LE YOU

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1089)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2020	2019	Change
	US$'000	*US$'000*	*%*
	(Unaudited)	(Unaudited)	
RESULTS HIGHLIGHTS			
Revenue	**90,692**	105,671	–14.2%
Gross profit	**42,804**	63,908	–33.0%
Gross profit margin *(%)*	**47.2%**	60.5%	–13.3%
(Loss)/profit for the period attributable to the owners of the Company	**(5,788)**	9,288	N/A
EBITDA[1]	**24,100**	37,785	–36.2%
Adjusted EBITDA[2]	**46,735**	43,368	+7.8%
Basic (loss)/earnings per share *(US cents)*	**(0.19)**	0.30	N/A
Diluted (loss)/earnings per share *(US cents)*	**(0.19)**	0.30	N/A
Dividend per share *(US$)*	**Nil**	Nil	N/A

	As at 30 June 2020 US$'000 (Unaudited)	As at 31 December 2019 US$'000 (Audited)	Change %
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS			
Total assets	**311,130**	322,848	–3.6%
Total interest-bearing borrowings[3]	**28,179**	25,772	+9.3%
Net assets	**238,444**	251,806	–5.3%
Net assets per share *(US$)*[4]	**0.08**	0.08	–
Current ratio	**1.55**	1.57	–1.3%
Gearing ratio[5]	**9.1%**	8.0%	+1.1%

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*

The board (the "Board") of directors (the "Directors") of Leyou Technologies Holdings Limited (the "Company") is pleased to present the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2020 (the "Reporting Period"). These interim condensed consolidated financial statements have not been audited but have been reviewed by the audit committee of the Company (the "Audit Committee") which comprises Mr. Hu Chung Ming (Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		US$'000	*US$'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	*4*	**90,692**	105,671
Cost of sales		**(47,888)**	(41,763)
Gross profit		**42,804**	63,908
Other revenue and gains	*5*	**6,251**	873
Net loss on financial assets at fair value through profit or loss	*8*	**(1,200)**	(821)
Amortisation of intangible assets	*8*	**(8,386)**	(8,707)
Impairment of property, plant and equipment	*8*	**(4,594)**	–
Selling and marketing expenses		**(5,315)**	(6,222)
Administrative expenses		**(20,095)**	(19,831)
Finance costs	*6*	**(1,020)**	(1,312)
Other operating expenses		**–**	(4,390)
Equity-settled share-based payment expenses	*8*	**(3,894)**	(2,524)
Profit before taxation	*8*	**4,551**	20,974
Taxation	*7*	**(9,246)**	(10,744)
(Loss)/profit for the period		**(4,695)**	10,230

	Notes	Six months ended 30 June **2020** ***US$'000*** **(Unaudited)**	 2019 *US$'000* (Unaudited)
(Loss)/profit for the period attributable to:			
Owners of the Company		**(5,788)**	9,288
Non-controlling interests		**1,093**	942
		(4,695)	10,230
(Loss)/earnings per share			
Basic *(US cents per share)*	*9*	**(0.19)**	0.30
Diluted *(US cents per share)*	*9*	**(0.19)**	0.30

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the period	**(4,695)**	10,230
Other comprehensive (loss)/income for the period, 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	**(600)**	300
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operation	**(12,281)**	6,041
Other comprehensive (loss)/income for the period	**(12,881)**	6,341
Total comprehensive (loss)/income for the period	**(17,576)**	16,571
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	**(18,493)**	15,748
Non-controlling interests	**917**	823
	(17,576)	16,571

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	As at 30 June 2020 US$'000 (Unaudited)	As at 31 December 2019 US$'000 (Audited)
Non-current assets			
Property, plant and equipment		**31,683**	36,194
Goodwill		**74,901**	79,250
Intangible assets		**4,985**	14,086
Development expenditure		**86,444**	84,667
Right-of-use assets		**14,682**	17,349
Financial assets at fair value through other comprehensive income		**9,500**	10,100
Deferred tax assets		**525**	560
		222,720	242,206
Current assets			
Inventories		**153**	147
Trade receivables	*11*	**19,198**	22,575
Deposits paid, prepayments and other receivables		**20,752**	20,704
Financial assets at fair value through profit or loss		**1,522**	2,723
Tax recoverable		**6,197**	12,388
Cash and bank balances		**40,588**	22,105
		88,410	80,642
Current liabilities			
Trade payables	*12*	**3,440**	3,498
Accruals and other payables		**13,188**	10,646
Bank borrowings	*13*	**27,548**	25,157
Lease liabilities		**5,066**	5,314
Contract liabilities		**7,748**	6,751
		56,990	51,366
Net current assets		**31,420**	29,276
Total assets less current liabilities		**254,140**	271,482

	As at 30 June 2020 *US$'000* (Unaudited)	As at 31 December 2019 *US$'000* (Audited)
Equity		
Share capital	**39,750**	39,734
Reserves	**192,513**	206,808
Equity attributable to owners of the Company	**232,263**	246,542
Non-controlling interests	**6,181**	5,264
Total equity	**238,444**	251,806
Non-current liabilities		
Deferred tax liabilities	**3,174**	4,814
Lease liabilities	**11,891**	14,247
Debenture	**631**	615
Total non-current liabilities	**15,696**	19,676
Total equity and non-current liabilities	**254,140**	271,482

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

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 consider that Port New Limited, a company incorporated in the British Virgins Island (“BVI”), is the parent company and ultimate holding company of the Company.

