	Date of grant	Exercisable period	Exercise price of share option	Number of share options: Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2019
Employees	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	**29,246,800**
	24 October 2017	24 October 2018 to 24 October 2022	HK$1.91	29,246,791	–	–	–	**29,246,791**
	24 October 2017	24 October 2019 to 24 October 2022	HK$1.91	29,246,791	–	–	–	**29,246,791**
	24 October 2017	24 October 2020 to 24 October 2022	HK$1.91	29,246,818	–	–	–	**29,246,818**
	2 May 2019	2 May 2020 to 2 November 2022	HK$2.50	–	41,849,987	–	–	**41,849,987**
	2 May 2019	2 May 2021 to 2 November 2022	HK$2.80	–	41,849,987	–	–	**41,849,987**
	2 May 2019	2 May 2022 to 2 November 2022	HK$3.10	–	41,850,026	–	–	**41,850,026**
	20 May 2019	20 May 2020 to 20 November 2022	HK$2.50	–	2,059,959	–	(48,021)	**2,011,938**
	20 May 2019	20 May 2021 to 20 November 2022	HK$2.80	–	2,059,959	–	(48,021)	**2,011,938**
	20 May 2019	20 May 2022 to 20 November 2022	HK$3.10	–	2,059,966	–	(48,021)	**2,011,945**
	5 June 2019	5 June 2020 to 5 December 2022	HK$2.50	–	333,333	–	–	**333,333**
	5 June 2019	5 June 2021 to 5 December 2022	HK$2.80	–	333,333	–	–	**333,333**
	5 June 2019	5 June 2022 to 5 December 2022	HK$3.10	–	333,334	–	–	**333,334**
Sub-total				116,987,200	132,729,884	–	(144,063)	**249,573,021**

34. SHARE OPTION SCHEME (CONTINUED)

Category of grantee	Date of grant	Exercisable period	Exercise price of share option	Number of share options: Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2019
Consultants	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	87,740,400	–	–	–	**87,740,400**
	20 May 2019	20 May 2020 to 20 November 2022	HK$2.50	–	2,500,000	–	–	**2,500,000**
	20 May 2019	20 May 2021 to 20 November 2022	HK$2.80	–	2,500,000	–	–	**2,500,000**
	20 May 2019	20 May 2022 to 20 November 2022	HK$3.10	–	2,500,000	–	–	**2,500,000**
	5 June 2019	5 June 2020 to 5 December 2022	HK$2.50	–	500,000	–	–	**500,000**
	5 June 2019	5 June 2021 to 5 December 2022	HK$2.80	–	500,000	–	–	**500,000**
	5 June 2019	5 June 2022 to 5 December 2022	HK$3.10	–	500,000	–	–	**500,000**
Sub-total				87,740,400	9,000,000	–	–	**96,740,400**
Total				263,221,200	154,479,884	–	(144,063)	**417,557,021**

34. SHARE OPTION SCHEME (CONTINUED)

Category of grantee	Date of grant	Exercisable period	Exercise price of share option	Number of share options: Outstanding as at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2018
Executive Directors								
Mr. Xu Yiran	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	29,246,800
Mr. Gu Zhenghao	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	29,246,800	–	–	–	29,246,800
Sub-total				58,493,600	–	–	–	58,493,600
Employees	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	43,870,200	–	–	(14,623,400)	29,246,800
	24 October 2017	24 October 2018 to 24 October 2022	HK$1.91	29,246,791	–	–	–	29,246,791
	24 October 2017	24 October 2019 to 24 October 2022	HK$1.91	29,246,791	–	–	–	29,246,791
	24 October 2017	24 October 2020 to 24 October 2022	HK$1.91	29,246,818	–	–	–	29,246,818
Sub-total				131,610,600	–	–	(14,623,400)	116,987,200
Consultants	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	87,740,400	–	–	–	87,740,400
Total				277,844,600	–	–	(14,623,400)	263,221,200

34. SHARE OPTION SCHEME (CONTINUED)

Notes:

(a) The share options were vested upon granted.

(b) The exercise price of the share options was subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.

(c) The closing price of shares immediately prior to the date of grant on 24 October 2017 was HK$1.88; the market prices of the shares on the dates of grant on 2 May 2019, 20 May 2019 and 5 June 2019 were HK$2.32, HK$2.24 and HK$2.30 respectively.

(d) The share options will be vested in three tranches in accordance with a vesting schedule, conditional upon the achievement by the grantee of certain performance targets. For details of the vesting schedule and exercise price of the share options, please refer to the announcement of the Company dated 2 May 2019.

