



gameone

Gameone Holdings Limited
智傲控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8282

Annual Report 2018



正牌
龍虎門
手機版



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Ms. Wong Pui Yain

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

AUDITORS

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

COMPANY SECRETARY

Ms. Tam Kwai Heung (Appointed on 11 May 2018)
Mr. Chan Man Kay (Resigned on 11 May 2018)

AUTHORIZED REPRESENTATIVES

Mr. Lam Kin Fai
Ms. Tam Kwai Heung

COMPLIANCE OFFICER

Mr. Sze Yan Ngai

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPLIANCE ADVISOR

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

LEGAL ADVISORS AS TO HONG KONG LAWS

Bird & Bird
4/F Three Pacific Place
1 Queen's Road East
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 2018.

OVERVIEW

In the 2018 financial year, the Group recorded a net loss of approximately HK\$24.6 million as compared to a net loss of approximately HK\$17.7 million for the same period in 2017. Such increase in net loss is mainly attributable to the recognition of impairment loss on the intangible assets of certain games of the Group due to the write-down of license fees paid for certain games of the Group which launched in the third and fourth quarters and failed to achieve the expected performance level, and one-off royalty bonus from our licensed mobile game, Demi-Gods and Semi Devils (Mobile version) (天龍八部手機版) which was recognized in the second quarter.

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.



CHAIRMAN'S STATEMENT

APPRECIATION

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

Sze Yan Ngai

Chairman and Executive Director

Hong Kong, 22 March 2019



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

For the year ended 31 December 2018, the Group recorded a net loss of approximately HK\$24.6 million as compared to a net loss of approximately HK\$17.7 million for the same period in 2017. The Directors are of the view that the downturn experienced by the Group during this year was mainly attributable to the recognition of impairment loss on the intangible assets of certain games of the Group due to the write-down of license fees paid for certain games of the Group launched in the third and fourth quarters which failed to achieve the expected performance level, one-off royalty bonus from our licensed mobile game, Demi-Gods and Semi Devils (Mobile version) (天龍八部手機版) which was recognized in the second quarter, and increase in cost of sales of royalty expenses and channel fee.

In view of the expected game launch date and in order to increase our competitiveness in mobile games market in Hong Kong and Taiwan, the Board will closely monitor the performance of the Group and the Group will continue to pursue key business strategies to expand its gaming portfolio through introducing more high-quality licensed games with 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.



MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM THE PLACING UPON LISTING

The net proceeds from the Company's placing upon listing on 13 January 2016 (the "**Listing Date**") amounted to approximately HK\$25.6 million. Such net proceeds are intended to be and have been applied in accordance with the proposed applications as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

As of 31 December 2018, the net proceeds had been fully utilized as stated in the annual report of the Company for the financial year ended 31 December 2017.

FINANCIAL REVIEW

Revenue

The Group's revenue was approximately HK\$105.4 million for the year ended 31 December 2018 representing an increase of approximately 32.4% from approximately HK\$79.6 million for the corresponding period in 2017, which was primarily attributable to approximately HK\$28.7 million increase in our game operation income, mainly from our licensed mobile games namely Demi Gods and Semi Devils (Mobile Version) (天龍八部手機版).

MANAGEMENT DISCUSSION AND ANALYSIS

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			
	2018		2017	
	HK\$'000	%	HK\$'000	%
Game operation income				
– Self/co-developed games	9,670	9.2	17,851	22.4
– Licensed games	93,084	88.3	56,169	70.5
Game publishing income				
– Games for publishing	1,794	1.7	5,276	6.6
Income from game operation and publishing	104,548	99.2	79,296	99.5
Royalty income	489	0.5	23	0.1
License fee income	410	0.3	315	0.4
Total	105,447	100	79,634	100.0

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

	For the year ended 31 December			
	2018		2017	
	HK\$'000	%	HK\$'000	%
Mobile games	95,709	90.8	67,111	84.2
Online PC games	8,839	8.4	12,185	15.3
Income from game operation and publishing	104,548	99.2	79,296	99.5
Royalty income	489	0.5	23	0.1
License fee income	410	0.3	315	0.4
Total	105,447	100	79,634	100.0



