Gameone Holdings Limited
智傲控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8282

Annual Report 2017

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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BOARD OF DIRECTORS

Executive Directors

Mr. Sze Yan Ngai (Chairman)
Mr. Lam Kin Fai (Chief Executive Officer)

Non-executive Director

Ms. Wong Pui Yain

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

AUDITORS

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

COMPANY SECRETARY

Mr. Chan Man Kay

AUTHORISED REPRESENTATIVES

Mr. Lam Kin Fai
Mr. Chan Man Kay

COMPLIANCE OFFICER

Mr. Sze Yan Ngai

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1808-09, 18/F
Two Chinachem Exchange Square
No. 338 King's Road
North Point
Hong Kong

COMPLIANCE ADVISOR

Innovax Capital Limited
Room 2002, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAWS

Angela Ho & Associates
Unit 1405, 14/F., Tower 1, Admiralty
Centre, 18 Harcourt Road, Hong Kong

CORPORATE INFORMATION

PRINCIPAL BANKS

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

GEM STOCK CODE

8282

COMPANY WEBSITE

www.gameone.com.hk

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of the Company, I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017.

OVERVIEW

In the 2017 financial year, the Group recorded a net loss of approximately HK$17.7 million as compared to a net loss of approximately HK$8.8 million for the same period in 2016. Such downturn experienced by the Group during this period was due to a tougher competitive condition in the mobile game industry faced by the Group in Hong Kong and Taiwan. Furthermore, the increase in promotion and advertising costs increased our selling expenses of games.

FUTURE PROSPECTS

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

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

APPRECIATION

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

Sze Yan Ngai
Chairman and Executive Director

Hong Kong, 23 March 2018

BUSINESS REVIEW AND OUTLOOK

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

For the year ended 31 December 2017, the Group recorded a net loss of approximately HK$17.7 million as compared to a net loss of approximately HK$8.8 million for the same period in 2016. The Directors are of the view that the downturn experienced by the Group during the year ended 31 December 2017 was due to a tougher competitive condition in the mobile game industry faced by the Group in Hong Kong and Taiwan. In view of the expected game launch date and in order to increase our competition in mobile game market in Hong Kong and Taiwan, the Board will closely monitor the performance of the Group and the Group will continue to pursue the key business strategies to expand game portfolio through introducing more high-quality licensed games with a focus on mobile games, to consolidate market position and to enhance marketing efforts.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

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

The financial risk management objectives and policies of the Group can be found in note 32 to the consolidated financial statements.

Our new mobile game development license

We are licensed by Culturecom Holdings Limited (Stock Code: 343) to develop a mobile game “Licensed Oriental Heroes AR” (正牌龍虎門AR), based on the classic comic “Oriental Heroes”. In the game, players may select to join one of the five organizations, including “Dragon and Tiger Gate (龍虎門)”, “Lousha Gate (羅刹教)” and “White Lotus Society (白蓮教)”. The game is expected to be launched in the fourth quarter of 2018.

We have also obtained game development rights licensed by SNK Asia Co., Limited, a subsidiary of SNK Corporation (“**Japan SNK**”), for its products, such as KOF’95, KOF’96 and KOF’97. The Group endeavors to develop a mobile KOF game with GPS positioning and AR technique, temporarily named as “The King of Fighters-The Orochi Saga Go (拳皇大蛇篇GO)”. The game is expected to be launched in the second quarter of 2018.

FINANCIAL REVIEW

Revenue

The Group’s revenue was approximately HK$79.6 million for the year ended 31 December 2017 as similar with that of the financial year of 2016. It was due to the revenue recorded in the fourth quarter of Demi-Gods and Semi-Devils (Mobile version) (天龍八部手機版) and Yulgang (Mobile version) (熱血江湖手機版) contributing to 30.0% of our total revenue in 2017. Thus, our revenue increased in the fourth quarter as compared to other quarters in 2017.

Revenue by game ownership and forms

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

	For the year ended 31 December			
	2017		2016	
	HK$'000	**%**	HK$'000	%
Game operation income				
– Self/co-developed games	**17,851**	**22.4**	14,096	17.7
– Licensed games	**56,169**	**70.5**	62,263	78.2
Game publishing income				
– Games for publishing	**5,276**	**6.6**	2,067	2.6
Income from game operation and publishing	**79,296**	**99.5**	78,426	98.5
Royalty income	**23**	**0.1**	56	0.1
License fee income	**315**	**0.4**	1,130	1.4
Total	**79,634**	**100.0**	79,612	100.0

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

	For the year ended 31 December			
	2017		2016	
	HK$'000	**%**	HK$'000	%
Mobile games	**67,111**	**84.2**	68,609	86.2
Online PC games	**12,185**	**15.3**	9,739	12.2
Web games	**–**	**–**	78	0.1
Income from game operation and publishing	**79,296**	**99.5**	78,426	98.5
Royalty income	**23**	**0.1**	56	0.1
License fee income	**315**	**0.4**	1,130	1.4
Total	**79,634**	**100.0**	79,612	100.0

Cost of services rendered

The Group's cost of services rendered for the year ended 31 December 2017 was approximately HK$53.4 million as similar with that of the financial year of 2016.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2017 was approximately HK$26.3 million, representing a slightly increase of approximately 0.8% from approximately HK$26.1 million for the year ended 31 December 2016. The Group's gross profit margin for the year ended 31 December 2017 was approximately 33.0%, representing a slightly increase of approximately 0.2 percentage points as compared to approximately 32.8% for the year ended 31 December 2016.

Selling expenses

The Group's selling expenses for the year ended 31 December 2017 were approximately HK$20.9 million, representing an increase of approximately 46.2% from approximately HK$14.3 million for the corresponding period in 2016, primarily attributable to an increase in promotion and advertising expenses for the new self/co-developed mobile game, Warlocks Z (魔法軍團Z) and licensed mobile games, Demi-Gods and Semi-Devils (Mobile version) (天龍八部手機版) and Yulgang (Mobile version) (熱血江湖手機版).

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2017 were approximately HK$18.2 million, representing a decrease of approximately 8.5% from approximately HK$19.9 million for the year ended 31 December 2016, primarily attributable to a decrease in legal and professional fees.

Loss for the year

The Group recorded a loss for the year ended 31 December 2017 of approximately HK$17.7 million as compared with a loss of approximately HK$8.8 million for the corresponding period in 2016, primarily attributable to the combined effect of (i) an approximately HK$1.8 million increase in royalty expenses of licensed mobile games, mainly Demi-Gods and Semi-Devils (Mobile version) (天龍八部手機版) and Yulgang (Mobile version) (熱血江湖手機版); (ii) an approximately HK$6.8 million increase in promotion and advertising expenses, mainly for the new self/co-developed mobile game, Warlocks Z (魔法軍團Z) and licensed mobile games, Demi-Gods and Semi-Devils (Mobile version) (天龍八部手機版) and Yulgang (Mobile version) (熱血江湖手機版); and (iii) the recognition of impairment loss on the intangible assets of certain games of the Group in an amount of approximately HK$5.5 million due to the write-down of license fees paid for certain licensed games of the Group which failed to achieve the expected performance level.

Comparison between Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Company's prospectus (the "**Prospectus**") dated 13 January 2016 ("**Listing Date**") with actual business progress for the year ended 31 December 2017.

Business objectives		Actual business progress up to 31 December 2017
Expand our game portfolio through introducing more high-quality licensed games with a focus on mobile games	– securing additional licensed games	– We had settled the fees payable to secure the license for the mobile games "King Corps" (王者軍團) and "Demi-Gods and Semi-Devils" (Mobile version) (天龍八部手機版). – We have secured the license for the mobile game "Goodbye Weapon" (再見武器).
Continue to secure development rights for popular literatures, comics and animations		– We have secured and settled the development rights for the mobile games "Line Walker" (使徒行者), "The King of Fighters" (KOF'95, KOF'96 and KOF'97) (拳皇) and "Licensed Oriental Heroes AR" (正牌龍虎門AR).
Consolidate our market position and enhance our marketing efforts	– marketing and promotion of our existing licensed games and self/co-developed games	We have increased the spending on the promotion of Warlocks Z (魔法軍團Z), Demi-Gods and Semi-Devils (Mobile version) (天龍八部手機版) and Yulgang (Mobile version) (熱血江湖手機版).
Pursue strategic alliances and acquisition opportunities		– We invested in GPS positioning and AR technique with strategic alliance.
Fully utilise existing games and development rights to broaden our revenue stream	– identifying business partners to produce game-related merchandise such as die-cast characters, etc.	– We produced gift box packing of our certain games.
Enhance our game development capacity and increase the investment in game technology to increase the number of self-developed games	– acquisition of additional computer and related hardware and game design software	We have acquired additional computer hardware and design software and commenced to develop a number of self-developed games such as Licensed "Oriental Heroes AR" (正牌龍虎門AR) and "The King of Fighters-The Orochi Saga Go" (拳皇大蛇篇GO).