(e) Save as disclosed above, no option under the Share Option Scheme was outstanding, granted, exercised, cancelled or lapsed during the year ended 31 December 2019.

Fair value of share options granted during the year ended 31 December 2017

The weighted average of fair value of the share options granted during the financial year ended 31 December 2017 is US$0.072. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	**Start from 24 October 2020**	**Start from 24 October 2019**	**Start from 24 October 2018**	**Start from 24 October 2017**
Grant date share price (HK$)	1.88	1.88	1.88	1.88
Exercise price (HK$)	1.91	1.91	1.91	1.91
Expected volatility	58.30%	58.30%	58.30%	58.30%
Option life	5 years	5 years	5 years	5 years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	1.90%	1.90%	1.90%	1.90%

34. SHARE OPTION SCHEME (CONTINUED)

Fair value of share options granted as at 2 May 2019

The weighted average of fair value of the share options granted as at 2 May 2019 is US$0.091. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	Start from 2 May 2022	Start from 2 May 2021	Start from 2 May 2020
Grant date share price (HK$)	2.32	2.32	2.32
Exercise price (HK$)	3.10	2.80	2.50
Expected volatility	54.78%	54.78%	54.78%
Option life	3.5 years	3.5 years	3.5 years
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	2.13%	2.13%	2.13%

Fair value of share options granted as at 20 May 2019

The weighted average of fair value of the share options granted as at 20 May 2019 is US$0.082. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	Start from 20 May 2022	Start from 20 May 2021	Start from 20 May 2020
Grant date share price (HK$)	2.24	2.24	2.24
Exercise price (HK$)	3.10	2.80	2.50
Expected volatility	53.31%	53.31%	53.31%
Option life	3.5 years	3.5 years	3.5 years
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	2.01%	2.01%	2.01%

34. SHARE OPTION SCHEME (CONTINUED)

Fair value of share options granted as at 5 June 2019

The weighted average of fair value of the share options granted as at 5 June 2019 is US$0.086. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	Start from 5 June 2022	Start from 5 June 2021	Start from 5 June 2020
Grant date share price (HK$)	2.30	2.30	2.30
Exercise price (HK$)	3.10	2.80	2.50
Expected volatility	53.21%	53.21%	53.21%
Option life	3.5 years	3.5 years	3.5 years
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	1.82%	1.82%	1.82%

The Group recognised the total expense of US$7,723,000 for the year ended 31 December 2019 (2018: US$4,377,000) in relation to share options granted by the Company.

Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2019		2018	
	Number of options '000	**Weighted average exercise price HK$**	Number of options '000	Weighted average exercise price HK$
At the beginning of year	**263,221**	**1.91**	277,845	1.91
Granted during the year	**154,480**	**2.80**	–	–
Exercise during the year	**–**	**–**	–	–
Lapsed during the year	**(144)**	**2.80**	(14,624)	1.91
At the end of year	**417,557**	**2.24**	263,221	1.91

Share options outstanding at the end of the year

233,974,382 outstanding share options are exercisable at the end of the respective reporting period (2018: 204,727,591 outstanding share options are exercisable).

The share options outstanding at the end of the year had a weighted average exercise price of HK$2.24 (2018: HK1.91), and a weighted average remaining contractual life of 2.83 years (2018: 3.82 years).

35. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares	
		HK$'000	US$'000
Authorised:			
As at 1 January 2018 ordinary shares of HK$0.1 each	4,000,000,000	400,000	51,600
Increase in authorised share capital (Note (a))	6,000,000,000	600,000	77,400
As at 31 December 2018, 1 January 2019 and 31 December 2019	**10,000,000,000**	**1,000,000**	**129,000**
Issued and fully paid:			
As at 1 January 2018 ordinary shares of HK$0.1 each	3,070,910,000	307,091	39,597
Share repurchased and cancelled (Note (b))	(19,715,000)	(1,972)	(252)
As at 31 December 2018 and 1 January 2019	3,051,195,000	305,119	39,345
Subscription of shares (Note (c))	30,500,000	3,050	389
As at 31 December 2019	**3,081,695,000**	**308,169**	**39,734**

Notes:

(a) Pursuant to an ordinary resolution passed at the annual general meeting on 25 May 2018, the authorised share capital of the Company was increased from HK$400,000,000 divided into 4,000,000,000 ordinary shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares by the creation of an additional 6,000,000,000 unissued ordinary shares.

(b) During the year ended 31 December 2018, the Company repurchased on the market a total of 19,715,000 ordinary shares of the Company for an aggregate consideration of HK$40,011,000 (equivalent to approximately US$5,101,000) (and incurred transaction costs of HK$164,000, equivalent to approximately US$21,000). All of these shares were cancelled on 5 November 2018. The premium payable and transaction costs on repurchases of shares were both charged to share premium account.