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of services rendered

The Group's cost of services rendered for the year ended 31 December 2018 was approximately HK\$83.9 million, representing an increase of approximately 57.1% from approximately HK\$53.4 million for the corresponding period in 2017, which was primarily attributable to the combined effect of (i) an approximately HK\$9.7 million increase in channel fees; (ii) an approximately HK\$15.7 million increase in royalty expenses primarily resulted from an increase in our game operation income and one-off royalty bonus from our licensed mobile game, Demi Gods and Semi Devils (Mobile Version) (天龍八部手機版), for the year ended 31 December 2018; and (iii) an approximately HK\$3.6 million increase in amortization of our intangible assets during the year ended 31 December 2018.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2018 was approximately HK\$21.6 million, representing a decrease of approximately 17.9% from approximately HK\$26.3 million for the year ended 31 December 2017, primarily due to an increase in royalty expenses and channel fee of our licensed mobile games. The Group's gross profit margin for the year ended 31 December 2018 was approximately 20.5%, representing decrease of approximately 12.5 percentage points compared to approximately 33.0% for the year ended 31 December 2017. The decrease in the Group's gross profit margin was primarily due to the increase in royalty expenses and channel fee of our licensed mobile games.

Selling expenses

The Group's selling expenses for the year ended 31 December 2018 were approximately HK\$18.9 million, representing a decrease of approximately 9.6% from approximately HK\$20.9 million for the corresponding period in 2017, primarily attributable to a decrease in advertising and promotion expenses.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2018 were approximately HK\$17.2 million, representing a decrease of approximately 5.5% from approximately HK\$18.2 million for the year ended 31 December 2017, primarily attributable to a decrease in legal and professional fees.

Other expenses

The Group's other expenses was approximately HK\$10.9 million for the year ended 31 December 2018 representing an increase of approximately 94.6% from approximately HK\$5.6 million for the corresponding period in 2017, which was mainly attributable to the recognition of impairment loss on the intangible assets of certain games of the Group due to the write-down of license fees paid for certain games of the Group which launched in the third and fourth quarters and failed to achieve the expected performance level.



MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the year

The Group recorded a loss for the year ended 31 December 2018 of approximately HK\$24.6 million as compared with a loss of approximately HK\$17.7 million for the corresponding period in 2017, which was primarily attributable to a decrease of approximately HK\$4.7 million in the gross profit for the year ended 31 December 2018 as a result of an increase in the royalty expenses and channel fee from the Group's licensed mobile games, and one-off royalty bonus from our licensed mobile games, Demi-Gods and Semi Devis (Mobile version) which was recognized in the second quarter. Furthermore, the recognition of impairment loss on the intangible assets of certain games of the Group due to the write-down of license fees paid for certain games of the Group which launched in the third and fourth quarters and failed to achieve the expected performance level.

CAPITAL STRUCTURE

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

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operations primarily through cash generated from our operating activities. During the year ended 31 December 2018, we did not have any bank borrowings. As at 31 December 2018, we had cash and cash equivalents of approximately HK\$45.7 million (31 December 2017: approximately HK\$42.5 million), which were cash at banks and on hand. No banking facility has been arranged by our Group during the year ended 31 December 2018.

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 2018.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

During the year ended 31 December 2018, 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 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

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 2018, we did not have any short-term or long-term bank borrowings.

As at 31 December 2018, the gearing ratio of the Group, calculated as total liabilities, divided by total assets, was approximately 30.9% (31 December 2017: approximately 26.0%).

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 2018, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2017: Nil).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENTS

Our contract commitments mainly involve leases of office properties and acquisition of intangible assets. As at 31 December 2018, the Group's operating leases were approximately HK\$3.3 million (31 December 2017: approximately HK\$2.7 million) and capital commitments for acquisition of intangible assets were approximately HK\$2.4 million (31 December 2017: approximately HK\$4.0 million).

INFORMATION ON EMPLOYEES

As at 31 December 2018, the Group had 69 employees (31 December 2017: 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 2018 amounted to approximately HK\$22.0 million (31 December 2017: approximately HK\$21.1 million). The dedication and hard work of the Group's staff during the year ended 31 December 2018 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 2018, no share option was granted, exercised, expired or lapsed and there was no outstanding share option under the Scheme.



BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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

Executive Directors

Mr. Sze Yan Ngai (“Mr. Sze”), aged 52, was appointed as our Director on 14 April 2010, re-designated as an executive Director and appointed as the chairman of our Board on 30 September 2015. Mr. Sze is primarily responsible for our Group’s overall strategic planning and overseeing the general management of our Group. He joined the predecessor of our Group, Gameone Interactive.com Inc., in April 2000 and had worked as the chief executive officer from January 2003 to November 2013. Mr. Sze is also directors of certain subsidiaries of our Group. Mr. Sze has over 10 years of experience in game operation and development and game magazine publication industry. Mr. Sze is the elder brother of Ms. Sze Ling Ling, the Chief Operation Officer of our Group.