As at the date of this report, the Directors of the Company do not anticipate any material change to the above intention.

USE OF PROCEEDS FROM PLACING

The net proceeds from the issue of new shares of the Group at the time of its listing on GEM on 13 January 2016 ("**Listing**") through a placement of 40,000,000 shares of HK$0.01 each in the share capital of the Group at the price of HK$1.25 per share, after deduction of the related underwriting fees and issuance expenses paid by the Group in connection thereto, were approximately HK$25.6 million. The future operation plans of the Group are as follows:

	Intended use of proceeds from the Listing as described in the Prospectus					Actual use of proceeds
	From the Listing Date to 30 June 2016 (HK$ Million)	For the six months ending 31 December 2016 (HK$ Million)	For the six months ending 30 June 2017 (HK$ Million)	For the six months ending 31 December 2017 (HK$ Million)	Total (HK$ Million)	Up to 31 December 2017 (HK$ Million)
Proceeds from the Listing						
– Securing additional licensed mobile games	2.0	2.0	2.0	2.03	8.03	8.03
– Continue to secure development rights for popular literatures, comics and animations	1.0	1.0	1.0	1.34	4.34	4.34
– Identifying business partners to produce game-related merchandise	0.2	–	0.2	–	0.4	0.4
– Acquisition of additional computer and related hardware and game design software	–	0.4	–	0.4	0.8	0.8
– Marketing and promotion of our existing licensed games and self/co-developed games	1.5	1.5	1.5	2.33	6.83	6.83
– Pursue strategic alliances and acquisition opportunities	0.7	0.7	0.7	0.63	2.73	2.73
– Working capital and other general corporate purposes	0.6	0.6	0.6	0.67	2.47	2.47
Total	6.0	6.2	6.0	7.4	25.6	25.6

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

CAPITAL STRUCTURE

The Group's shares were successfully listed on GEM on Listing Date. There has been no change in the capital structure of the Group since the Listing Date and up to the date of this report.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operations primarily through cash generated from our operating activities. During the year ended 31 December 2017, we did not have any bank borrowings. As at 31 December 2017, we had cash and cash equivalents of approximately HK$42.5 million (31 December 2016: approximately HK$76.2 million), which were cash at banks and on hand. No banking facility has been arranged by our Group during the year ended 31 December 2017.

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed herein, there was no material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended 31 December 2017.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

During the year ended 31 December 2017, there was no significant investment held by the Group.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any concrete plan for material investments or capital assets as at 31 December 2017.

FOREIGN EXCHANGE EXPOSURE

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

BORROWING AND GEARING RATIO

During the year ended 31 December 2017, we did not have any short-term or long-term bank borrowings.

As at 31 December 2017, the gearing ratio of the Group, calculated as total liabilities, divided by total assets, was approximately 26.0% (31 December 2016: approximately 18.4%).

TREASURY POLICIES

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

CHARGE ON GROUP ASSETS

As at 31 December 2017, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2016: Nil).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

COMMITMENTS

Our contract commitments mainly involve leases of office properties and acquisition of intangible assets. As at 31 December 2017, the Group's operating leases were approximately HK$2.7 million (31 December 2016: approximately HK$4.7 million) and capital commitments for acquisition of intangible assets were approximately HK$4.0 million (31 December 2016: approximately HK$7.2 million).

INFORMATION ON EMPLOYEES

As at 31 December 2017, the Group had 82 employees (31 December 2016: 82) working in Hong Kong, Taiwan and the People's Republic of China (the "**PRC**"). Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The total staff cost (including remuneration, allowances and mandatory provident funds contributions of the Directors) for the year ended 31 December 2017 amounted to approximately HK$21.1 million (31 December 2016: approximately HK$22.4 million). The dedication and hard work of the Group's staff during the year ended 31 December 2017 are generally appreciated and recognized.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the "**Scheme**") on 23 December 2015 which will remain in force for a period of 10 years from the effective date of the Scheme. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to it. The Directors consider the Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. The principal terms of the Scheme are summarized in the section headed "Share Option Scheme" in Appendix IV to the Prospectus.

For the year ended 31 December 2017, no share option was granted, exercised, expired or lapsed and there was no outstanding share option under the Scheme.

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

Executive Directors

Mr. Sze Yan Ngai, aged 51, was appointed as our Director on 14 April 2010, re-designated as an executive Director and appointed as the chairman of our Board on 30 September 2015. Mr. Sze is primarily responsible for our Group's overall strategic planning and overseeing the general management of our Group. He joined the predecessor of our Group, Gameone Interactive.com Inc., in April 2000 and had worked as the chief executive officer from January 2003 to November 2013. Mr. Sze is also directors of certain subsidiaries of our Group. Mr. Sze has over 10 years of experience in game operation and development and game magazine publication industry. Mr. Sze is the elder brother of Ms. Sze Ling Ling, the Chief Operation Officer of our Group.

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

Mr. Lam Kin Fai, aged 33, was appointed as our executive Director on 30 September 2015. He is the Chief Technical Officer of our Group and the Chief Executive Officer of our Group. He is mainly responsible for supervision of technical matters related to game development, and the game design and operation of games. He has more than 10 years of experience in the game development industry.

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

Non-executive Director

Ms. Wong Pui Yain, aged 39, was appointed as our non-executive Director on 30 September 2015. She is mainly responsible for supervision of compliance, corporate governance and business development.

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

Independent non-executive Directors

Mr. Yung Kai Tai, aged 66, was appointed as our independent non-executive Director on 23 December 2015. He is responsible for supervising and providing independent judgment to our Board. Mr. Yung obtained a Bachelor of Science degree and a Master of Business Administration, both from the Chinese University of Hong Kong in October 1973 and October 1986 respectively. Mr. Yung also completed a Certificate of Delivery Information Services by Harvard University Graduate School of Business Administration in July 1997. Before his retirement in May 2011, Mr. Yung was the General Manager of Information Technology Industry Development Division of the Hong Kong Productivity Council. Mr. Yung acts as the Chairman of the Hong Kong Game Industry Association, the Vice-President of the Hong Kong Software Industry Association and is a council member of the Hong Kong Association for the Advancement of Science and Technology. Mr. Yung was also elected as Distinguished Fellow member of the Hong Kong Computer Society in September 1998 and the representative of the Information Technology Sub-sector in the Election Committee in the year 2006. Mr. Yung is currently an independent non-executive director of Future Data Group Limited (Stock Code: 8229).

Dr. Fung Ying Him Anthony, aged 48, was appointed as our independent non-executive Director on 23 December 2015. He is responsible for supervising and providing independent judgment to our Board. Dr. Fung obtained a Bachelor of Social Science from The Chinese University of Hong Kong in Hong Kong in July 1992. He also obtained a Master of Art and a Doctor of Philosophy, both from University of Minnesota, the United States in May 1995 and September 1998 respectively.

Dr. Fung is the school director and professor of the School of Journalism and Communication of The Chinese University of Hong Kong. He is also the associate director of Hong Kong Institute of Asia-Pacific Studies of The Chinese University of Hong Kong and a Pearl River Chair Professor at Jinan University at Guangzhou, PRC. His research interests and teaching focus on popular culture and cultural studies, popular music, gender and youth identity, cultural industries and policy, and new media studies. He published widely in international journals, and authored and edited more than ten Chinese and English books.

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

Mr. Iu Tak Meng Teddy, aged 55, was appointed as the independent non-executive Director on 23 December 2015. He is responsible for supervising and providing independent judgment to our Board.

Mr. Iu obtained a Diploma in Management Studies from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in November 1990 and then obtained a Master of Science in Information Systems and a Master of Science in Accountancy from The Hong Kong Polytechnic University in October 1995 and November 2002, respectively. He received his Master of Science from the University of Hong Kong in December 2015.