(c) On 25 April 2019, the Company issued 30,500,000 ordinary shares under subscription and at the subscription price of HK$2.35 per share. Among the gross proceeds of US$9,135,000, US$389,000 and US$8,746,000 were credited to the share capital account and share premium account, respectively.

36. ACQUISITION OF ASSETS

During the year ended 31 December 2018, Excellent Wish Limited ("Excellent"), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements with (A) Ms. Wu Laam Anne ("Ms. Wu"), wife of Mr. Yuk Kwok Cheung Charles ("Mr. Yuk"), the controlling shareholder (as defined in the Listing Rules) of the Company, to acquire (i) the entire equity interests in Xiang Tian Limited (together with its sole subsidiary, Idea Charm Investments Limited, collectively, the "Xiang Tian Group"); (ii) the entire equity interests in Reach Affluent Limited (together with its sole subsidiary, Strong Achieve Limited, collectively, the "Reach Affluent Group"); and (iii) the shareholder's loan owed by Xiang Tian Group and Reach Affluent Group to Ms. Wu; and with (B) Cindic Holdings Limited, a company wholly-owned by Ms. Wu, to acquire a property, at a total consideration of HK$260,000,000 (equivalent to approximately US$33,228,000).

Xiang Tian Group and Reach Affluent Group are principally engaged in property holding and leasing in Hong Kong and as at the date of acquisition, each of Xiang Tian Group and Reach Affluent Group did not carry out any significant business transactions except for holding a property in Hong Kong.

The above acquisitions in respect of Xiang Tian Group and Reach Affluent Group have been accounted for by the Group as acquisition of assets as the entities acquired by the Group do not constitute a business.

Pursuant to the relevant sale and purchase agreements in respect of the acquisition of Xiang Tian Group and Reach Affluent Group, the aggregate consideration for the two groups was adjusted to HK$135,850,000 (equivalent to approximately US$17,362,000) based on the net asset values of Xiang Tian Group and Reach Affluent Group as at 30 November 2018 (date of acquisition). The net assets acquired by the Group in the above transactions are as follows:

	Xiang Tian Group	**Reach Affluent Group**	**Total**
	US$'000	US$'000	US$'000
Net assets acquired:			
Property, plant and equipment (Note 16)	10,633	6,709	17,342
Prepayments, deposits and other receivables	15	5	20
Bank balances	3	1	4
Accruals and other payables	(4)	–	(4)
	10,647	6,715	17,362
Satisfied by:			
Cash	10,647	6,715	17,362

36. ACQUISITION OF ASSETS (CONTINUED)

An analysis of the cash flows in respect of the acquisition of the entities is as follows:

	US$'000
Cash consideration	(17,362)
Bank balances acquired	4
Net cash outflow in respect of the acquisition of subsidiaries that does not constitute business	(17,358)

37. RETIREMENT BENEFIT PLANS

The Group operates a MPF Scheme for all qualifying employees in HK. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, this contribution is matched by employees.

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefits schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligations of the Group with respect to the retirement benefits schemes are to make the specified contributions.

The employees of the Group's subsidiaries which operate in Canada may make voluntary contributions to a Registered Retirement Savings Plan ("RRSP"). The subsidiaries match the employee contributions up to an annual maximum. These subsidiaries has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

A defined contribution plan is a pension plan under which the Group's subsidiaries which operate in UK pay fixed contributions into a separate entity. The Group's subsidiaries have 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.

The Group's subsidiary in the US participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, the Group's subsidiary matches voluntary employee's contribution at a rate of 100% for the first 6% of the employee's eligible compensation. Employee contributions are voluntary.

For defined contribution plans, the Group's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group's subsidiaries have 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.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately US$2,271,000 (2018: US$1,291,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of bank borrowings, debenture and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained earnings).