The interim condensed consolidated financial statements for the Reporting Period have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2019 as contained in the Company’s Annual Report 2019 (the “Annual Report 2019”).

The preparation of the interim condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis.

The interim condensed consolidated financial statements are presented in United States Dollars (“US$”) and all values are rounded to the nearest thousand (US$’000) except when otherwise indicated. The interim condensed consolidated financial statements are unaudited but have been reviewed by the Audit Committee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the Annual Report 2019, except for the impact of the adoption of the new and revised HKASs, Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations described below.

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time for the financial period beginning on or after 1 January 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of Business
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform

Early adoption of amendments to HKFRSs

The following amendments to HKFRSs, which is applicable to the Group but are not yet effective for the current year, have been early adopted in current year:

HKFRS 16 (Amendments)	COVID-19 Related Rent Concessions

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

Amendments to HKFRS 16 COVID-19 Related Rent Concession

The Group has elected the practical expedient to apply amendments to HKFRS 16 to account for any change in lease payments resulting from the rent concession occurring as a direct consequence of the COVID-19 pandemic.

The Group has applied the practical expedient to rent concession that meet all of the following conditions:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

c) there is no substantive change to other terms and conditions of the lease.

The rent concession recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30 June 2020 amounted to US$104,000 (2019: Nil).

3. SEGMENT INFORMATION

During the Reporting Period, 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 Reporting Period 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 location 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

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Canada	**72,968**	89,733
United Kingdom ("UK")	**15,156**	12,028
United States of America ("US")	**1,588**	3,590
People's Republic of China ("PRC")	**980**	320
	90,692	105,671

Non-current assets

	As at 30 June 2020 ***US$'000*** **(Unaudited)**	As at 31 December 2019 *US$'000* (Audited)
Canada	**53,321**	61,785
UK	**60,709**	66,441
PRC	**22,797**	23,046
HK	**85,751**	90,662
US	**142**	272
	222,720	242,206

Other information

Revenue from major products

The Group's revenue from major products is as follows:

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Computer and video games	**90,692**	105,671

4. REVENUE

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Game development and publishing	**74,084**	91,357
Work-for-hire	**16,555**	14,140
Sale of merchandise goods	**53**	174
	90,692	105,671
Timing of revenue recognition		
Over time	**89,051**	101,907
At a point in time	**1,641**	3,764
	90,692	105,671

As at 30 June 2020, 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 US$7,748,000 (31 December 2019: US$6,751,000) and the Group will recognise this revenue in the future.

All work-for-hire service contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. OTHER REVENUE AND GAINS

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Interest income on bank deposits	**72**	610
Net exchange gain	**5,990**	–
Sundry income	**189**	263
	6,251	873

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Interest on:		
– Bank borrowings	**527**	799
– Lease liabilities	**464**	486
– Debenture	**29**	27
	1,020	1,312

7. TAXATION

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Canada corporate income tax expense		
– current period	**11,350**	13,355
UK corporate income tax credit		
– current period	**(695)**	(218)
Deferred tax		
– current period	**(1,409)**	(2,393)
	9,246	10,744

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group was not subject to any income tax in the Cayman Islands and BVI during the Reporting Period (2019: 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 gazetted 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 PRC are liable to PRC Enterprise Income Tax at a tax rate of 25% for the six months ended 30 June 2020 and 2019.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada are liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the six months ended 30 June 2020 and 2019.

(e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK are liable to United Kingdom CIT at a tax rate of 19% for the six months ended 30 June 2020 and 2019. The Group took advantage of Video Games Tax Relief which was tax relief of 25% of qualifying expenditure on qualifying video games as certified by the British Firm 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 at a tax rate of 21% for the six months ended 30 June 2020 and 2019.

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 30 June 2020 would not be distributed in the foreseeable future (31 December 2019: Nil).

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Staff costs including directors' remuneration	**14,959**	13,523
Equity-settled share-based payment expenses	**3,894**	2,524
Contributions to retirement schemes	**1,236**	1,007
Total staff costs	**20,089**	17,054
Depreciation of property, plant and equipment	**1,105**	1,052
Depreciation of right-of-use assets	**2,665**	2,155
Amortisation of intangible assets	**8,386**	8,707
Amortisation of development expenditure[1]	**6,445**	4,195
Total depreciation and amortisation	**18,601**	16,109
Net realised loss on financial assets at fair value through profit or loss	**–**	55
Net unrealised loss on financial assets at fair value through profit or loss	**1,200**	766
Net loss on financial assets at fair value through profit or loss	**1,200**	821
Cost of inventories recognised as expenses	**36**	98
Expense relating to short-term leases	**674**	477
Net exchange (gain)/loss[2]	**(5,990)**	4,381
Net loss on disposal of property, plant and equipment	**–**	7
Impairment of development expenditure[1]	**10,922**	–
Impairment of property, plant and equipment	**4,594**	–
Reversal of allowance for expected credit loss recognised in respect of trade receivables[3]	**–**	(3)
Allowance for expected credit loss recognised in respect of deposits and other receivables[3]	**3,225**	3,062