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

Mr. Lam Kin Fai (“Mr. Lam”), aged 34, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Ms. Wong Pui Yain (“Ms. Wong”), aged 40, 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 (“Mr. Yung”), aged 67, 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 (“Dr. Fung”), aged 49, 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.



BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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 (“Mr. Iu”), aged 56, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Sze Ling Ling (“Ms. Sze”), aged 49, 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 (“Ms. Leung”), aged 34, 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.

Ms. Li On Lei (“Ms. Li”), aged 41, was appointed as the financial controller of our Group in June 2015. She is primarily responsible for the handling and overseeing compliance, corporate governance, financial reporting, financial planning and reviewing internal control of our Group. Ms. Li graduated from Leeds Metropolitan University with a Bachelor of Arts (Hons) Degree in Accounting and Finance in June 2003. Prior to joining our Group, Ms. Li has worked in the Audit and Assurance Department of an international accounting firm from July 2004 to May 2015 and her last position was senior manager. Ms. Li is a fellow member of the Association of Chartered Certified Accountants. Ms. Li is currently an independent non-executive director of Goal Forward Holdings Limited (Stock Code: 1854) and Fullwealth Construction Holdings Company Limited (Stock Code: 1034).

Ms. Tam Kwai Heung (“Ms. Tam”), aged 36, was appointed as company secretary and authorized representative of our Group on 11 May 2018. Ms. Tam holds a Bachelor of Arts in Accountancy from The Hong Kong Polytechnic University in 2006. She is a fellow of the Hong Kong Institute of Certified Public Accountants. Ms. Tam has over 11 years of experience in auditing, accounting and financial reporting.



CORPORATE GOVERNANCE REPORT

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the “**Code**”) as set out in Appendix 15 to the GEM Listing Rules. During the year ended 31 December 2018, 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.



CORPORATE GOVERNANCE REPORT

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 2018, 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 41 to 46 of this annual report.

Composition

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

Executive Directors

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

Non-executive Director

Ms. Wong Pui Yain

Independent non-executive Directors

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

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 13 to 16 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.



CORPORATE GOVERNANCE REPORT

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, Lam and Ms. Wong will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on 6 May 2019 pursuant to article 16.18 of our articles of association. Mr. Lam and Ms. Wong, 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. Lam as an executive Director, and Ms. Wong as a 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 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.



CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, the Company has provided and all Director 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 annual report.

Remuneration Committee

The Remuneration Committee was established on 23 December 2015. The chairman of the Remuneration Committee is Mr. Yung, our independent non-executive Director, and other members include Dr. Fung and Mr. Lu, our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the 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 2018.



CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee was established on 23 December 2015. The chairman of the Nomination Committee is Mr. Sze, our chairman and executive Director, and other members include Mr. Yung, Dr. Fung and Mr. Lu, our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the 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. Lu, our independent non-executive Director, and other members include Mr. Yung and Dr. Fung, our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the 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, the majority of the members of the Audit Committee must be independent non-executive Directors and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise.

The Group's consolidated financial statements for the year ended 31 December 2018 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 2018 comply with applicable accounting standards, GEM Listing Rules and the Hong Kong Companies Ordinance and adequate disclosures have been made.

During the year, the Audit Committee held four meetings to review and comment in the Company's 2017 annual results, 2018 interim results and quarterly results as well as the Company's material control procedures and risk management system.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF MEETINGS

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

Subsequent to the year ended 31 December 2018, one more Board meeting was held on 22 March 2019. The forthcoming annual general meeting will be held on 6 May 2019.

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 2018:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	2018 Annual General Meeting
	Number of Meetings Attended/Held				
Executive Directors					
Mr. Sze Yan Ngai	5/5			1/2	1/1
Mr. Lam Kin Fai	5/5				1/1
Non-executive Director					
Ms. Wong Pui Yain	4/5				0/1
Independent non-executive Directors					
Mr. Yung Kai Tai	5/5	4/4	1/1	2/2	1/1
Dr. Fung Ying Him Anthony	5/5	4/4	1/1	2/2	1/1
Mr. Lu Tak Meng Teddy	5/5	4/4	1/1	1/2	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.



CORPORATE GOVERNANCE REPORT

Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are opened for inspection as requested by 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 Ms. Tam as its Company Secretary on 11 May 2018.

For the year ended 31 December 2018, Ms. Tam undertook no less than 15 hours of relevant professional training to update her skill and knowledge.