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

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

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

SENIOR MANAGEMENT

Ms. Sze Ling Ling, aged 48, was appointed as the Chief Operation Officer of our Group on 23 December 2015. She is mainly responsible for the overall sales and marketing of our Group. Ms. Sze joined the predecessor company of our Group Gameone Interactive.com Inc. in November 2004. Ms. Sze had over 10 years of experience in game operation company and marketing acquired through our Group. Ms. Sze is the younger sister of Mr. Sze Yan Ngai, the chairman and executive Director of our Group.

Ms. Leung Pui Ching Connie, aged 33, was appointed as the System Technical Director of our Group on 23 December 2015. She is mainly responsible for assessing technical risk and mitigation plan, establishing standards and procedures to track and measure project's progression, overseeing technical design documentation process for correctness and timeliness and evaluating development implementation on design and task thoroughness. Ms. Leung had over 7 years of experience in game development. Ms. Leung obtained the degree of Bachelor of Science in Creative Technologies from Coventry University, United Kingdom in October 2008 and the degree of Master of Science in Multimedia and Entertainment Technology from The Hong Kong Polytechnic University in November 2010.

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

Mr. Tsai Hsiang Jen, aged 42, was appointed as Operation Director (Taiwan) of our Group on 23 December 2015. He is mainly responsible for marketing strategy and leading the operation team in Taiwan. Mr. Tsai has over 13 years of experience in game operation. Mr. Tsai graduated in Ging Chung Business College#, Taiwan, major in information management, in June 2001.

Prior to joining our Group, Mr. Tsai had worked for Softstar Entertainment Inc.* from March 2004 to December 2005, JSDWAY Digital Technology Co., Ltd.* from March 2006 to April 2009. In April 2009, he joined USERJOY Technology Co., Ltd.* until February 2011. Mr. Tsai joined New Gameone (Taiwan) in March 2011 as Director of Operations, mainly responsible for marketing strategy and leading the operation team in Taiwan.

Ms. Li On Lei, aged 40, was appointed as the financial controller of our Group in June 2015. She is primarily responsible for the handling and overseeing compliance, corporate governance, financial reporting, financial planning and reviewing internal control of our Group. Ms. Li graduated from Leeds Metropolitan University with a Bachelor of Arts (Hons) Degree in Accounting and Finance in June 2003. Prior to joining our Group, Ms. Li has worked in the Audit and Assurance Department of an international accounting firm from July 2004 to May 2015 and her last position was senior manager. Ms. Li is a fellow member of the Association of Chartered Certified Accountants. Ms. Li is currently an independent non-executive director of Goal Forward Holdings Limited (Stock Code: 8240).

Mr. Chan Man Kay, aged 37, was appointed as the Company Secretary of our Group on 4 September 2015. Mr. Chan has obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in November 2002 and a Master of Arts degree in Operations and Supply Chain Management from City University of Hong Kong in November 2008. Mr. Chan was qualified as a certified public accountant in Hong Kong in January 2007. Mr. Chan has obtained an Advanced Diploma in Management Accounting awarded by the Chartered Institute of Management Accountants in September 2003. He was admitted as the fellow member of the Association of Chartered Certified Accountants in February 2011, an associate member of the Chartered Institute of Management Accountants in November 2006, a member of the Hong Kong Securities Institute in February 2006 and a certified International Investment Analysts awarded by Certified International Investment Analyst in May 2005. Mr. Chan has more than 10 years of experience in accounting, corporate governance and corporate finance. Mr. Chan worked for Evolution Securities Asia Limited (formerly known as Watterson Asia Limited) from January 2003 to December 2010 and his last position was associate director. He has worked for TC Capital Asia Limited from December 2010 to October 2015 and his last position was director of corporate finance. He is currently a director of corporate finance in Frontpage Capital Limited.

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules. During the year ended 31 December 2017, to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the Code.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

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

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

The Directors have selected appropriate account policies and applied them consistently; made judgments and estimates that are prudent and reasonable. As at 31 December 2017, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern. The Directors' responsibilities in the preparation of the consolidated financial statements and the auditors' responsibilities are set out in the Independent Auditor's Report from pages 42 to 47 of this annual report.

Composition

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

Executive Directors

Mr. Sze Yan Ngai (Chairman)
Mr. Lam Kin Fai (Chief Executive Officer)

Non-executive Director

Ms. Wong Pui Yain

Independent non-executive Directors

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

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management"on pages 15 to 19 of this annual report.

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

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

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company respectively on 23 December 2015 and each of our non-executive Director and our independent non-executive Directors entered into a letter of appointment with our Company respectively on 23 December 2015. The service contracts with our executive Directors and the letter of appointment with our non-executive Director are for an initial term of three years commencing from 13 January 2016. The letters of appointment with our independent non-executive Directors are for an initial fixed term of three years commencing from 13 January 2016. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

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

Each of Mr. Sze Yan Ngai and Mr. Iu Tak Meng Teddy will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on 16 May 2018 pursuant to article 16.18 of our articles of association. Mr. Sze Yan Ngai and Mr. Iu Tak Meng Teddy, being eligible, will offer themselves for re-election.

At the forthcoming annual general meeting of the Company, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of Mr. Sze Yan Ngai as an executive Director, and Mr. Iu Tak Meng Teddy as an independent non-executive Director.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

During the year ended 31 December 2017, the Company has provided and all Directors have attended at least one training course on the updates of the GEM Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the GEM Listing Rules.

BOARD COMMITTEE

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

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

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

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

Remuneration Committee

The Remuneration Committee was established on 23 December 2015. The chairman of the Remuneration Committee is Mr. Yung Kai Tai, our independent non-executive Director, and other members include Dr. Fung Ying Him Anthony and Mr. Iu Tak Meng Teddy, our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the GEM website and the Company's website.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structure for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of the Directors and senior management and considered that they were fair and reasonable during the year ended 31 December 2017.

Nomination Committee

The Nomination Committee was established on 23 December 2015. The chairman of the Nomination Committee is Mr. Sze Yan Ngai, our chairman and executive Director, and other members include Mr. Yung Kai Tai, Dr. Fung Ying Him Anthony and Mr. Iu Tak Meng Teddy, our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the GEM website and on the Company's website.

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

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

Audit Committee

The Audit Committee was established on 23 December 2015. The chairman of the Audit Committee is Mr. Iu Tak Meng Teddy, our independent non-executive Director, and other members include Mr. Yung Kai Tai and Dr. Fung Ying Him Anthony, our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM website and on the Company's website.

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

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

The Group's consolidated financial statements for the year ended 31 December 2017 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2017 comply with applicable accounting standards, GEM Listing Rules and the Hong Kong Companies Ordinance and adequate disclosures have been made.

ATTENDANCE RECORDS OF MEETINGS

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

Subsequent to the year ended 31 December 2017, one more Board meeting was held on 23 March 2018. The forthcoming annual general meeting will be held on 16 May 2018.

Here below are details of all Directors' attendance at the Board meeting, Board committees' meeting and general meetings held during the year ended 31 December 2017:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	2017 Annual General Meeting
	Number of Meetings Attended/Held				
Executive Directors					
Mr. Sze Yan Ngai	17/17			2/2	1/1
Mr. Lam Kin Fai	17/17				1/1
Non-executive Director					
Ms. Wong Pui Yain	16/17				0/1
Independent non-executive Directors					
Mr. Yung Kai Tai	17/17	4/4	1/1	2/2	1/1
Dr. Fung Ying Him Anthony	17/17	4/4	1/1	2/2	1/1
Mr. Iu Tak Meng Teddy	17/17	4/4	1/1	2/2	1/1

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

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

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

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

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

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

COMPANY SECRETARY

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

The Company has appointed Mr. Chan Man Kay as its Company Secretary.

For the year ended 31 December 2017, Mr. Chan undertook no less than 15 hours of relevant professional training to update his skill and knowledge.

INDEPENDENT AUDITORS' REMUNERATION

BDO Limited is appointed as the external auditor of the Company. The fee paid and payable in respect of audit services and non-audit services amounted to HK$520,000 and HK$80,000 respectively for the year ended 31 December 2017.