[1] *Included in cost of sales in the interim condensed consolidated statement of profit or loss.*

[2] *Included in (other revenue and gains)/other operating expenses in the interim condensed consolidated statement of profit or loss.*

[3] *Included in administrative expenses in the interim condensed consolidated statement of profit or loss.*

9. (LOSS)/EARNINGS PER SHARE

	Six months ended 30 June	
	2020	2019
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company for the purpose of calculating (loss)/earnings per share	**(5,788)**	9,288

Weighted average number of ordinary shares

During the six months ended 30 June 2020 and 2019, the weighted average number of ordinary shares used as denominator in calculating (loss)/earnings per share was as follows:

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	**3,081,902**	3,059,283
Effect of dilutive potential ordinary shares:		
– Share options *(Note)*	**–**	38,685
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**3,081,902**	3,097,968

Note:

For the six months ended 30 June 2020, the effects of the Company's outstanding share options were anti-dilutive and therefore the diluted loss per share are the same as the basic loss per share.

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the six months ended 30 June 2019, together with the adjustment for the share options lapsed or exercised.

10. DIVIDENDS

No dividends were declared during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

11. TRADE RECEIVABLES

	As at 30 June 2020 ***US$'000*** **(Unaudited)**	As at 31 December 2019 *US$'000* (Audited)
Trade receivables	**19,265**	22,646
Less: Allowance for credit loss*	**(67)**	(71)
	19,198	22,575

Note:

* No reversal of allowance for credit loss (2019: US$3,000) has been credited to the interim condensed consolidated statement of profit or loss during the six months ended 30 June 2020 *(Note 8)*.

The Group normally allows a credit period ranging from 7 days to 60 days. The ageing analysis of trade receivables, based on invoice date, net of impairment is as follows:

	As at 30 June 2020 ***US$'000*** **(Unaudited)**	As at 31 December 2019 *US$'000* (Audited)
Within 30 days	**17,775**	18,668
31 days to 60 days	**–**	1,988
61 days to 180 days	**1,423**	1,553
Over 180 days	**–**	366
	19,198	22,575

The trade receivables are denominated in US$, Canadian Dollars ("CAD"), Renminbi ("RMB") and British Pound ("GBP").

12. TRADE PAYABLES

	As at 30 June 2020	As at 31 December 2019
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade payables	**3,440**	3,498

The ageing analysis of trade payables is as follows:

	As at 30 June 2020	As at 31 December 2019
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Within 30 days	**2,523**	2,392
31 days to 90 days	**844**	775
91 days to 180 days	**47**	327
Over 180 days	**26**	4
	3,440	3,498

The average credit period on purchases of certain goods is generally within 15 days to 90 days.

13. BANK BORROWINGS

	As at 30 June 2020 *US$'000* (Unaudited)	As at 31 December 2019 *US$'000* (Audited)
Secured:		
Term loan *(Note (a))*	**8,396**	12,527
Mortgage loan *(Note (b))*	**12,354**	12,630
Revolving loan *(Note (c))*	**6,798**	–
	27,548	25,157

The bank borrowings were repayable as follows:

	As at 30 June 2020 *US$'000* (Unaudited)	As at 31 December 2019 *US$'000* (Audited)
Within 1 year or on demand	**27,548**	25,157

The carrying amounts of the bank borrowings are denominated in the following currencies:

	As at 30 June 2020 *US$'000* (Unaudited)	As at 31 December 2019 *US$'000* (Audited)
HK Dollars	**19,152**	12,630
US Dollars	**8,396**	12,527
	27,548	25,157

Notes:

The secured bank borrowings were secured by leasehold land and buildings included in property, plant and equipment with carrying amounts of US$25,620,000 (31 December 2019: US$30,337,000) and a corporate guarantee given by a subsidiary of the Company for an amount up to US$25,000,000 (31 December 2019: 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 interim condensed 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 30 June 2020 ranged from 4.5% to 6.4% per annum (31 December 2019: 4.9% to 6.4% 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 drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2020, none of the covenants relating to draw down facilities had been breached (31 December 2019: None).

(b) Mortgage loans

The mortgage loans carry interest at HIBOR plus 1.2%. The effective interest rate as at 30 June 2020 ranged from 2.3% to 3.9% per annum (31 December 2019: 2.2% to 3.7% 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 30 June 2020 ranged from 2.0% to 3.1% per annum (31 December 2019: 1.9% to 3.6% per annum). As at 31 December 2019, the Company had fully repaid the banking facilities.

(d) The carrying amount of bank borrowings approximates to their fair values.

14. EVENTS AFTER THE REPORTING PERIOD

(a) Termination of the memorandum of understanding in relation to the possible sale of certain or all of the issued share capital of the Company in which Mr. Yuk Kwok Cheung Charles ("Mr. Yuk") is interested; and Privatization Exclusivity Agreement

The Company has announced that it had been informed by Mr. Yuk that on 29 April 2020, Mr. Yuk and his wholly-owned companies, Port New Limited and Novel New Limited (together with Port New Limited, the "Selling Shareholders") entered into a memorandum of understanding (the "New MOU") with Diandian Interactive Holding regarding the possible sale of certain or all of the issued share capital of the Company in which Mr. Yuk was interested. The Board has been informed by the Selling Shareholders that on 9 July 2020, the Selling Shareholders and Mr. Yuk entered into a termination deed with Diandian Interactive Holding, pursuant to which the parties have agreed to terminate the New MOU as the parties were unable to reach agreement on the terms of the formal sale and purchase agreement. The Board considered that the termination of the New MOU had no material adverse impact on the business operation and financial position of the Group.