BOARD DIVERSITY POLICY

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

Summary of the Board Diversity Policy

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

Measurable Objectives

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

Monitoring and reporting

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

NOMINATION POLICY

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

Summary of the Nomination Policy

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



CORPORATE GOVERNANCE REPORT

Measurable Objectives

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

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

Monitoring and Reporting

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

Review of Nomination Policy

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

DISCLOSURE OF THIS POLICY

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



CORPORATE GOVERNANCE REPORT

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

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

DIVIDEND POLICY

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

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



CORPORATE GOVERNANCE REPORT

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

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

INDEPENDENT AUDITORS' REMUNERATION

BDO Limited is appointed as the external auditor of the Company. The fee paid and payable in respect of audit services and non-audit services amounted to HK\$520,000 and HK\$80,000 respectively for the year ended 31 December 2018.

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 2018, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the year ended 31 December 2018, 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.



CORPORATE GOVERNANCE REPORT

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

OUR RISK CONTROL MECHANISM

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

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

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.



CORPORATE GOVERNANCE REPORT

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 2018, 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 2018.

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 2018.

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 2018.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in the Cayman Island. The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries are engaged in development, operation and publishing of mobile games and online PC games in Hong Kong and Taiwan. Details of the principal activities of its subsidiaries are set out in note 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 area of operations for the year ended 31 December 2018 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 47 to 105. The Directors do not recommended the payment of a final dividend for the year ended 31 December 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Monday, 6 May 2019 (the "AGM"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 30 April 2019 to Monday, 6 May 2019, 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 Monday, 29 April 2019.

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 40. 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 2018 amounted to approximately HK\$3,000 (31 December 2017: 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 2018 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 2018, the aggregate amount of reserves available for distribution to owners of the Company was approximately HK\$35,102,000.

MAJOR CUSTOMERS AND SUPPLIERS

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



DIRECTORS' REPORT

During the year ended 31 December 2018, 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 60.1% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 22.1%.

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 annual report were as follows:

Executive Directors

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

Non-executive Director

Ms. Wong Pui Yain

Independent non-executive Directors

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

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

PERMITTED INDEMNITY PROVISION

Every Director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him 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 13 to 16 of the annual 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 2018 are set out in note 4.15(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.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

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

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

As at 31 December 2018, 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 Advisor 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares and underlying Shares

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

Notes:

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

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors or chief executives of the Company, as at 31 December 2018, 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:

DIRECTORS' REPORT

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 (<i>Note 1</i>)	Interest of controlled corporation	66,787,235	41.74%
PCIL (<i>Note 2</i>)	Beneficial owner	66,787,235	41.74%
PC Asia (<i>Note 2</i>)	Interest of controlled corporation	66,787,235	41.74%
Mrs. Sze (<i>Note 3</i>)	Interest of controlled corporation/ Interest of spouse	29,004,337	18.13%
Right One (<i>Note 4</i>)	Beneficial owner	29,004,337	18.13%
Nineyou International Limited (<i>Note 5</i>)	Beneficial owner	18,367,182	11.48%
New Horizon Capital, L.P. (<i>Note 5</i>)	Interest of controlled corporation	18,367,182	11.48%
Heartland Investment Limited (<i>Note 5</i>)	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. Mrs. Sze is the spouse of Mr. Sze. By virtue of the SFO, Mrs. Sze is deemed to be interested in the Shares in which Right One and Mr. Sze are interested.
- (4) Right One is beneficially owned by Mr. Sze as to 50% and Mrs. Sze as to 50%.
- (5) Based on the information provided by Nineyou International Limited ("**NYIL**"), NYIL is beneficially owned by Heartland Investment Limited as to approximately 44.44%, Wollerton Investments Pte. Ltd. as to approximately 18.96%, Fair Gold International Limited as to approximately 15.61%, Everstar Overseas Holding Ltd. as to approximately 10.04%, Star Fortune Overseas Holding Limited as to approximately 8.0% and Hongxin International Holdings Limited as to approximately 2.95%, all of whom being independent third parties. Wollerton Investments Pte. Ltd. is owned as to approximately 82.36% by Heartland Investment Limited. Heartland Investment Limited is wholly owned by New Horizon Capital, L.P. which is also an independent third party.

Save as disclosed above, as at 31 December 2018, there was no person or corporation, other than the Directors and chief executive of the Company whose interests are set out in the section “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debenture of the Company” above, had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

NON-COMPETITION UNDERTAKINGS

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

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

During the year ended 31 December 2018, 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 17 to 30 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

EQUITY LINKED AGREEMENTS

Save as disclosed in the note 26 to the financial statement, no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2018 or subsisted at the end of the year.