SHAREHOLDERS’ RIGHT

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

During the year ended 31 December 2017, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensure that resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the year ended 31 December 2017, the Group appointed Baker Tilly Hong Kong Risk Assurance Limited ("**Baker Tilly**") to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and

- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

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

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 13 of the Listing Rules as well as Part XIVA of the Securities and Futures Ordinance. The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures, and staff training arrangements, etc.

Our Enterprise Risk Management Framework

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

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

Our Risk Control Mechanism

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

(I) corporate communications such as annual reports, quarterly reports, interim reports and circulars are issued in printed form and are available on the GEM website “www.hkgem.com” and the Company’s website at “www.gameone.com.hk”;

(II) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(III) corporate information is made available on the Company’s website;

(IV) annual and special general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(V) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

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

During the year ended 31 December 2017, there is no significant change in the Company’s memorandum and articles of association.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. Green initiatives and measures including recycling of resources, energy saving and eco-friendly management practice, have been adopted in the daily operation of the Group. As a responsible corporation, to the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2017.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognizes the importance of compliance with legal and regulatory requirements and the risk of non-compliance with such requirements. The Group conducts on-going reviews of newly enacted/revised laws and regulations affecting its operations. The Company is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2017.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

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

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in the Cayman Islands. The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries are engaged in development, operation and publishing of mobile games and online PC games in Hong Kong and Taiwan. Details of the principal activities of its subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and contribution from operations by principal activities and geographical areas of operations for the year ended 31 December 2017 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 48 to 95. The Directors do not recommended the payment of a final dividend for the year ended 31 December 2017.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Wednesday, 16 May 2018 (the "**AGM**"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 11 May 2018 to Wednesday, 16 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 10 May 2018.

SUMMARY OF FINANCIAL INFORMATION

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

PROPERTY, PLANT AND EQUIPMENT

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

DONATION

Charitable donations made by the Group during the year ended 31 December 2017 amounted to approximately HK$0.1 million (31 December 2016: approximately HK$0.1 million).

SHARE CAPITAL AND SHARE OPTIONS SCHEMES

Details of the Company's share capital and share option schemes are set out in notes 24 and 26 to the financial statements respectively.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 25 to the financial statements.

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2017 are set out in note 27 to the financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under the GEM Listing Rules.

DISTRIBUTABLE RESERVES

At 31 December 2017, the aggregate amount of reserves available for distribution to owners of the Company was approximately HK$41,129,000 (2016: approximately HK$41,129,000).

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year ended 31 December 2017, so far as the Company is aware, the revenue attributable to our five largest customers accounted for less than 30% of our revenue for the year. Purchases from the Group's five largest suppliers accounted for approximately 61.6% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 17.5%.

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

DIRECTORS

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

Executive Directors

Mr. Sze Yan Ngai (Chairman)
Mr. Lam Kin Fai (Chief Executive Officer)

Non-executive Director

Ms. Wong Pui Yain

Independent non-executive Directors

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

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

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 15 to 19 of the report.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in note 12 to the financial statements.

EMOLUMENT POLICY

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

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

RETIREMENT BENEFITS PLANS

Particulars of retirement benefits plans of the Group as at 31 December 2017 are set out in note 4.13(ii) to the financial statement.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in note 27 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

As at 31 December 2017, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

INTERESTS OF THE COMPLIANCE ADVISOR

As confirmed by the Group's compliance advisor, Innovax Capital Limited (the "**Compliance Advisor**"), save as the compliance adviser agreement entered into between the Company and the Compliance Advisor dated 18 December 2015, none of the Compliance Adviser or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" below and the share option scheme disclosures in note 26 to the financial statements, at no time during the year there were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or any such rights exercised by them; or the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company was a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Ms. Wong Pui Yain *(Note 1)*	Interest of controlled corporation	66,787,235	41.74%
Mr. Sze Yan Ngai *(Chairman) (Note 2)*	Interest of controlled corporation/ Interest of spouse	29,012,337	18.13%

Notes:

(1) Ms. Wong Pui Yain ("**Ms. Wong**") holds 50% of the issued share capital of PC Asia Limited ("**PC Asia**"), which directly holds 99% and indirectly holds 1%, through PC Asia Nominees Limited ("**PC Asia Nominees**"), of the issued share capital of PC Investment Limited ("**PCIL**"). By virtue of the SFO, Ms. Wong is deemed to be interested in the 66,787,235 Shares in which PCIL is interested.

(2) Mr. Sze Yan Ngai ("**Mr. Sze**") and Ms. Chan Lai Chu ("**Mrs. Sze**") hold 50% of the issued share capital of Right One Global Limited ("**Right One**") respectively, which holds 29,004,337 Shares. In addition, Mrs. Sze hold 8,000 Shares of the Company. Mrs. Sze is the spouse of Mr. Sze. By virtue of the SFO, Mr. Sze is deemed to be interested in the Shares in which Right One and Mrs. Sze are interested.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors or chief executives of the Company, as at 31 December 2017, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in ordinary shares of the Company

Name of shareholders	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company
Mr. Wong Kiam Seng *(Note 1)*	Interest of controlled corporation	66,787,235	41.74%
PCIL *(Note 2)*	Beneficial owner	66,787,235	41.74%
PC Asia *(Note 2)*	Interest of controlled corporation	66,787,235	41.74%
Mrs. Sze *(Note 3)*	Interest of controlled corporation/ Beneficial owner/Interest of spouse	29,012,337	18.13%
Right One *(Note 4)*	Beneficial owner	29,004,337	18.13%
Nineyou International Limited *(Note 5)*	Beneficial owner	18,367,182	11.48%
New Horizon Capital, L.P. *(Note 5)*	Interest of controlled corporation	18,367,182	11.48%
Heartland Investment Limited *(Note 5)*	Interest of controlled corporation	18,367,182	11.48%

Notes:

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

(2) PCIL is beneficially owned by PC Asia as to 99% and PC Asia Nominees as to 1%. PC Asia Nominees is beneficially owned by PC Asia.

(3) Mr. Sze and Mrs. Sze hold 50% of the issued share capital of Right One respectively, which holds 29,004,337 Shares. In addition, Mrs. Sze hold 8,000 Shares of the Company. Mrs. Sze is the spouse of Mr. Sze. By virtue of the SFO, Mrs. Sze is deemed to be interested in the Shares in which Right One and Mr. Sze are interested.

(4) Right One is beneficially owned by Mr. Sze as to 50% and Mrs. Sze as to 50%.

(5) Based on the information provided by Nineyou International Limited ("**NYIL**"), NYIL is beneficially owned by Heartland Investment Limited as to approximately 44.44%, Wollerton Investments Pte. Ltd. as to approximately 18.96%, Fair Gold International Limited as to approximately 15.61%, Everstar Overseas Holding Ltd. as to approximately 10.04%, Star Fortune Overseas Holding Limited as to approximately 8.0% and Hongxin International Holdings Limited as to approximately 2.95%, all of whom are independent third parties. Wollerton Investments Pte. Ltd. is owned as to approximately 82.36% by Heartland Investment Limited. Heartland Investment Limited is wholly owned by New Horizon Capital, L.P. which is also an independent third party.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

NON-COMPETITION UNDERTAKINGS

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

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

During the year ended 31 December 2017, the Board had not received any written confirmation from any of our Directors in respect of interest in any business (other than our Group) which is or is likely to be directly or indirectly in competition with our business.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 20 to 31 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

EQUITY LINKED AGREEMENTS

Save as disclosed in the note 26 to the financial statement, no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2017 or subsisted at the end of the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

INDEPENDENT AUDITOR

The financial statements of the Company for the years ended 31 December 2015, 2016 and 2017 were audited by BDO Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

ON BEHALF OF THE BOARD

Mr. Sze Yan Ngai
Chairman and Executive Director

Hong Kong, 23 March 2018

SUMMARY OF FINANCIAL INFORMATION

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total revenue	**79,634**	79,612	118,181	78,668	68,833
Profit/(Loss) before income tax	**(17,947)**	(9,912)	7,416	10,070	(8,564)
Profit/(Loss) for the year	**(17,705)**	(8,812)	3,098	7,040	(9,591)
Total comprehensive profit/(loss) for the year	**(19,097)**	(9,018)	3,721	7,684	(9,754)
Total assets	**96,730**	111,101	90,245	70,279	66,007
Total liabilities	**25,153**	20,427	33,597	20,352	22,599
Total equity and liabilities	**96,730**	111,101	90,245	70,279	66,007
Net current assets	**48,086**	72,309	34,004	30,045	28,844
Total assets less current liabilities	**71,577**	90,916	56,920	50,091	43,529

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To the members of Gameone Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Gameone Holdings Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 48 to 95, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

Impairment assessment of intangible Assets

Refer to note 14 to the consolidated financial statements

The carrying amount of the Group's intangible assets was HK$20,116,000 as at 31 December 2017. An impairment loss of HK$5,544,000 was recognised for the year ended 31 December 2017. In performing the impairment assessment of intangible assets, the management determined the recoverable amounts with reference to the value-in-use calculations based on cash flow forecasts. Estimations of the recoverable amounts are dependent on certain key assumptions that require significant management judgment for the underlying cash flow forecasts. Favorable or unfavorable changes to these assumptions would result in change in the recoverable amounts of the intangible assets and hence the amount of the impairment loss recognised for the year and the carrying amount of the intangible assets as at 31 December 2017.