On 10 July 2020, Mr. Yuk and the Company entered into an exclusivity agreement (the "Privatization Exclusivity Agreement") with Tencent Mobility Limited, a wholly-owned subsidiary of Tencent Holdings Limited, a company whose shares are listed on the Stock Exchange (Stock Code: 700) regarding a possible acquisition and privatization of the Company (the "Possible Privatization"). As at the date of this announcement, negotiations are still in progress and there is no certainty (a) as to the terms of the Possible Privatization; and (b) that the Possible Privatization will proceed or that it will result in a binding agreement. There is no assurance that any negotiations mentioned herein will either materialise or eventually be consummated and the negotiations may or may not lead to a possible acquisition and privatization of the Company.

Further details of the New MOU and its termination and the Possible Privatization 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, 12 March 2020, 9 April 2020, 4 May 2020, 19 May 2020, 17 June 2020, 9 July 2020, 10 July 2020, 14 July 2020, 15 July 2020, 16 July 2020, 17 July 2020, 20 July 2020, 21 July 2020, 22 July 2020, 28 July 2020, 31 July 2020, 4 August 2020, 5 August 2020, 6 August 2020, 7 August 2020, 10 August 2020, 11 August 2020 and 12 August 2020.

(b) Second amendment agreement in relation to the provision of loan for game development

On 15 October 2017, the Company and Certain Affinity, Inc. ("Certain Affinity"), a video game development studio based in the US owned as to 20% by the Company, entered into a game development agreement (the "Game Development Agreement"), pursuant to which Certain Affinity should develop and produce for the Company the Game based on certain intellectual property ("IP"), including the TRANSFORMERS property (the "Game") and the Company should provide Certain Affinity with an interest-free loan facility (the "Loan"), which was essentially the development budget for the Game, in the amount of up to US$15 million to pay for costs and expenses incurred in connection with the provision of the development services relating to the Game.

On 7 January 2019, by an amendment agreement entered into among the Company, Certain Affinity and Mr. Hoberman who was the founder, President and controlling shareholder of Certain Affinity, the maximum principal amount of the Loan increased from US$15 million to US$33 million. The Loan continued 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 was to enable Certain Affinity to develop and produce the Game with richer content and prepare to make the Game available on personal computer ("PC").

By another amendment agreement dated 6 July 2020 entered into between the Company and Certain Affinity, the maximum principal amount of the Loan further increased from US$33 million to approximately US$43 million. With the second increase in the principal amount of the Loan, Certain Affinity would be able to start volume production towards a higher-quality open beta version of the Game.

As at 30 June 2020 and as at the date of this announcement, the Loan exceeded 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules. Further details of the Loan and the subsequent amendment agreements were set out in the announcements of the Company dated 16 October 2017, 7 January 2019 and 6 July 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

In the first half of 2020, the Coronavirus Disease 2019 ("COVID-19") pandemic swept across the world, causing unexpected changes to how we live and work. While our major live product *Warframe* remains one of the most popular video games, the operation of the Group was also impacted to a certain extent due to the shutdown of our overseas studios, leading to a decline of revenue from its major products during the first half of 2020 as compared to the corresponding period in 2019. The Group's revenue for the Reporting Period was US$90.7 million (2019: US$105.7 million), representing a year-on-year decrease of 14.2%. Due to the suspended development of a product, the capitalised development cost of which was recognised as impairment loss during the Reporting Period, our gross profit margin reduced to 47.2% in the first half of 2020 from 60.5% in the first half of 2019, with gross profit down by US$21.1 million to US$42.8 million. During the Reporting Period, a consolidated net loss of US$4.7 million and loss attributable to the owners of the Company of US$5.8 million were recorded. The Group's EBITDA was US$24.1 million, representing a year-on-year decrease of 36.2%. After excluding impairment losses and equity-settled share-based payment expenses, adjusted EBITDA increased by 7.8% to US$46.7 million during the Reporting Period.

During the Reporting Period, game development and publishing, work-for-hire and other businesses contributed to 81.7%, 18.2% and 0.1% of the revenue of the Group, respectively.

Game Development and Publishing Business

Game development and publishing is the Group's core business, and our flagship product *Warframe* is the key driver of the Group's revenue and profit. During the Reporting Period, revenue contributed by the game development and publishing business reduced by US$17.3 million to US$74.1 million, representing a year-on-year decrease of 18.9%.