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of bank borrowings.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings (comprised of bank borrowings and debenture) with total assets. The Group's overall strategy remains unchanged during the reporting period. The gearing ratio at the end of each reporting periods were as follows:

	2019 **US$'000**	2018 US$'000
Total borrowings	**25,772**	42,868
Total assets	**322,848**	310,703
Gearing ratio	**8.0%**	13.8%

39. FINANCIAL INSTRUMENTS AND FAIR VALUES

(a) Categories of financial instruments

	2019 **US$'000**	2018 US$'000
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**–**	1,333
– Derivative financial instruments	**2,600**	2,400
– Interest rate swap	**123**	127
– Equity accumulator contract in Canada	**–**	4,662
Financial assets at FVTOCI	**10,100**	9,100
Financial assets at amortised costs (including cash and bank balances)		
– Trade receivables	**22,575**	44,297
– Financial assets included in deposits paid, prepayments and other receivables	**16,446**	11,873
– Cash and bank balances	**22,105**	32,658
	73,949	106,450
Financial liabilities		
Amortised cost		
– Trade payables	**3,498**	2,109
– Financial liabilities included in accruals and other payables	**10,646**	11,146
– Debenture	**615**	588
– Bank borrowings	**25,157**	42,280
– Lease liabilities	**19,561**	–
	59,477	56,123

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies

The Directors monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's major financial instruments include financial assets at FVTPL, financial assets at FVTOCI, trade receivables, financial assets included in deposits paid, prepayments and other receivables, cash and bank balances, trade payables, financial liabilities included in accruals and other payables, debenture, bank borrowings and lease liabilities. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

The Group has customers in various countries of the world and is expected to foreign exchange risk arising from various currency exposures, primarily with respect to US$. The 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.

In addition, the Group's foreign exchange position is monitored on an ongoing basis in order to minimise the impact from the fluctuation of foreign currency rate. The Group currently does not maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is exposed to cash flow and fair value interest rate risks in relation to non-derivative financial assets and liabilities. The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of HIBOR arising from the Group's variable-rate secured bank borrowings (see Note 29 for details).

The Group manages its interest rate risk for variable-rate secured bank borrowings by entering into interest rate swaps to hedge against its exposures to interest rate on certain variable-rate secured bank borrowings. The management will continue to monitor the interest rate risk to the Group and take further actions by entering interest rate swaps to hedge against any foreseeable interest rate exposure, if necessary.

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivatives instruments. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 (2018: 50) basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's profit before taxation and distribution to unitholders for the year ended 31 December 2019 would decrease/increase by US$126,000 (2018: US$211,000). This is mainly attributable to the Group's exposure to interest rates on its secured variable-rate secured bank borrowings which are not hedged and have an aggregate amount of US$25,157,000 (2018: US$42,280,000).

Credit risk

Credit risk is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The Group diversified business base ensures that there are no significant concentrations of credit risk for a particular customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

As at 31 December 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk limited to trade receivables, deposits and other receivables and bank balances. which will cause the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 24% (2018: 33%) of the Group's accounts receivable was due from the Group's largest counterparty.

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

Trade receivables

The Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 3 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Deposits and other receivables

The Group measures the allowance for ECL equal to 12-month ECL of deposits and other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group apply lifetime ECL based on ageing for classes with different credit risk characteristics and exposures.

Cash and cash equivalents

As at 31 December 2019 and 2018, all cash and cash equivalents were deposited in state owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment for its customers in relation to its computer and video games operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of US$22,646,000 and US$45,670,000 as at 31 December 2019 and 2018 respectively were assessed individually.

As at 31 December 2019

	Average loss rate	Trade receivables US$'000	Allowance for ECL US$'000
Low risk	0%	21,039	–
Watch list	0%	–	–
Loss	4.42%	1,607	(71)
		22,646	(71)

As at 31 December 2018

	Average loss rate	Trade receivables US$'000	Allowance for ECL US$'000
Low risk	0%	36,969	–
Watch list	14.29%	1	–
Loss	15.78%	8,700	(1,373)
		45,670	(1,373)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 31 December 2019, the Group provided US$71,000 (2018: US$1,373,000) allowance for ECL for the trade receivables based on the provision matrix. Impairment allowance of US$71,000 was made on debtors with not credit impaired (2018: impairment allowance of US$1,373,000 was made on debtors with credit impaired).

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) US$'000	Lifetime ECL (credit-impaired) US$'000	Total US$'000
As at 1 January 2018	–	–	–
Impairment losses recognised	–	1,379	1,379
Exchange alignment	–	(6)	(6)
As at 31 December 2018 and 1 January 2019	–	1,373	1,373
Impairment losses recognised (Note 10)	71	6,859	6,930
Impairment loss reversed (Note 10)	–	(4)	(4)
Write-off	–	(8,264)	(8,264)
Exchange alignment	–	36	36
As at 31 December 2019	**71**	**–**	**71**

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 1 year, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

Impairment loss on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The following tables show reconciliation of allowances for ECL that has been recognised for the deposits and other receivables:

	Credit impaired 12-month ECL US$'000
As at 1 January 2018	–
Impairment losses recognised	3,298
As at 31 December 2018 and 1 January 2019	3,298
Impairment losses recognised (Note 10)	7,079
Exchange alignment	34
As at 31 December 2019	**10,411**

As at 31 December 2019, the Group provided US$10,411,000 (2018: US$3,298,000) allowance for ECL for the deposits and other receivables.