DIRECTORS' REPORT

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 2016, 2017 and 2018 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, 22 March 2019

SUMMARY OF FINANCIAL INFORMATION

	For the year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total revenue	105,447	79,634	79,612	118,181	78,668
Profit/(Loss) before income tax	(24,634)	(17,947)	(9,912)	7,416	10,070
Profit/(Loss) for the year	(24,634)	(17,705)	(8,812)	3,098	7,040
Total comprehensive income for the year	(24,221)	(19,097)	(9,018)	3,721	7,684
Total assets	68,488	96,730	111,101	90,245	70,279
Total liabilities	21,132	25,153	20,427	33,597	20,352
Total equity and liabilities	68,488	96,730	111,101	90,245	70,279
Net current assets	37,537	48,086	72,309	34,004	30,045
Total assets less current liabilities	47,356	71,577	90,916	56,920	50,091



INDEPENDENT AUDITOR'S REPORT



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

OPINION

We have audited the consolidated financial statements of Gameone Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on pages 41 to 105, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Impairment assessment of intangible Assets

Refer to note 5 and 14 to the consolidated financial statements

The carrying amount of the Group's intangible assets was HK\$8,080,000 as at 31 December 2018. An impairment loss of HK\$4,754,000 was recognised for the year ended 31 December 2018. In performing the impairment assessment of intangible assets, the management determined the recoverable amounts with reference to the value-in-use calculations based on cash flow forecasts. Estimations of the recoverable amounts are dependent on certain key assumptions that require significant management judgment for the underlying cash flow forecasts. Favorable or unfavorable changes to these assumptions would result in change in the recoverable amounts of the intangible assets and hence the amount of the impairment loss recognized for the year and the carrying amount of the intangible assets as at 31 December 2018.

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

Our response:

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

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



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Estimates of the Player Relationship Period

Refer to note 4.10 and 21 to the consolidated financial statements

As described in note 4.10 and 21, the Group recognises revenue from durable in-game virtual items ratably over the Player Relationship Period. If the Group does not possess relevant data and information to differentiate revenue attributable to durable in-game virtual items from consumable in-game virtual items for a specific game, the Group recognises revenue for that game ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment.

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

Our response:

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

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



INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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.



INDEPENDENT AUDITOR'S REPORT

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

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

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



INDEPENDENT AUDITOR'S REPORT

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

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

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

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

BDO Limited

Certified Public Accountants

Lo Ngai Hang

Practising Certificate number P04743

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	7	105,447	79,634
Cost of services rendered		<u>(83,883)</u>	<u>(53,351)</u>
Gross profit		21,564	26,283
Other income	7	777	418
Selling expenses		(18,920)	(20,897)
Administrative expenses		(17,176)	(18,197)
Other expenses		<u>(10,879)</u>	<u>(5,554)</u>
Loss before income tax	8	(24,634)	(17,947)
Income tax credit	9	–	242
Loss for the year		<u>(24,634)</u>	<u>(17,705)</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of financial statements of foreign operations		413	(1,392)
Other comprehensive income for the year		<u>413</u>	<u>(1,392)</u>
Total comprehensive income for the year		<u>(24,221)</u>	<u>(19,097)</u>
Loss for the year attributable to:			
Owners of the Company		(24,340)	(17,703)
Non-controlling interests		<u>(294)</u>	<u>(2)</u>
		<u>(24,634)</u>	<u>(17,705)</u>
Total comprehensive income attributable to:			
Owners of the Company		(23,927)	(19,095)
Non-controlling interests		<u>(294)</u>	<u>(2)</u>
		<u>(24,221)</u>	<u>(19,097)</u>
		2018	2017
		HK\$	HK\$
Losses per share	11		
– Basic and Diluted		<u>(0.15)</u>	<u>(0.11)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	1,739	3,375
Intangible assets	14	8,080	20,116
		<u>9,819</u>	<u>23,491</u>
Current assets			
Inventories	17	23	26
Trade receivables	18	5,137	14,094
Prepayments, deposits and other receivables	19	7,727	16,162
Amounts due from non-controlling shareholders of a subsidiary	22	–	400
Tax recoverable		98	98
Cash at banks and on hand		45,684	42,459
		<u>58,669</u>	<u>73,239</u>
Current liabilities			
Trade payables	20	3,744	2,521
Accrued expenses and other payables	21	5,671	5,794
Deferred income	21	–	16,741
Contract liabilities	21	11,674	–
Amount due to a related company	22	43	97
		<u>21,132</u>	<u>25,153</u>
Net current assets		<u>37,537</u>	<u>48,086</u>
Total assets less current liabilities		<u>47,356</u>	<u>71,577</u>
Non-current liabilities			
Deferred taxation	23	–	–
Net assets		<u>47,356</u>	<u>71,577</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
EQUITY			
Share capital	24	1,600	1,600
Reserves	25	45,656	69,583
Equity attributable to the Company's owners		47,256	71,183
Non-controlling interests		100	394
Total equity		47,356	71,577