Warframe

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

	Six months ended 30 June		
	2020	2019	Change
	(in thousands, unless otherwise stated)		
Total number of registered users:	**61,338**	53,119	+15.5%

Warframe is a free-to-play ("F2P") science fiction-themed multiplayer third-person action game developed and published by one of the Company's subsidiaries, Digital Extremes Ltd. ("Digital Extremes"), and is currently available on PC and consoles (including PlayStation 4, Xbox One and Switch). *Warframe* was first launched in March 2013 and has been operating for over 7 years as of the end of the Reporting Period. Since its initial launch, *Warframe* has been one of the most popular F2P games worldwide. *Warframe* steadily sits amongst the top 10 of all game genres in terms of number of players and playtime on Steam, and earns a 91% positive review score from players. *Warframe* is also one of the top F2P games on PlayStation 4 and Xbox One in terms of revenue on such platforms. The continued 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, offers efficient and timely customer services, helps build a cohesive and passionate player community and facilitates communications between players and the development team through online and offline interactions.

During the Reporting Period, *Warframe* released two major updates including *Operation: Scarlet Spear and The Deadlock Protocol*, bringing players new missions and collectibles. It also launched its third game season (i.e. *Nightwave: Series 3*). Due to the COVID-19 pandemic, the annual fan event TennoCon shifted to a live online broadcast and was postponed to 1 August 2020. However, the enthusiasm of *Warframe* fans was not affected at all. TennoCon 2020 was a huge success, driving an increase of concurrent users to a new record high.

The decline in revenue of *Warframe* during the Reporting Period was mainly due to the following factors. On one hand, our content creation pipeline during the COVID-19 pandemic could not fully meet the players' demand for a greater amount of new content. Since the outbreak of the pandemic, home quarantine restrictions have largely increased the free time of entertainment product users, benefiting most games, including premium games offering experiences with a fixed amount of hours, as well as some highly competitive or interactive F2P games. However, as *Warframe* is a content-driven F2P game, the content that could be created within a certain period of time is limited. When users' spare time and their demand for new game content increased, *Warframe*'s competitive advantages over other popular games reduced by a certain degree as the progress of the Group's game development team was inevitably affected by home quarantine measures. Meanwhile, the ambitious update *Empyrean* released in December 2019 fell slightly short of players' expectation due to certain technical issues, thus impacted the revenue of *Warframe* to a certain extent in the first quarter of 2020. The development team released patch updates regarding *Empyrean* in March to enhance and elevate the game experience, which turned out to be very well received by players. In addition, we saw a decrease in revenue in China during the transitional period when new cooperation arrangement with Wegame platform was in discussion.

Despite the abovementioned situation, the development and operating teams have several exciting changes planned, and the management team has full confidence in the continued success of *Warframe*. The most anticipated update is the release of *Heart of Deimos* announced at TennoCon, which will introduce a brand-new *Warframe* customisation system and a new open-world environment that are expected to greatly enhance players' engagement and their enthusiasm towards *Warframe* personalisation. Meanwhile, Digital Extremes and the Chinese distributor of *Warframe* will establish deeper cooperation with the WeGame platform to provide Chinese players with significant content updates, with a view to gradually align the Chinese version of *Warframe* with the international version in terms of update frequency and progress. This will solve a key pain point of Chinese players, significantly improve their game experience, and help drive a significant increase in *Warframe*'s revenue in China. In addition, the factor affecting *Warframe*'s revenue in 2019, namely the decrease in new users due to the upgrade of next-generation consoles in 2020, has been stabilised. Total payment from console users recorded a slight increase during the Reporting Period as compared to that for each of the first and second halves of 2019. Additional traffic from certain next-generation console platforms is expected to generate further growth for *Warframe*.

Telltale Games

The Company's publishing subsidiary, Athlon Games, Inc., took part as a publishing partner in the revival of Telltale Games, a well-known US game brand that was shut down in 2018, and obtained the exclusive publishing rights of certain games including *Batman* and *The Wolf Among Us*. Following the relaunch and good sales performance of these games in 2019, the sales of these games reached a new height in 2020 benefitting from the implementation of home quarantine policy under COVID-19 outbreak.

Other casual/mid-core games

In addition to *Civilization Online*, one of the Company's development subsidiaries, Guangzhou Radiance Software Technology Co. Ltd. ("Guangzhou Radiance"), has developed or is currently developing several relatively lower budget casual/mid-core games including *Endless World* and *Idle Big Devil*. These products mainly adopt multi-platform strategies, with two of them being launched on Steam already and to be made available on mobile platforms through third-party publishers in the future. In contrast to the Group's main products of high-quality PC and console games which require long research and development cycle and huge investment, the investment in developing casual/mid-core games will speed up the launch timeline of the Group's new games, and will reduce the return cycle of research and development investment, enabling the Group to generate new revenue streams and profit growth.

Endless World and *Idle Big Devil* are F2P idle role-playing games. Currently available on Steam, the two games will also be launched on mobile platforms in future. *Endless World* has received nearly 80% positive review scores from players and was nominated for a 2019 Game of the Year Award (New Release) on Steam. *Idle Big Devil* is still in its early access stage with continuous optimisation, and has achieved a nearly 90% positive review score from players.

Work-for-hire and Other Businesses

The Group's work-for-hire business is mainly contributed by Splash Damage Limited ("Splash Damage"), the Company's subsidiary in the UK. Splash Damage has extensive experience in developing critically acclaimed AAA titles with world-leading publishers and developers and contributes a predictable stream of income to the Group.