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

Our response:

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

– assessing the factors considered by the management for determining whether an impairment event had occurred and thus impairment assessment is required;

– challenging the reasonableness of management's key assumptions adopted in the impairment assessment based on our knowledge of the Group's business and the gaming industry;

– assessing whether there is evidence of management bias on impairment assessment by considering the consistency of judgment and estimation made by the management on a year-by-year basis through discussion with the management to understand their rationale; and

– assessing management's estimation on the recoverable amounts of the intangible assets.

KEY AUDIT MATTERS *(continued)*

Estimates of the Player Relationship Period

Refer to note 4.9 to the consolidated financial statements

As described in note 4.9, the Group recognises revenue from durable in-game virtual items ratably over the Player Relationship Period. If the Group does not possess relevant data and information to differentiate revenue attributable to durable in-game virtual items from consumable in-game virtual items for a specific game, the Group recognises revenue for that game ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment.

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

Our response:

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

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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.

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants

Lo Ngai Hang
Practising Certificate number P04743
Hong Kong, 23 March 2018

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	7	**79,634**	79,612
Cost of services rendered		**(53,351)**	(53,525)
Gross profit		**26,283**	26,087
Other income	7	**418**	209
Selling expenses		**(20,897)**	(14,319)
Administrative expenses		**(18,197)**	(19,908)
Other expenses		**(5,554)**	(1,981)
Loss before income tax	8	**(17,947)**	(9,912)
Income tax credit	9	**242**	1,100
Loss for the year		**(17,705)**	(8,812)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Exchange difference on translation of financial statements of foreign operations		**(1,392)**	(206)
Other comprehensive income for the year		**(1,392)**	(206)
Total comprehensive income for the year		**(19,097)**	(9,018)
Loss for the year attributable to:			
Owners of the Company		**(17,703)**	(8,808)
Non-controlling interests		**(2)**	(4)
		(17,705)	(8,812)
Total comprehensive income attributable to:			
Owners of the Company		**(19,095)**	(9,014)
Non-controlling interests		**(2)**	(4)
		(19,097)	(9,018)
		2017 HK$	2016 HK$
Losses per share	11		
– Basic and Diluted		**(0.11)**	(0.06)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**3,375**	3,601
Intangible assets	14	**20,116**	15,006
		23,491	18,607
Current assets			
Inventories	17	**26**	38
Trade receivables	18	**14,094**	5,528
Prepayments, deposits and other receivables	19	**16,162**	9,731
Amounts due from non-controlling shareholders of a subsidiary	22	**400**	344
Tax recoverable		**98**	644
Cash at banks and on hand		**42,459**	76,209
		73,239	92,494
Current liabilities			
Trade payables	20	**2,521**	3,460
Accrued expenses and other payables	21	**5,794**	4,618
Deferred income	21	**16,741**	11,891
Amount due to a related company	22	**97**	216
		25,153	20,185
Net current assets		**48,086**	72,309
Total assets less current liabilities		**71,577**	90,916
Non-current liabilities			
Deferred taxation	23	**–**	242
Net assets		**71,577**	90,674

	Notes	2017 HK$'000	2016 HK$'000
EQUITY			
Share capital	24	**1,600**	1,600
Reserves	25	**69,583**	88,678
Equity attributable to the Company's owners		**71,183**	90,278
Non-controlling interests		**394**	396
Total equity		**71,577**	90,674

On behalf of the Directors

Sze Yan Ngai
Director

Lam Kin Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital HK$'000	Share premium* HK$'000 (Note 25)	Other reserve* HK$'000 (Note 25)	Translation reserve* HK$'000	Accumulated losses* HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	85	–	71,458	1,708	(16,603)	–	56,648
Loss for the year	–	–	–	–	(8,808)	(4)	(8,812)
Exchange difference on translation of financial statements of foreign operations	–	–	–	(206)	–	–	(206)
Other comprehensive income for the year	–	–	–	(206)	–	–	(206)
Total comprehensive income for the year	–	–	–	(206)	(8,808)	(4)	(9,018)
Issue of shares under placing (note 24)	400	49,600	–	–	–	–	50,000
Capitalisation issue (note 24)	1,115	(1,115)	–	–	–	–	–
Share issue expenses	–	(7,356)	–	–	–	–	(7,356)
Issue of shares to non-controlling shareholders by a subsidiary	–	–	–	–	–	400	400
At 31 December 2016 and 1 January 2017	**1,600**	**41,129**	**71,458**	**1,502**	**(25,411)**	**396**	**90,674**
Loss for the year	**-**	**-**	**-**	**-**	**(17,703)**	**(2)**	**(17,705)**
Exchange difference on translation of financial statements of foreign operations	**-**	**-**	**-**	**(1,392)**	**-**	**-**	**(1,392)**
Other comprehensive income for the year	**-**	**-**	**-**	**(1,392)**	**-**	**-**	**(1,392)**
Total comprehensive income for the year	**-**	**-**	**-**	**(1,392)**	**(17,703)**	**(2)**	**(19,097)**
At 31 December 2017	**1,600**	**41,129**	**71,458**	**110**	**(43,114)**	**394**	**71,577**

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

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Loss before income tax		**(17,947)**	(9,912)
Adjustments for:			
Depreciation of property, plant and equipment	8	**2,196**	1,642
Amortisation of intangible assets	8	**5,453**	8,219
Written off of inventories	8	**–**	27
Written off of prepayments and receivables	8	**–**	46
Bank interest income	7	**(9)**	(10)
Loss/(gain) on disposal of property, plant and equipment	7, 8	**10**	(7)
Impairment on intangible assets	8	**5,544**	1,905
Operating profit before working capital changes		**(4,753)**	1,910
Decrease in inventories		**12**	91
(Increase)/decrease in trade receivables		**(8,566)**	1,475
(Increase)/decrease in prepayments, deposits and other receivables		**(6,431)**	3,848
(Decrease)/increase in trade payables		**(939)**	2
Increase/(decrease) in accrued expenses and other payables		**1,176**	(10,760)
Increase in deferred income		**4,850**	1,442
Decrease in amount due to a related company		**(119)**	(243)
Cash (used in)/generated from operations		**(14,770)**	(2,235)
Income tax refund/(paid)		**546**	(3,155)
Net cash used in operating activities		**(14,224)**	(5,390)
Cash flows from investing activities			
Payments for acquisition of intangible assets		**(16,144)**	(4,391)
Purchase of property, plant and equipment		**(1,902)**	(3,004)
Proceeds from sale of property, plant and equipment		**–**	20
Repayment from a related company		**–**	1,000
Interest received		**9**	10
Net cash used in investing activities		**(18,037)**	(6,365)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from financing activities			
Issue of shares on placing, net of share issue expenses		–	42,644
Net cash generated from financing activities		–	42,644
Net (decrease)/increase in cash and cash equivalents		**(32,261)**	30,889
Cash and cash equivalents at beginning of year		**76,209**	45,545
Effect of foreign exchange rates changes		**(1,489)**	(225)
Cash and cash equivalents at end of year		**42,459**	76,209
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		**42,459**	76,209

1. CORPORATE INFORMATION

Gameone Holdings Limited was incorporated in Cayman Islands with limited liability under the Companies Law of Cayman Islands on 14 April 2010. The Company's registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands. The Company's principal place of business is located at Room 1808-9, 18/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

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

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

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has no impact on these financial statements as the Group did not have any changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017 *(continued)*

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Annual Improvement to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing costs[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 might result in earlier provision of credit losses in relation to the Group's trade receivables measured at amortised costs. However, management expect the effect would not be significant.