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 2018

	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 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 and 1 January 2018	1,600	41,129	71,458	110	(43,114)	394	71,577
Loss for the year	-	-	-	-	(24,340)	(294)	(24,634)
Exchange difference on translation of financial statements of foreign operations	-	-	-	413	-	-	413
Other comprehensive income for the year	-	-	-	413	-	-	413
Total comprehensive income for the year	-	-	-	413	(24,340)	(294)	(24,221)
At 31 December 2018	1,600	41,129	71,458	523	(67,454)	100	47,356

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities			
Loss before income tax		(24,634)	(17,947)
Adjustments for:			
Depreciation of property, plant and equipment	8	2,156	2,196
Amortisation of intangible assets	8	9,050	5,453
Written off of prepayments and receivables	8	5,575	–
Written off of amounts due from non-controlling shareholders of a subsidiary		400	–
Bank interest income	7	(116)	(9)
Loss on disposal of property, plant and equipment	8	149	10
Impairment on intangible assets	8	4,754	5,544
<i>Operating loss before working capital changes</i>		(2,666)	(4,753)
Decrease in inventories		3	12
Decrease/(increase) in trade receivables		8,957	(8,566)
Decrease/(increase) in prepayments, deposits and other receivables		2,860	(6,431)
Increase/(decrease) in trade payables		1,223	(939)
(Decrease)/increase in accrued expenses and other payables		(105)	1,176
Decrease in contract liabilities		(5,085)	–
Increase in deferred income		–	4,850
Decrease in amount due to a related company		(54)	(119)
<i>Cash generated from/(used in) operations</i>		5,133	(14,770)
Income tax refund		–	546
<i>Net cash generated from/(used in) operating activities</i>		5,133	(14,224)
Cash flows from investing activities			
Payments for acquisition of intangible assets		(1,768)	(16,144)
Purchase of property, plant and equipment		(697)	(1,902)
Interest received		116	9
<i>Net cash used in investing activities</i>		(2,349)	(18,037)
Net increase/(decrease) in cash and cash equivalents		2,784	(32,261)
Cash and cash equivalents at beginning of year		42,459	76,209
Effect of foreign exchange rates changes		441	(1,489)
Cash and cash equivalents at end of year		45,684	42,459
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		45,684	42,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

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

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

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 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (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.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

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.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

HKFRS 9 Financial Instruments (“HKFRS 9”)

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated interim financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss (“**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. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (continued)

HKFRS 9 Financial Instruments (“HKFRS 9”) (continued)

(i) Classification and measurement of financial instruments (continued)

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“**amortised costs**”); (ii) financial assets at fair value through other comprehensive income (“**FVOCI**”); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “**SPPI criterion**”). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group’s financial assets as follows:

Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (continued)

HKFRS 9 Financial Instruments (“HKFRS 9”) (continued)

(i) Classification and measurement of financial instruments (continued)

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group’s financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK\$’000	Carrying amount as at 1 January 2018 under HKFRS 9 HK\$’000
Amounts due from non-controlling shareholders of a subsidiary	Loans and receivables	Amortised cost	400	400
Deposits and other receivables	Loans and receivables	Amortised cost	1,071	1,071
Trade receivables	Loans and receivables	Amortised cost	14,094	14,094
Cash and cash equivalents	Loans and receivables	Amortised cost	42,459	42,459

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “incurred loss model” to the “expected credit losses (“ECLs”) model”. HKFRS 9 requires the Group to recognised ECL for trade receivables and financial assets at amortised costs earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

No additional impairment for trade and other receivables as at 1 January 2018 is recognised as the amount of additional impairment measured under the ECLs model is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (continued)

HKFRS 9 Financial Instruments (“HKFRS 9”) (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

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

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

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises a lifetime ECLs for all trade receivables. To measure the ECLs, these receivables have been grouped based on shared credit risk characteristics and the days past due. No additional impairment for these receivables as at 1 January 2018 and 31 December 2018 is recognised as the amount of additional impairment measured under the ECLs model is insignificant.