Liquidity risk

The Group is exposed to minimal liquid risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate %	On demand or within one year US$'000	More than one year but less than two years US$'000	More than two years but less than five years US$'000	More than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2019							
Non-derivative financial liabilities							
Trade payables	–	3,498	–	–	–	3,498	3,498
Accruals and other payables	–	10,646	–	–	–	10,646	10,646
Debenture	9.4	32	615	–	–	647	615
Bank borrowings	4.4	28,319	–	–	–	28,319	25,157
Lease liabilities	5.5	6,199	4,962	6,840	4,199	22,200	19,561
		48,694	5,577	6,840	4,199	65,310	59,477

	Weighted average interest rate %	On demand or within one year US$'000	More than one year but less than two years US$'000	More than two years but less than five years US$'000	More than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2018							
Non-derivative financial liabilities							
Trade payables	–	2,109	–	–	–	2,109	2,109
Accruals and other payables	–	11,146	–	–	–	11,146	11,146
Debenture	9.4	32	32	647	–	711	588
Bank borrowings	3.9	46,859	–	–	–	46,859	42,280
		60,146	32	647	–	60,825	56,123

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value

Fair value hierarchy

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2019

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets				
Financial assets at FVTPL	–	123	2,600	2,723
Financial assets at FVTOCI	–	–	10,100	10,100
	–	123	12,700	12,823

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Fair value hierarchy (continued)

As at 31 December 2018

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets				
Financial assets FVTPL	1,333	4,789	2,400	8,522
Financial assets FVTOCI	–	–	9,100	9,100
	1,333	4,789	11,500	17,622

Reconciliation of Level 3 fair value measurements of financial assets

	2019 **US$'000**	2018 US$'000
As at 1 January	**11,500**	10,000
Fair value gain in profit or loss	**200**	500
Fair value gain in other comprehensive income	**1,000**	1,000
As at 31 December	**12,700**	11,500

The above fair value gain included in the consolidated statement of profit or loss for the current year related to investment in financial assets at FVTPL held at the end of the reporting period.

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial liability

	2019 US$'000	2018 US$'000
As at 1 January	**–**	51,882
Settlement during the year	**–**	(14,609)
Fair value gain in profit or loss	**–**	(37,424)
Exchange alignment	**–**	151
As at 31 December	**–**	–

The financial liability subsequently measured at fair value on Level 3 fair value measurement represents contingent consideration relating to the acquisition of Splash Damage Group. A gain on fair value of US$37,424,000 for the year ended 31 December 2018 relating to this contingent consideration has been recognised in profit or loss.

Type	**Fair value hierarchy**	**Valuation technique and key input**	**Significant unobservable inputs**
Financial assets			
Financial assets at FVTPL – Derivative financial instruments outside HK 2019: US$2,600,000 2018: US$2,400,000	Level 3	Binomial option pricing model	• Risk-free rate (1.58%) (2018: 2.47%): 1% increase/(decrease) in risk-free rate would have no material impact on the fair value • Volatility (23%) (2018: 21%): 1% increase/(decrease) in volatility would have no material impact on the fair value • Equity value of Certain Affinity: A significant increase/(decrease) in the equity value of Certain Affinity would result in the significant increase/(decrease) in the fair value of derivative financial instruments
– Equity accumulator contract in Canada 2019: Nil 2018: US$4,662,000	Level 2	Monte Carlo Simulation – Risk-free rate (2.57%) – Volatility (6.92%)	• NA
– Listed equity securities in HK 2019: Nil 2018: US$1,333,000	Level 1	Quoted price in active market	• NA

39. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
– Interest rate swap 2019: US$123,000 2018: US$127,000	Level 2	Monte Carlo Simulation – Cap rate (4% per annum) – Floating rate (1.3%)	• NA
Financial assets at FVTOCI – Unlisted equity securities outside HK 2019: US$10,100,000 2018: US$9,100,000	Level 3	Discounted cash flow method	• Discount for credit risk (16%) (2018: 18%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US$800,000)/US$900,000 (2018: (US$600,000)/US$800,000) • Estimated net profit of Certain Affinity: A significant increase/(decrease) in estimated net profit of Certain Affinity would result in the significant increase/(decrease) in the fair value of derivative financial instruments

40. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions

Particulars of significant party transactions during the reporting period are as follows:

Name of company/party	Nature of transaction	Relationship	**2019 US$'000**	2018 US$'000
Cindic Holdings Limited ("Cindic Holdings")	Rental paid	Common shareholder in a related company (Note (a))	**–**	337
	Purchase of merchandise	Common shareholder in a related company (Note (a))	**257**	–
Mr. Yuk	Interest expense	Controlling shareholder of the company (Note (b))	**–**	3
Ms. Wu	Acquire for leasehold land and buildings	The relative of controlling shareholder of the company (Note (c))	**–**	33,228

Notes:

(a) The ultimate beneficial owner of Cindic Holdings is Ms. Wu, who is the wife of Mr. Yuk, the substantial shareholder of the Company.