During the Reporting Period, the Group's work-for-hire business served multiple customers including Microsoft Game Studios and Google Stadia. The total revenue of this segment was US$16.6 million, representing a year-on-year increase of 17.1% compared to the first half of 2019. This growth is especially notable as the Group continued to deliver high-quality development work despite the severe constraints on its business and operation imposed by the COVID-19 pandemic. Splash Damage quickly resolved to arrange its development teams to work from home very early in the pandemic, enabling the teams to rapidly adapt to the difficult circumstances thereafter. As a result, the studio continued to operate without any loss in productivity and remained a reliable development partner for its clients.

The Group's work-for-hire projects have not only achieved growth in revenue, but more importantly, further enhanced its popularity and reputation in the industry and among players. Following the impressive launch of *Gears 5* and *Halo Reach* (part of *Halo: The Master Chief Collection*), both of which were developed by Splash Damage in partnership with Microsoft's first party game studios in 2019, *Gears Tactics* was released in April 2020. *Gears Tactics* is a fast-paced, turn-based tactics game based on Microsoft's *Gears of War* universe and one of the flagship titles on Microsoft's Game Pass service for PC. Splash Damage designed and developed *Gears Tactics* as the sole development studio, and the game received an average Metacritic score of 81. Furthermore, Splash Damage announced its partnership with cloud gaming platform Google Stadia in March 2020 and subsequently announced its first Google Stadia exclusive game, *Outcasters*, a fast-paced multiplayer game which aimed to appeal to a broad audience.

Other business included mainly the sale of merchandise goods, which generated revenue of US$0.1 million (2019: US$0.2 million) during the Reporting Period.

New Product Line

Concurrent with the persistent quality updates and optimisation of its live games, the Group also attaches great importance to the development of new products, by either creating original IP or working with globally renowned ones. The performance of live games during the Reporting Period has propelled us to invest more resources in the development of new games. The Group strives to create a high-quality product portfolio within the next two years, minimising fluctuation in the Group's revenue and scale of business.

Guided by the Group's established strategy in AAA quality F2P online games, the Group launched several large-scale projects in the second half of 2017. By combining the F2P design from Asia with the mature development processes from Western counterparts, the Group dedicated an enormous amount of resources to the research and development of new games. Developing AAA quality game products requires a significant investment of time, human resources and funding. Over the past three years, the Group's development teams have focused on creating new products and brought multiple new products to the production stage. Meanwhile, the Group regularly reviews development progress of each project and optimises human resources and economic investment to maximise its output. During the Reporting Period, the Group suspended the development of an undisclosed, original F2P online game and realised a financial impairment.

TRANSFORMERS

In 2017, the Group entered into a license agreement with Hasbro Inc. and Hasbro International Inc. (collectively referred as "Hasbro"), and started to develop the game *TRANSFORMERS* alongside with renowned game developer, Certain Affinity. During the Reporting Period, Certain Affinity completed a development agreement totalling US$33 million and submitted a satisfactory beta version. Based on this, the Group has decided to grant a further development funding of US$10 million to Certain Affinity and signed a new supplementary agreement on 6 July 2020. The Group has also invited Splash Damage to join the development of this project. With its proven track record in delivering large scale projects, Splash Damage's involvement will reduce risk and provides the live operation experience to properly manage the game long term.

Civilization Online

In 2017, the Group and Take Two International GmbH ("Take Two") entered into an IP agreement, pursuant to which the internal studio of the Group would be responsible for the development of a massively multiplayer online ("MMO") game product, *Civilization Online*. In 2018, Take Two awarded the global distribution rights of *Civilization Online* (excluding Mainland China) to the Group. The Group therefore became responsible for both the game development and global distribution of *Civilization Online*, since it could leverage its successful experience and unique advantages in multiplayer online games. During the Reporting Period, the team completed the development of all basic systems and moved onto the production stage for both world and quest creations.

The Lord of the Rings

In 2018, the Group secured the IP license for certain *The Lord of the Rings* literary works. In 2019, the Group and subsidiaries of Amazon.com, Inc., entered into a co-development agreement whereby the Group and Amazon Game Studios would co-develop and publish a F2P MMO game based on *The Lord of the Rings*. Under the co-development agreement, the parties would separately and exclusively market, publish and operate the game in their respective territories. Driven by Amazon Game Studios, the development of the project has progressed smoothly.

Other new products in pipeline

Apart from the abovementioned projects, the Group has multiple unannounced new F2P game products in various development stages. Each game is developed by different game studios within the Group or in collaboration with other third-party game studios.

MATERIAL TRANSACTIONS AND EVENTS

Termination of major and connected transaction in relation to the cooperative agreement (the "Cooperative Agreement") with MEGA Ample Holdings Limited ("MEGA")

On 9 November 2018, the Company entered into the Cooperative Agreement with MEGA, a company wholly-owned by Mr. Yuk Kwok Cheung Charles ("Mr. Yuk") who is the controlling shareholder of the Company, pursuant to which the parties conditionally agreed to enter into a joint arrangement for the development and operation of five specific video games which were being or would be developed under the Cooperative Agreement. The parties have subsequently entered into five supplemental agreements to amend certain terms and conditions of the Cooperative Agreement, including but not limited to removing one game from the scope of the cooperation and revising the long stop date.