Other financial assets at amortised cost of the Group including other receivables and amount due from non-controlling shareholders of a subsidiary. No additional impairment for these financial assets as at 1 January 2018 and 31 December 2018 is recognised as the amount of additional impairment measured under the ECLs model is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (continued)

HKFRS 9 Financial Instruments (“HKFRS 9”) (continued)

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the “DIA”):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”)

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method with practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

Under HKFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact of HKFRS 15 on the revenue recognition may take into consideration when multiple performance obligations are identified. Based on its assessment, the Group has not identified multiple performance obligations and has no material impact upon adoption of HKFRS 15 to the financial statements other than the presentation of additional disclosure.

Details of the new significant accounting policies in relation to the Group’s various goods and services are set out in Note 4.10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2018 (continued)

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

Amendments to HKAS 40– Transfers of Investment Property

Amendments to HKAS 40, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

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.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

(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.

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁵
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

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

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 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 than 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 2018, the Group has non-cancellable operating lease commitments of approximately HK\$3,346,000 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 in changes in measurement, presentation and disclosure as indicated above.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

Amendments to HKFRS 3 – Definition of a Business

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

Amendments to HKAS 1 and HKAS 8 – Definition of Material

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

Amendments to HKAS 28

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 17 – Insurance Contracts

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

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

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

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

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurements

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

(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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

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

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

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

4.2 Subsidiaries

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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
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(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

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

Debt instruments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.6 Financial instruments (accounting policies applied from 1 January 2018) *(continued)*

(ii) Impairment loss on financial assets

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial instruments (accounting policies applied from 1 January 2018) (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.

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

(vi) Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.7 Financial instruments (accounting policies applied until 31 December 2017)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.7 Financial instruments (accounting policies applied until 31 December 2017) (*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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.8 Inventories

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

4.9 Cash and cash equivalents

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

4.10 Revenue recognition (accounting policies applied from 1 January 2018)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.10 Revenue recognition (accounting policies applied from 1 January 2018) *(continued)*

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

Principal agent consideration

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

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

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

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

Recognition of revenue generated from operations of online and mobile games

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.10 Revenue recognition (accounting policies applied from 1 January 2018) *(continued)*

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

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

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

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

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

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

(ii) Revenue generated from game publishing services

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Revenue recognition (accounting policies applied from 1 January 2018) (continued)

(iii) Licensing and royalty income

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

(iv) Interest income

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

(v) Contract assets and contract liabilities

A contract assets is a vendor's right to consideration in exchange goods or services that the vendor has transferred to a customer, when that right is conditional on the vendor's future performance. A receivable is a vendor's unconditional right to consideration, and is accounted for in accordance with HKFRS 15. As at 31 December 2018, the Group did not have contract assets.

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

Summary of effects arising from initial application of HKFRS 15

	Note	Carrying amounts previously reported at 31 December 2017 HK\$000	Reclassification HK\$000	Carrying amounts HKFRS 15 at 1 January 2018 HK\$000
Consolidated statement of financial position (extract)				
Current liabilities:				
Accrued expenses and other payables	(a)	5,794	(18)	5,776
Deferred income	(a)	16,741	(16,741)	-
Contract liabilities	(a)	-	16,759	16,759
		<u>22,535</u>	<u>-</u>	<u>22,535</u>

Note:

(a) As at 1 January 2018, accrued expenses and other payables and deferred income of HK\$18,000 and HK\$16,741,000 respectively, previously included in current liabilities were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flow for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Revenue recognition (accounting policies applied from 1 January 2018) (continued)

(v) Contract assets and contract liabilities (continued)

Impact of on consolidated statement of financial position

	As reported HK\$000	Adjustments HK\$000	Amounts without application of HKFRS 15 HK\$000
Consolidated statement of financial position (extract)			
Current liabilities:			
Accrued expenses and other payables	5,671	3,860	9,531
Deferred income	–	7,814	7,814
Contract liabilities	<u>11,674</u>	<u>(11,674)</u>	<u>–</u>

Impact on the consolidated statement of cash flows

	As reported HK\$000	Adjustments HK\$000	Amounts without application of HKFRS 15 HK\$000
Operating activities			
Decrease in contract liabilities	(5,085)	(5,085)	–
Increase in accrued expenses and other payables	–	3,842	3,842
Decrease in deferred income	<u>–</u>	<u>(8,927)</u>	<u>(8,927)</u>

Except as described above, the application of HKFRS 15 has had no material impact on the amounts report set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4.11 Revenue recognition (accounting policies applied until 31 December 2017)

(i) *Operations 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.11 Revenue recognition (accounting policies applied until 31 December 2017) *(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.