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

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

HKFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

In 2016, the HKICPA issued Clarifications to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity normally recognises revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018. The impact of HKFRS 15 on the revenue recognition may take into consideration when multiple performance obligations are identified. Based on the preliminary assessment, the Group has not identified multiple performance obligations and expects no material impact upon adoption of HKFRS 15 to the financial statements other than the presentation of additional disclosure.

Amendments to HKAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

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

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

HK(IFRIC) – Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$2,697,000 as disclosed in Note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurements

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

(c) Functional and presentation currency

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

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

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

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

4.2 Subsidiaries

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

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

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

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

4.3 Property, plant and equipment

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

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

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

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

4.3 Property, plant and equipment *(continued)*

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

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

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

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

4.4 Intangible assets

(i) Acquired intangible assets

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

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

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

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

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

– it is technically feasible to develop the product for it to be used or sold;

– adequate resources are available to complete the development;

– there is an intention to complete and use or sell the product;

– the Group is able to use or sell the product;

– use or sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

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

4.4 Intangible assets *(continued)*

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

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

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

(iii) Impairment of intangible assets

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

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

4.5 Impairment of non-financial assets

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

– property, plant and equipment; and

– intangible assets;

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

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

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

4.6 Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The Group classifies its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

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

4.6 Financial instruments *(continued)*

(iii) Financial liabilities

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

Financial liabilities at amortised cost

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

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

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

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

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

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

4.7 Inventories

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

4.8 Cash and cash equivalents

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

4.9 Revenue and other income recognition

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

The Group recognises revenue when it is probable that future economic benefits will flow to the Group, specific criteria have been met for each of the Group's revenue streams as described below and the revenue can be reliably measured. Revenue is recorded at the fair value of consideration received or receivable, net of any sale tax and discounts.

(i) Operations of online and mobile games

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

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

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

4.9 Revenue and other income recognition *(continued)*

(i) Operations of online and mobile games (continued)

The Group takes primary responsibilities in the delivery of game experiences to the Paying Players, including the marketing and promotion, determining distribution and payment channels, hosting game servers and providing customer services. In addition, the Group also controls game and service specifications and pricing of the in-game virtual items. Therefore, the Group considers itself the principal in the delivery of game experience to the Paying Players as the Group has exposure to the significant risks and rewards associated with the operations of the games and thus records revenues on a gross basis. Payment to third-party game developers and service charges by third-party distribution platforms and third-party payment channels are recorded as cost of revenue.

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

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

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

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

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

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

4.9 Revenue and other income recognition *(continued)*

(i) Operations of online and mobile games (continued)

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

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

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

(ii) Game publishing services

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

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

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

(iii) Licensing and royalty income

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

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

4.9 Revenue and other income recognition *(continued)*

(iv) Promotion and management fee income

Promotion income and management fee income are recognised when the relevant services are rendered.

(v) Interest income

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

4.10 Accounting for income tax

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

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

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

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

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

4.11 Foreign currency

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

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

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

4.11 Foreign currency *(continued)*

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

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

4.12 Leasing

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

As lessee

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

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

4.13 Employee benefits

(i) *Bonus*

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

(ii) *Defined contribution retirement plan*

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

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

4.13 Employee benefits *(continued)*

(ii) Defined contribution retirement plan (continued)

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

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

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

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

(iii) Short-term employee benefits

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

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

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

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

4.14 Provisions and contingent liabilities

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

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

4.15 Related parties

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

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

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

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

4.15 Related parties *(continued)*

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4.16 Segment reporting

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimates of the Player Relationship Period

As described in note 4.9, the Group recognises revenue from durable in-game virtual items ratably over the Player Relationship Period. If the Group does not possess relevant data and information to differentiate revenue attributable to durable in-game virtual items from consumable in-game virtual items for a specific game, the Group recognises revenue for that game ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for prospectively as a change in accounting estimate.

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

Recognition of deferred income

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

Impairment of non-financial assets

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

Impairment of receivables

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

6. SEGMENT INFORMATION

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

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

6. SEGMENT INFORMATION *(continued)*

Geographical information

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

	2017 HK$'000	2016 HK$'000
By country/region		
Hong Kong (place of domicile)	**72,024**	73,027
Taiwan	**7,365**	6,580
Others	**245**	5
	79,634	79,612

Non-current assets

	2017 HK$'000	2016 HK$'000
By country/region		
Hong Kong (place of domicile)	**22,388**	17,579
Taiwan	**1,091**	1,026
PRC	**12**	2
	23,491	18,607

Information about major customers

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

7. REVENUE AND OTHER INCOME

An analysis of the Group's revenue and other income are as follows:

	2017 HK$'000	2016 HK$'000
Revenue		
Game operation income	**74,020**	76,359
Game publishing income	**5,276**	2,067
Royalty income	**23**	56
License fee income	**315**	1,130
	79,634	79,612
Other income		
Interest income	**9**	10
Gain on disposal of property, plant and equipment	**–**	7
Other income	**409**	192
	418	209
	80,052	79,821

8. LOSS BEFORE INCOME TAX

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

	2017 HK$'000	2016 HK$'000
Under Cost of services rendered:		
Cost of inventories recognised as expenses	–	148
Amortisation of intangible assets (note 14)	5,453	8,219
Royalty expenses	17,370	15,617
Under administrative expenses:		
Auditor's remuneration	606	728
Exchange (gain)/losses, net	(71)	87
Operating lease charges	3,181	2,537
Listing expenses	–	816
Under other expenses:		
Impairment on intangible assets (note 14)	5,544	1,905
Written off of inventories	–	27
Loss on disposal of property, plant and equipment	10	–
Written off of prepayment and receivables (note 18)	–	46
Depreciation of property, plant and equipment (note 13):		
– Under cost of services rendered	1,072	1,336
– Under administrative expenses	1,124	306
	2,196	1,642
Staff costs excluding Directors' remuneration (note 12):		
– Salaries and allowances	14,255	15,453
– Contributions on defined contribution retirement plan	1,142	1,103
– Discretionary bonuses	993	1,139
	16,390	17,695

No depreciation was included in the cost of research and development for the year ended 31 December 2017 (2016: approximately HK$3,000). The salaries included in the cost of research and development for the year ended 31 December 2017 amounted to approximately HK$5,791,000 (2016: approximately HK$4,993,000).

9. INCOME TAX CREDIT

	2017 HK$'000	2016 HK$'000
Current tax – Hong Kong Profits Tax		
– Tax for the year	–	206
– Over provision in prior years	–	(1,276)
	–	(1,070)
Current tax – PRC Tax		
– Tax for the year	–	–
	–	(1,070)
Deferred tax (note 23)	(242)	(30)
Income tax credit	(242)	(1,100)

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

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

No provision for Hong Kong Profits Tax was made as the Group has not generated any tax assessable profits in the Hong Kong for the year ended 31 December 2017. A provision for Hong Kong Profits Tax was made at the rate of 16.5% for the Group's estimated assessable profits derived in Hong Kong for both years.

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

	2017 HK$'000	2016 HK$'000
Loss before income tax	(17,947)	(9,912)
Tax on loss before income tax, calculated at rates applicable to profits in the tax jurisdictions concerned	(2,961)	(1,858)
Tax effect of non-deductible expenses	379	153
Tax effect of non-taxable revenue	(5)	(2)
Tax effect of tax losses not recognised	2,309	1,870
Tax effect of deductible temporary differences not recognised	–	13
Over provision in prior years	–	(1,276)
Utilisation of tax losses previously not reconged	36	–
Income tax credit	(242)	(1,100)

10. DIVIDENDS

No dividends have been paid or declared by the Company or any of the subsidiaries during the year (2016: Nil).

11. LOSSES PER SHARE

The calculation of basic losses per share is based on the loss attributable to the owners of the Company and on the basis of the weighted average number of 160,000,000 ordinary shares (2016: 160,000,000 ordinary shares) in issue.

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

No diluted earnings per share is calculated for the year ended 31 December 2017 (2016: Nil) as there was no potential dilutive ordinary share in existence.