However, after amicable discussions and due consideration of (i) the change of the portfolio of games subject to the cooperation (with the removal of one game); (ii) the changes in costs and benefits to the parties and their respective commercial rationale for entering into the joint arrangement; (iii) the continuing development of the remaining games which have progressed differently from that initially envisaged by the parties due to the non-commencement of the Cooperative Agreement; and (iv) the substantial amount of time elapsed since the entering into of the Cooperative Agreement, the parties have decided not to proceed with the joint arrangement as any further negotiation on the terms of their cooperation of the remaining games would probably be futile and the condition precedent for the Cooperative Agreement to have effect would not likely be satisfied before the long stop date. Accordingly, the Company entered into a termination agreement with MEGA, pursuant to which the parties agreed to terminate the Cooperative Agreement with effect from 26 June 2020.

Further details of the said transaction were set out in the announcements 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, 30 December 2019, 27 March 2020 and 26 June 2020.

Events after the Reporting Period

Further details of the events after the Reporting Period are set out in Note 14 of this announcement.

Outlook

The unforeseen pandemic has not materially disrupted the Group's normal working schedule. The worldwide team of the Group quickly adapted during the quarantine period, and has been able to continue delivering work to the desired quality. This is a strong testimony that talent and teams are the Group's most valuable assets. Guided by the strategies to develop and publish high quality games for the global market, the Group's team is familiar with both Chinese and Western game markets leveraging its AAA quality research and development capabilities as well as global layout and connection. The Group is committed to launching more high-quality new games in near term, enriching its product line and further improving its profitability, thus bringing better returns to its shareholders.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by 14.2%, from US$105.7 million for the six months ended 30 June 2019 to US$90.7 million for the six months ended 30 June 2020, 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.

Gross Profit

Our total gross profit decreased by 33.0%, from US$63.9 million for the six months ended 30 June 2019 to US$42.8 million for the six months ended 30 June 2020 and the gross profit margin significantly decreased from 60.5% for the six months ended 30 June 2019 to 47.2% for the six months ended 30 June 2020, primarily due to the impairment of development expenditure of US$10.9 million during the Reporting Period (2019: Nil).

Other Revenue and Gains

Other revenue and gains significantly increased by 6.2 times, from US$0.9 million for the six months ended 30 June 2019 to US$6.3 million for the six months ended 30 June 2020, primarily due to net exchange gain of US$6.0 million recorded during the Reporting Period (2019: net exchange loss of US$4.4 million included in other operating expenses). Such increase was partially offset by a decrease in interest income on bank deposits by US$0.5 million.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 14.6%, from US$6.2 million for the six months ended 30 June 2019 to US$5.3 million for the six months ended 30 June 2020. The decrease in selling and marketing expenses was in line with the decrease in the revenue during the Reporting Period.

Administrative Expenses

Administrative expenses slightly increased by 1.3%, from US$19.8 million for the six months ended 30 June 2019 to US$20.1 million for the six months ended 30 June 2020. Administrative expenses primarily consist of staff costs and legal fees and depreciation. The increase was primarily driven by greater staff costs and legal expenses for different ongoing projects.

Amortisation of Intangible Assets

Amortisation of intangible assets decreased by 3.7%, from US$8.7 million for the six months ended 30 June 2019 to US$8.4 million for the six months ended 30 June 2020, primarily as a result of impairment of intangible assets made in the second half of 2019.

Finance Costs

Finance costs decreased by 22.3%, from US$1.3 million for the six months ended 30 June 2019 to US$1.0 million for the six months ended 30 June 2020, primarily as a result of a reduction in average bank borrowings as compared to 2019.

Equity-settled Share-based Payment Expenses

Equity-settled share-based payment expenses increased significantly by 54.3%, from US$2.5 million for the six months ended 30 June 2019 to US$3.9 million for the six months ended 30 June 2020, primarily due to the grant of share options by the Company under its share option scheme in May and June 2019 which resulted in less amortisation charges in the first half of 2019.

Taxation

Taxation decreased by 13.9%, from US$10.7 million for the six months ended 30 June 2019 to US$9.2 million for the six months ended 30 June 2020, which was in line with the decline in revenue during the Reporting Period.

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 30 June 2020, property, plant and equipment amounted to US$31.7 million (31 December 2019: US$36.2 million). The decrease was mainly attributable to the depreciation and impairment loss which amounted to US$1.1 million and US$4.6 million, respectively, during the Reporting Period.

Goodwill

Goodwill was allocated to cash-generating units in Canada, UK and PRC. As at 30 June 2020, goodwill amounted to US$74.9 million (31 December 2019: US$79.2 million). The decrease was mainly attributable to the exchange alignment of US$4.3 million during the Reporting Period.

Intangible Assets

Intangible assets comprise brand name, completed game, game engine, game under development and trademark. As at 30 June 2020, intangible assets amounted to US$5.0 million (31 December 2019: US$14.1 million). The significant decrease was mainly attributable to amortisation of intangible assets amounting to US$8.4 million during the Reporting Period.

Development Expenditure

Development expenditure represents payment to independent video game developers payable under development agreements and expenditure from development activities. As at 30 June 2020, development expenditure amounted to US$86.4 million (31 December 2019: US$84.7 million). The slight increase was mainly due to the continuous involvement of several new projects of US$19.6 million. Such increase was partially offset by an impairment loss of development expenditure of US$10.9 million and the amortisation recognised in profit or loss of US$6.4 million during the Reporting Period.