(b) On 18 March 2018, Mr. Yuk provided a HK$200 million revolving loan facility to the Company which is unsecured and charged with interest at 3% per annum. The final repayment date of the loan and all other sums owing to Mr. Yuk was 18 March 2019. The Company had repaid all outstanding amount owed to Mr. Yuk under the facility during the year.

In the opinions of the Directors, the borrowing of the said loan from Mr. Yuk was for the benefits of the Company and on normal commercial terms where no security over the assets of the Company was pledged.

(c) On 30 November 2018, Ms. Wu and Mr. Yuk entered into sale and purchase agreements with the Group, which Ms. Wu agreed to sell (i) the entire issued share capital of two target companies (Xiang Tian Group and Reach Affluent Group, respectively), including properties owned by the target companies with consideration of HK$135,850,000 (equivalent to approximately US$17,362,000); and (ii) Ms. Wu agreed to sell a property for a consideration of HK$124,150,000 (equivalent to approximately US$15,866,000). For detail, please refer to the Notes 16 and 36, respectively.

40. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) The outstanding balances with related parties at the end of the reporting period are as follows:

	2019 US$'000	2018 US$'000
Amounts due from the directors of subsidiaries (Note 24)*	631	142

* Save for the amount of US$583,000 (2018: Nil) due from a director of a subsidiary which is interest-bearing and on normal commercial terms, the amounts due from the directors of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(c) Key management personnel remuneration

	2019 US$'000	2018 US$'000
Short term employee benefits	277	307
Retirement schemes contributions	2	2
Equity-settled share-based payment expenses	273	2
	552	309

(d) For the connected transaction under Chapter 14A of the Listing Rules, please refer to the section headed "Connected Transactions and Related Party Transactions" under the "Report of the Directors" of this annual report.

41. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties and equipments for fixed terms of 2 years to 10 years. On the lease commencement, the Group recognised approximately US$2,815,000 of right-of-use assets and approximately US$2,815,000 of lease liabilities.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 US$'000
Within one year	5,724
In the second to fifth years, inclusive	13,953
After the fifth years	4,642
	24,319

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease in respect of office premises are negotiated for a term of one to twelve years with fixed rentals.

43. COMMITMENTS

	2019 **US$'000**	2018 US$'000
Commitments for:		
– development expenditure	**97,005**	43,353

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	**2019** **US$'000**	2018 US$'000
Non-current assets			
Property, plant and equipment		**34**	8
Intangible assets		**–**	1,570
Development expenditure		**58,393**	37,720
Financial assets at fair value through other comprehensive income		**10,100**	9,100
Investment in subsidiaries		**10,822**	7
		79,349	48,405
Current assets			
Deposits paid, prepayments and other receivables		**6,345**	11,059
Amounts due from subsidiaries		**165,715**	159,572
Financial assets at fair value through profit or loss		**2,723**	3,860
Cash and bank balances		**5,546**	2,915
		180,329	177,406
Current liabilities			
Accruals and other payables		**1,278**	868
Amounts due to subsidiaries		**118,073**	56,272
Bank borrowings		**25,157**	42,280
		144,508	99,420
Net current assets		**35,821**	77,986
Total assets less current liabilities		**115,170**	126,391
Equity			
Share capital		**39,734**	39,345
Reserves	45	**74,821**	86,458
Total equity		**114,555**	125,803
Non-current liabilities			
Debenture		**615**	588
		615	588
Total equity and non-current liabilities		**115,170**	126,391

Approved by the board of directors on 25 March 2020 and signed on its behalf by:

Mr. Xu Yiran	**Mr. Li Yang**
Executive Director	*Executive Director*

45. RESERVES OF THE COMPANY

	Share premium* US$'000	Exchange reserve US$'000	Financial assets at FVTOCI reserve US$'000	Share option reserve US$'000	Accumulated losses* US$'000	Total US$'000
As at 1 January 2018	172,829	(1,240)	–	12,528	(48,440)	135,677
Loss for the year	–	–	–	–	(49,306)	(49,306)
Other comprehensive (loss)/income for the year	–	(420)	1,000	–	–	580
Total comprehensive (loss)/income for the year	–	(420)	1,000	–	(49,306)	(48,726)
Repurchase and cancellation of shares (Note 35(b))	(4,849)	–	–	–	–	(4,849)
Transaction cost on repurchase of shares (Note 35(b))	(21)	–	–	–	–	(21)
Recognition of equity-settled share-based payment expenses	–	–	–	4,377	–	4,377
Lapse of share options	–	–	–	(881)	881	–
As at 31 December 2018 and 1 January 2019	167,959	(1,660)	1,000	16,024	(96,865)	86,458
Loss for the year	–	–	–	–	(29,788)	(29,788)
Other comprehensive income for the year	–	682	1,000	–	–	1,682
Total comprehensive (loss)/income for the year	–	682	1,000	–	(29,788)	(28,106)
Issue of shares (Note 35(c))	8,746	–	–	–	–	8,746
Recognition of equity-settled share-based payment expenses	–	–	–	7,723	–	7,723
Lapse of share options	–	–	–	(1)	1	–
As at 31 December 2019	**176,705**	**(978)**	**2,000**	**23,746**	**(126,652)**	**74,821**

* As at 31 December 2019, the Company's reserves available for distributions to owners of the Company comprising share premium account less accumulated losses amounted to US$50,053,000 (2018: US$71,094,000).

46. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2019 are as follows:

Name of subsidiary	Place of incorporation /operation	Issued capital	Paid up capital	Percentage of equity interest and voting power attributable to the Company Direct %	Indirect %	Principal activities
Dream Beyond Holdings Limited	BVI	US$1	US$1	100	–	Investment holding
Idea Charm Investments Limited	HK	HK$1	HK$1	–	100	Property holding
Strong Achieve Limited	HK	HK$1	HK$1	–	100	Property holding
Digital Extremes	Canada	CAD300	CAD300	–	97	Development of video games
Digital Extremes US, Inc.	US	US$100	US$100	–	97	Marketing support activities
Radius Maxima Limited	UK	US$50,000	US$50,000	–	100	Investment holding
Splash Damage Limited	UK	GBP113	GBP113	–	100	Development of video games
Fireteam Limited	UK	GBP1	GBP1	–	100	Provision of online services, consultancy and back-end technologies
Warchest Limited	UK	GBP1	GBP1	–	100	Publishing and operating competitive multiplayer games
Brilliant China International Holdings Limited	HK	HK$1	HK$1	–	100	Investment holding
King Maker (Beijing) Technology Co., Ltd	PRC (Note 1)	HK$200,000,000	HK$104,200,000	–	100	Development, operation and management of online games
Guangzhou Radiance	PRC (Note 2)	RMB2,048,000	RMB2,048,000	–	51	Development of computer software and online games

Notes:

(1) King Maker (Beijing) Technology Co., Ltd is a wholly foreign owned enterprise.

(2) Guangzhou Radiance is a sino-foreign equity joint venture.

46. PRINCIPAL SUBSIDIARIES (CONTINUED)

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place and date of incorporation	Proportion of ownership interests and voting power held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019**	2018	**2019**	2018
		%	%	**US$'000**	US$'000	**US$'000**	US$'000
Digital Extremes	Canada,17 September 2013	**3**	3	**1,260**	2,240	**6,259**	5,146

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2019	2018
	US$'000	US$'000
Non-current assets	**24,542**	14,131
Current assets	**175,868**	129,211
Current liabilities	**(20,954)**	(37,723)
Non-current liabilities	**(6,428)**	(1,642)
Total equity	**173,028**	103,977

	2019	2018
	US$'000	US$'000
Revenue	**174,875**	194,481
Cost of sales and expenses	**(121,593)**	(108,771)
Profit for the year	**53,282**	85,710
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**53,282**	85,710

	2019	2018
	US$'000	US$'000
Net cash inflow from operating activities	**10,887**	41,823
Net cash outflow from investing activities	**(21,171)**	(18,417)
Net cash outflow from financing activities	**(310)**	(18,939)
Net (decrease)/increase in cash and bank balances	**(10,594)**	4,467
Dividend paid to non-controlling interest	**–**	609