12. REMUNERATION OF DIRECTORS AND EMOLUMENTS OF EMPLOYEES

Directors' remuneration

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Contributions to retirement plans HK$'000	Total HK$'000
Year ended 31 December 2017					
Executive Directors:					
Sze Yan Ngai	–	1,402	2,000	18	3,420
Lam Kin Fai	–	579	47	18	644
Non-executive Directors:					
Wong Pui Yain	–	150	–	–	150
Hong Ming Sang	–	65	–	–	65
Independent Non-executive Directors:					
Yung Kai Tai	–	150	–	–	150
Fung Ying Him Anthony	–	150	–	–	150
Iu Tak Meng Teddy	–	150	–	–	150
	–	2,646	2,047	36	4,729

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

Directors' remuneration *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Contributions to retirement plans HK$'000	Total HK$'000
Year ended 31 December 2016					
Executive Directors:					
Sze Yan Ngai	–	1,214	2,000	18	3,232
Lam Kin Fai	–	546	107	18	671
Non-executive Directors:					
Wong Pui Yain	–	150	–	–	150
Hong Ming Sang	–	150	–	3	153
Independent Non-executive Directors:					
Yung Kai Tai	–	150	–	–	150
Fung Ying Him Anthony	–	150	–	–	150
Iu Tak Meng Teddy	–	150	–	–	150
	–	2,510	2,107	39	4,656

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2017 (2016: Nil).

Five highest paid individuals

Of the five highest paid individuals with the highest emoluments in the Group, two were Directors of the Company, Mr. Sze and Mr. Lam Kin Fai (2016: Mr. Sze and Mr. Lam Kin Fai), whose remuneration is reflected in the analysis presented above for the year. Details of remuneration of the remaining three individuals for the year are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**1,375**	1,345
Discretionary bonus	**81**	626
Retirement benefits – defined contribution plans	**54**	53
Total	**1,510**	2,024

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

Five highest paid individuals *(continued)*

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

	Number of the individuals	
	2017	2016
Nil – HK$1,000,000	**3**	2
HK$1,000,001 – HK$1,500,000	**–**	1
	3	3

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

Senior management's emoluments

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

	Number of the individuals	
	2017	2016
Nil – HK$1,000,000	**2**	2

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computers HK$'000	Motor vehicle HK$'000	Total HK$'000
Year ended 31 December 2017					
Opening net carrying amount	**904**	**238**	**1,815**	**644**	**3,601**
Additions	**578**	**66**	**1,258**	**–**	**1,902**
Depreciation	**(806)**	**(88)**	**(1,053)**	**(249)**	**(2,196)**
Disposal	**–**	**–**	**(10)**	**–**	**(10)**
Exchange adjustment	**4**	**–**	**74**	**–**	**78**
Closing net carrying amount	**680**	**216**	**2,084**	**395**	**3,375**
As at 31 December 2017					
Cost	**1,807**	**556**	**16,567**	**1,151**	**20,081**
Accumulated depreciation	**(1,127)**	**(340)**	**(14,483)**	**(756)**	**(16,706)**
Net carrying amount	**680**	**216**	**2,084**	**395**	**3,375**
Year ended 31 December 2016					
Opening net carrying amount	108	135	1,994	–	2,237
Additions	946	152	1,158	748	3,004
Depreciation	(150)	(50)	(1,338)	(104)	(1,642)
Disposal	–	–	(4)	–	(4)
Exchange adjustment	–	1	5	–	6
Closing net carrying amount	904	238	1,815	644	3,601
As at 31 December 2016					
Cost	1,222	486	15,093	1,151	17,952
Accumulated depreciation	(318)	(248)	(13,278)	(507)	(14,351)
Net carrying amount	904	238	1,815	644	3,601

14. INTANGIBLE ASSETS

	HK$'000
Year ended 31 December 2017	
Opening net carrying amount	**15,006**
Additions	**16,088**
Amortisation	**(5,453)**
Impairment	**(5,544)**
Exchange adjustment	**19**
Closing net carrying amount	**20,116**
As at 31 December 2017	
Cost	**51,795**
Accumulated amortisation	**31,679**
Closing net carrying amount	**20,116**
Year ended 31 December 2016	
Opening net carrying amount	20,679
Additions	4,447
Amortisation	(8,219)
Impairment	(1,905)
Exchange adjustment	4
Closing net carrying amount	15,006
As at 31 December 2016	
Cost	42,080
Accumulated amortisation	(27,074)
Closing net carrying amount	15,006

The intangible assets represented licenses with finite useful life.

For the year ended 31 December 2017, an impairment loss of approximately HK$5,544,000 (2016: HK$1,905,000) (note 8) was recognised, which represented the write-down of license fee paid for certain games operated by the Group to the recoverable amounts as a result of number of paying players of these games not achieving expected level. The impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income as other expenses. The recoverable amounts have been determined with reference to the value-in-use calculations based on cash flow projections from approved budgets covering a period of one to three years which is the expected useful life of these games estimated by the management. Budgeted gross margin is determined based on the past performance on similar games and management's expectations for market development. The discount rate used is pre-tax rate of approximately 11% (2016: 11%).

15. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	16	**5,362**	5,362
Current assets			
Prepayments, deposits and other receivables		**100**	112
Cash at banks and on hand		**21,653**	43,737
Amounts due from a subsidiary		**16,721**	–
		38,474	43,849
Current liabilities			
Accrual and other payables		**277**	70
Amounts due to a subsidiary		**19**	3,460
		296	3,530
Net current assets		**38,178**	40,319
Net assets		**43,540**	45,681
EQUITY			
Share capital	24	**1,600**	1,600
Reserves	25	**41,940**	44,081
Total equity		**43,540**	45,681

On behalf of the Directors

Sze Yan Ngai
Director

Lam Kin Fai
Director

16. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2017 are as follows:

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

Note (a): GO Studio Limited was newly incorporated on 21 September 2016.

17. INVENTORIES

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

18. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**14,094**	5,528

The Group normally allows credit period within 60 days to its trade debtors. At each reporting date the Group reviews receivables for evidence of impairment on both an individual and collective basis.

The ageing analysis of trade receivables (net of impairment losses), based on the month-end dates of the month in which the transaction completed, as of the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Not more than 30 days	**11,233**	5,109
30-60 days	**2,624**	275
Over 60 days	**237**	144
	14,094	5,528

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

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**11,275**	5,211
Not more than 30 days	**2,015**	173
30-60 days	**573**	84
Over 60 days	**231**	60
	14,094	5,528

Trade receivables that were neither past due nor impaired and that were past due but not impaired related to a number of trade debtors that the Group had continuing business relationships with these parties including transactions and settlements from these parties in general, in the opinion of the Directors, has no indication of default. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade receivables past due but not impaired.

At each reporting date, the Group reviews receivables for evidence of impairment on both individual and collective basis. During the year ended 31 December 2017, the Group has no written off trade receivables (2016: HK$46,000) directly to the profit or loss for the year (note 8). None of the trade receivables as at 31 December 2017 (2016: Nil) have been identified by the Group as having an impairment issue.

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

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	15,091	8,635
Deposits	804	809
Other receivables	267	287
	16,162	9,731

20. TRADE PAYABLES

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

21. ACCRUED EXPENSES, OTHER PAYABLES AND DEFERRED INCOME

	2017 HK$'000	2016 HK$'000
Accrued expenses	4,484	3,097
Other payables	1,292	1,275
Receipt in advance	18	246
	5,794	4,618
Deferred income	16,741	11,891
	22,535	16,509

The Directors consider that the carrying amounts of accrued expenses and other payables approximate their fair values.

22. AMOUNTS DUE FROM/(TO) A RELATED COMPANY AND NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY

(a) Amounts due from non-controlling shareholders of a subsidiary

	Notes	2017 HK$'000	2016 HK$'000
Innopage Limited	(i) & (ii)	200	144
Tommo Inc.	(i) & (ii)	200	200
		400	344

(i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) Both companies are the minority shareholders of GO Studio Limited, a subsidiary of the Company.