Financial Assets at Fair Value through Other Comprehensive Income

As at 30 June 2020, financial assets at fair value through other comprehensive income amounted to US$9.5 million (31 December 2019: US$10.1 million). The decrease was mainly due to the change in fair value of financial assets at fair value through other comprehensive income of US$0.6 million during the Reporting Period.

Financial Assets at Fair Value through Profit or Loss

As at 30 June 2020, financial assets at fair value through profit or loss amounted to US$1.5 million (31 December 2019: US$2.7 million). The decrease in financial assets at fair value through profit or loss during the Reporting Period was mainly attributable to fair value loss of US$1.2 million.

Trade Receivables

As at 30 June 2020, trade receivables amounted to US$19.2 million (31 December 2019: US$22.6 million). The decrease was in line with the decline in business activities during the Reporting Period.

Bank Borrowings

At 30 June 2020, the Group had bank borrowings of US$27.5 million (31 December 2019: US$25.2 million). The bank borrowings were secured by (i) leasehold land and buildings, being the Group's office premises located in Hong Kong and included in property, plant and equipment with carrying amount of US$25.6 million (31 December 2019: US$30.3 million); and (ii) a corporate guarantee given by a subsidiary of the Company for an amount of up to US$25 million (31 December 2019: US$25 million). The slight increase was due to the drawdown of a revolving bank loan and offset by repayments of term loan and mortgage loan during the Reporting Period.

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. At 30 June 2020, deferred tax liabilities amounted to US$3.2 million (31 December 2019: US$4.8 million). The decrease in deferred tax liabilities was in line with amortisation of intangible assets during the Reporting Period.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

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

As at 30 June 2020, cash and bank balances amounted to US$40.6 million (31 December 2019: US$22.1 million), which were denominated in US$, CAD, GBP, RMB and Hong Kong dollars ("HK$").

Interest-bearing Borrowings and Gearing Ratio

As at 30 June 2020, the total amount of interest-bearing borrowings was US$28.2 million (31 December 2019: US$25.8 million). The slight increase was mainly attributable to the drawdown of a revolving bank loan and offset by repayments of term loan and mortgage loan during the Reporting Period. Details of the Group's bank borrowings, including the maturity profile, currency and interest rate, are set out in Note 13 to the interim condensed consolidated financial statements.

As at 30 June 2020, the gearing ratio of the Group was 9.1% (31 December 2019: 8.0%). The gearing ratio was calculated by dividing total interest-bearing borrowings by total assets of the Group.

SEGMENTAL INFORMATION

Details of segmental information are set out in Note 3 to the interim condensed consolidated financial statements.

PROSPECT

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

OTHER INFORMATION

Human Resources

As at 30 June 2020, the Group had 1,045 employees (31 December 2019: 1,046).

Staff Costs

Total staff costs, including directors' emoluments, amounted to US$20.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: US$17.1 million). All of the group members are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered.

Retirement Benefits Costs

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 Company'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 Company's subsidiaries which operate in Canada may make voluntary contributions to the Registered Retirement Savings Plan. These 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 Company's subsidiaries which operate in UK pay fixed contributions into a separate entity. These 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 Company's subsidiaries 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, these subsidiaries 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 Company's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. These 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 announcement, the total number of outstanding share options granted under the Share Option Scheme was 408,859,122 share options.

MATERIAL RISK 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 Hong Kong) 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 will differ from the expectations on which the management's estimates are based, resulting in the amounts of recognition and measurement being materially different from those estimated by the management in the interim condensed consolidated financial statements.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the six months ended 30 June 2020, the Group did not have other plans for material investments and capital assets.

PLEDGE OF ASSETS

As at 30 June 2020, bank borrowings of the Group with carrying amount of US$27.5 million (31 December 2019: US$25.2 million) was secured under a mortgage arrangement over the Group's office premises located in Hong Kong and a corporate guarantee given by a subsidiary of the Company.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments of US$93.5 million (31 December 2019: US$97.0 million).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

OTHER INFORMATION

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

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the relevant code provisions (the "Code Provision(s)") set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the "Code"), except for Code Provision A.2.1 as explained below.

Under the 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 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 five 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 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 Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries of all Directors and all the Directors confirmed that they have complied with the Model Code and the required standards of the Company's code of conduct regarding securities transactions by Directors during the period under review.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review the Company's financial information and oversee the Company's financial reporting process, risk management and internal control systems. The unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2020 have been reviewed by the Audit Committee, which comprises Mr. Hu Chung Ming (Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, all being independent non-executive Directors. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and the Company's internal control with members of the senior management.

INTERIM DIVIDEND

The Board has resolved not to declare payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

By order of the Board
Leyou Technologies Holdings Limited
Mr. Xu Yiran
Chairman and Chief Executive Officer

Hong Kong, 21 August 2020

As at the date of this announcement, the Board comprises Mr. Xu Yiran (Chairman and Chief Executive Officer), Mr. Li Yang (Deputy Chairman), Dr. Alan Chen (Chief Operating Officer), Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors, Mr. Eric Todd as non-executive Director, and Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit as independent non-executive Directors.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.