46. PRINCIPAL SUBSIDIARIES (CONTINUED)

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Liabilities from financing activities			
	Lease liabilities US$'000	**Debenture** US$'000	**Bank borrowings** US$'000	**Total** US$'000
As at 1 January 2018	–	(568)	–	(568)
Financing cash flows	–	–	(42,280)	(42,280)
Interest expense	–	(53)	(734)	(787)
Accrued interest	–	–	83	83
Interest paid	–	32	651	683
Exchange alignment	–	1	–	1
As at 31 December 2018	–	(588)	(42,280)	(42,868)
Adjustment upon application of HKFRS 16	(20,491)	–	–	(20,491)
As at 1 January 2019 (restated)	(20,491)	(588)	(42,280)	(63,359)
Financing cash flows	5,370	–	17,314	22,684
Interest expense	(1,068)	(56)	(1,554)	(2,678)
Accrued interest	–	–	(40)	(40)
Interest paid	–	32	1,594	1,626
New leases entered	(2,815)	–	–	(2,815)
Exchange alignment	(557)	(3)	(191)	(751)
As at 31 December 2019	**(19,561)**	**(615)**	**(25,157)**	**(45,333)**

48. COMPARATIVES

The Group has initially applied HKFRS 16 at 1 January 2019. Under the transition method, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

49. EVENTS AFTER THE REPORTING PERIOD

(a) Impact of COVID-19 on the Group

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global business environment. Up to the date of these consolidated financial statements, COVID-19 has not resulted in material impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of these consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

(b) Memorandum of Understanding in relation to Possible Share Disposal

On 29 November 2019, the Company announced that it has been informed by Mr. Yuk that Mr. Yuk and his wholly-owned companies, Port New Limited and Novel New Limited (the "Selling Shareholders") entered into a memorandum of understanding ("MOU") with iDreamSky Technology Holdings Limited, an independent third party ("the Potential Purchaser") in relation to a proposed sale by the Selling Shareholders to the Potential Purchaser of a total of 2,132,694,522 shares in the issued share capital of the Company, representing approximately 69.20% of the issued share capital of the Company as at the date of this announcement (the "Possible Share Disposal").

Pursuant to the MOU, among other matters, the Potential Purchaser was granted an exclusivity period of 21 days from the date of the MOU (which period may be extended to such later date as the Selling Shareholders and the Potential Purchaser may agree) (the "Exclusivity Period"), and it was the intention of the Selling Shareholders and the Potential Purchaser to enter into a formal agreement in relation to the Possible Share Disposal on or before the expiry of the Exclusivity Period (or such later date as the Selling Shareholders and the Potential Purchaser may agree). On 12 March 2020, the parties have agreed to extend the Exclusivity Period to 15 April 2020.

Up to the date of this annual report, negotiations are still in progress and the Company will make further announcement(s) to keep shareholders and potential investors of the Company informed of new developments regarding the Possible Share Disposal as and when appropriate.

Further details of the Possible Share Disposal were set out in the announcements of the Company dated 20 September 2019, 16 October 2019, 13 November 2019, 22 November 2019, 29 November 2019, 9 December 2019, 20 December 2019, 3 January 2020, 13 January 2020, 22 January 2020, 30 January 2020, 17 February 2020, 10 March 2020 and 12 March 2020.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2020.

Five-Year Financial Summary

A summary of the results of the Group for the last five financial years and of its assets, liabilities and non-controlling interests as at the end of the last five financial years, as extracted from the published audited consolidated financial statements in this annual report, is set out below:

	Year ended 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Results					
Continuing operations					
Revenue	**214,235**	227,720	166,736	111,802	51,503
Profit before taxation from continuing operations	**12,653**	43,850	25,095	19,099	5,625
Taxation	**(19,142)**	(23,483)	(13,823)	(9,549)	(6,103)
(Loss)/profit for the year from continuing operations	**(6,489)**	20,367	11,272	9,550	(478)
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**–**	–	(1,026)	4,530	(9,408)
(Loss)/profit for the year	**(6,489)**	20,367	10,246	14,080	(9,886)
Attributable to:					
Owners of the Company	**(8,379)**	20,413	8,808	8,132	(13,505)
Non-controlling interests	**1,890**	(46)	1,438	5,948	3,619
	(6,489)	20,367	10,246	14,080	(9,886)

	As at 31 December				
	2019	2018	2017	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000
Assets and liabilities					
Total assets	**322,848**	310,703	313,431	219,524	332,808
Total liabilities	**(71,042)**	(79,961)	(87,437)	(70,064)	(119,648)
	251,806	230,742	225,994	149,460	213,160
Total equity attributable to owners of the Company	**246,542**	227,175	221,553	146,110	177,595
Non-controlling interests	**5,264**	3,567	4,441	3,350	35,565
Total equity	**251,806**	230,742	225,994	149,460	213,160