22. AMOUNTS DUE FROM/(TO) A RELATED COMPANY AND NON-CONTROLLING SHAREHOLDERS OF A SUBSIDIARY *(continued)*

(b) Amount due to a related company

	2017	2016
	HK$'000	HK$'000
Suzhou Snail Digital Technology Company Limited	**97**	216

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

23. DEFERRED TAXATION

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

	2017	2016
	HK$'000	HK$'000
Accelerated tax depreciation		
At beginning of year	**242**	272
Credit for the year (note 9)	**(242)**	(30)
At ending of year	**–**	242

As at 31 December 2017, the Taiwan branch has unused tax losses of approximately HK$13,203,580 (2016: HK$13,256,000) available for offset against future taxable profits in Taiwan. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profit streams. These tax losses can be carried forward for a period of 10 years.

As at 31 December 2017, 漫遊移動科技 has unused tax losses of approximately HK$4,409,000 available for offset against future taxable profits in PRC. No deferred tax assets have been recognised in respect of these tax losses due to the unpredictability of future profits streams. These tax losses can be carried forward for a period of 5 years.

As at 31 December 2017, the Group excluding Taiwan branch and 漫遊移動科技 has unused tax losses of approximately HK$25,104,000 (2016: HK$14,429,000) available for offset against future taxable profits. No deferred tax assets have been recognised in respect of these tax losses due to unpredictability of future profit streams. These tax losses can be carried forward indefinitely.

24. SHARE CAPITAL

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

Authorised share capital

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

Issued and fully paid

	2017 Number	**2017 HK$'000**	2016 Number	2016 HK$'000
Ordinary shares				
At beginning of year	**160,000,000**	**1,600**	8,534,007	85
Capitalisation issue (Note (a))	**–**	**–**	111,465,993	1,115
Issued shares under placing (note (b))	**–**	**–**	40,000,000	400
At ending of year	**160,000,000**	**1,600**	160,000,000	1,600

Notes:

(a) Pursuant to the written resolution of the shareholders passed on 23 December 2015, the Directors were authorised to capitalise the amount of HK$1,114,659 standing to the credit of the share premium account of the Company and to appropriate such amount as to capital to pay up in full at par 111,465,993 shares for allotment and issue to the then existing shareholders of the Company, each ranking pari passu in all respects with the then existing issued shares. On 13 January 2016, the Company allotted and issued such shares as aforesaid and gave effect to the capitalisation issue.

(b) On 13 January 2016, the Company issued 40,000,000 shares pursuant to the Company's listing on the GEM of the Stock Exchange by way of placing at a price of HK$1.25 per share.

25. RESERVES

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

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

	Share premium HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total reserve HK$'000
At 1 January 2016	–	5,276	(4)	5,272
Loss for the year	–	–	(2,320)	(2,320)
Issue of share under placing (note 24)	49,600	–	–	49,600
Capitalisation issue (note 24)	(1,115)	–	–	(1,115)
Share issue expenses	(7,356)	–	–	(7,356)
At 31 December 2016 and 1 January 2017	**41,129**	**5,276**	**(2,324)**	**44,081**
Loss for the year	**–**	**–**	**(2,141)**	**(2,141)**
At 31 December 2017	**41,129**	**5,276**	**(4,465)**	**41,940**

Share premium

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

Other reserve

Other reserve of the Group mainly represented the differences between

a. the investment cost and the carrying amounts of net assets of a former subsidiary acquired by the Group during a reorganisation in 2010 and consideration paid in respect of share repurchase by Gameone Inc. in April 2012; and

b. the nominal value of the share capital and share premium of Gameone Inc. and the nominal value of the shares issued by the Company in acquiring Gameone Inc. in December 2015 upon the completion of the Reorganisation on 23 December 2015.

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

26. SHARE OPTION SCHEME

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

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

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

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

No share options were granted, under the Scheme during the year. At 31 December 2017, there were no outstanding options granted under the Scheme. Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.

27. RELATED PARTY TRANSACTIONS

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

	Notes	2017 HK$'000	2016 HK$'000
Royalty expenses paid to:			
Suzhou Snail Digital Technology Company Limited	(i)	**1,386**	5,049
Game development services fee paid to:			
Innopage Limited	(ii)	**162**	–

Notes:

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

(ii) Game development services fee was paid to Innopage Limited, of which a non-controlling shareholder of the Company, for the game development during the year. The game development services fee was determined and agreed by both parties.

(b) Compensation of key management personnel

	2017 HK$'000	2016 HK$'000
Total remuneration of directors and other members of key management during the year was as follows:		
Fees, salaries and staff welfare benefits	**4,384**	4,099
Discretionary bonus	**2,143**	2,752
Total short-term employee benefits	**6,527**	6,851
Defined contribution plans (post employment benefits)	**107**	107
	6,634	6,958

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

Except as disclosed in note 27, no transactions, arrangements or contracts of significance to which the holding company or any of the subsidiaries was a party and in which a Director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

29. OPERATING LEASE COMMITMENTS

Future minimum lease payments under a non-cancellable operating lease in respect of rented premise are payable as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**2,378**	2,814
In the second to fifth years	**319**	1,860
	2,697	4,674

The Group leased certain premises under operating leases. The leases run for an initial period of two to three years, with an option to renew the lease terms at the expiry dates or at dates mutually agreed between the Group and the respective landlords. None of the leases include contingent rentals.

30. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	HK$'000
Contracted but not provided for		
– Acquisition of intangible assets	**4,017**	7,154

31. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

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

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables:		
Trade receivables	**14,094**	5,528
Deposits	**804**	809
Amounts due from non-controlling shareholders of a subsidiary	**400**	344
Cash at banks and on hand	**42,459**	76,209
	57,757	82,890

	2017 HK$'000	2016 HK$'000
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**2,521**	3,460
Accrued expenses and other payables	**5,794**	4,618
Amount due to a related company	**97**	216
	8,412	8,294

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

32. FINANCIAL RISK MANAGEMENT

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

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

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.1 Foreign currency risk

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

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

32.2 Interest rate risk

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

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

32.3 Credit risk

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

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

There is no single customer contributed to 10% or more revenue to the Group's revenue for the years ended December 31, 2017 and 2016.

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.3 Credit risk *(continued)*

Revenue generated from game operation income through game distribution platforms and payment channels representing over 10% of the total revenues of the Group for the years ended December 31, 2017 and 2016 are as follows:

The trade receivables from game distribution platforms and payment channels represented over 10% of trade receivables balances of the Group as of December 31, 2017 and 2016 were as follows:

	Year ended December 31,	
	2017	2016
Game Distribution Platform A	**55.2%**	21.3%
Game Distribution Platform B	**29.8%**	30.5%
Game Distribution Platform C	**9.7%**	33.4%
	94.7%	85.2%

32.4 Liquidity risk

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

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

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

As at 31 December 2017

	Within 3 months or on demand HK$'000	More than 3 months but less than 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Trade payables	2,291	117	113	2,521	2,521
Accrued expenses and other payables	5,794	–	–	5,794	5,794
Amount due to a related company	97	–	–	97	97
	8,182	117	113	8,412	8,412

32. FINANCIAL RISK MANAGEMENT *(continued)*

32.4 Liquidity risk (continued)

As at 31 December 2016

	Within 3 months or on demand HK$'000	More than 3 months but less than 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Trade payables	3,355	9	96	3,460	3,460
Accrued expenses and other payables	4,618	–	–	4,618	4,618
Amount due to a related company	216	–	–	216	216
	8,189	9	96	8,294	8,294

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

33. CAPITAL MANAGEMENT

The Group's capital management objectives include:

(i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;

(ii) to support the Group's stability and growth; and

(iii) to provide capital for the purpose of strengthening the Group's risk management capability.

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

Management regards total equity as capital. The amount of capital as at 31 December 2017 amounted to approximately HK$71,577,000 (2016: HK$90,674,000), which the management considers as optimal having consider the projected capital expenditures and the projected strategic investment opportunities.

34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

A 60% owned subsidiary, GO Studio Limited was newly incorporated on 21 September 2016. The other two non-controlling shareholders of this subsidiary holding the remaining 40% of the equity interest have not yet paid their capital injection of HK$400,000 (2016: HK$400,000). The balance is classified as amounts due from non-controlling shareholders of a subsidiary in the consolidated statement of financial position as at 31 December 2017.

These two non-controlling shareholders involve in the development of games of GO Studio Limited. No costs billed by them were capitalised as addition of intangible assets during the year but was not paid as at 31 December 2017 (2016: HK$56,000).