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.

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**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.11 Revenue recognition (accounting policies applied until 31 December 2017) *(continued)*

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

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.

The promise to grant a licence to a customer is not distinct from other promised goods or services in the same contract. The Group accounting for the promise as a single performance obligation.

(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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.12 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.

4.13 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.14 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.

4.15 Employee benefits

(i) *Bonus*

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

(ii) *Defined contribution retirement plan*

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.15 Employee benefits *(continued)*

(ii) Defined contribution retirement plan (continued)

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.

4.16 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.

4.17 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

4.17 Related parties *(continued)*

- (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.

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.

4.18 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Estimates of the Player Relationship Period

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

Recognition of contracts liabilities

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

Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 game operation income and license fee income are recognized over time while the game publishing income is recognized at a point in time.

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

Geographical information

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

	2018 HK\$'000	2017 HK\$'000
By country/region		
Hong Kong (place of domicile)	96,231	72,024
Taiwan	9,025	7,365
Others	191	245
	<u>105,447</u>	<u>79,634</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

Non-current assets

	2018 HK\$'000	2017 HK\$'000
By country/region		
Hong Kong (place of domicile)	9,450	22,388
Taiwan	366	1,091
PRC	3	12
	<u>9,819</u>	<u>23,491</u>

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

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

	2018 HK\$'000	2017 HK\$'000
Revenue from contracts with customer within scope of HKFRS 15:		
Game operation income	102,754	74,020
Game publishing income	1,794	5,276
Royalty income	489	23
License fee income	410	315
	<u>105,447</u>	<u>79,634</u>
Other income		
Interest income	116	9
Other income	661	409
	<u>777</u>	<u>418</u>
	<u>106,224</u>	<u>80,052</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. LOSS BEFORE INCOME TAX

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

	2018 HK\$'000	2017 HK\$'000
<i>Under cost of services rendered:</i>		
Amortisation of intangible assets (note 14)	9,050	5,453
Royalty expenses	33,079	17,370
Services charged by game distribution channels	25,912	16,246
<i>Under administrative expenses:</i>		
Auditor's remuneration	607	606
Exchange losses/(gain), net	297	(71)
Operating lease charges	2,556	3,181
<i>Under other expenses:</i>		
Impairment on intangible assets (note 14)	4,754	5,544
Loss on disposal of property, plant and equipment	149	10
Written off of prepayments	5,575	–
Depreciation of property, plant and equipment (note 13):		
– Under cost of services rendered	1,188	1,072
– Under administrative expenses	968	1,124
	2,156	2,196
Staff costs excluding Directors' remuneration (note 12):		
– Salaries and allowances	15,608	14,255
– Contributions on defined contribution retirement plan	1,331	1,142
– Discretionary bonuses	835	993
	17,774	16,390

No depreciation was included in the cost of research and development for the year ended 31 December 2018 (2017: Nil). The salaries included in the cost of research and development for the year ended 31 December 2018 amounted to approximately HK\$6,722,000 (2017: approximately HK\$5,791,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. INCOME TAX CREDIT

	2018 HK\$'000	2017 HK\$'000
Current tax – Hong Kong Profits Tax		
– Tax for the year	–	–
– Over provision in prior years	–	–
	–	–
Current tax – PRC Tax		
– Tax for the year	–	–
	–	–
Deferred tax (note 23)	–	(242)
Income tax credit	–	(242)

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

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

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

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

	2018 HK\$'000	2017 HK\$'000
Loss before income tax	<u>(24,634)</u>	<u>(17,947)</u>
Tax on loss before income tax, calculated at rates applicable to profits in the tax jurisdictions concerned	(3,937)	(2,961)
Tax effect of non-deductible expenses	85	379
Tax effect of non-taxable revenue	(2)	(5)
Tax effect of tax losses not recognised	3,803	2,309
Utilisation of tax losses previously not recognised	–	36
Other	51	–
Income tax credit	<u>–</u>	<u>(242)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. DIVIDENDS

No dividends have been paid or declared by the Company or any of the subsidiaries during the year (2017: 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 (2017: 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 2018 (2017: 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 2018					
<i>Executive Directors:</i>					
Sze Yan Ngai	-	946	2,000	18	2,964
Lam Kin Fai	-	615	39	18	672
<i>Non-executive Director:</i>					
Wong Pui Yain	-	150	-	-	150
<i>Independent Non-executive Directors:</i>					
Yung Kai Tai	-	150	-	-	150
Fung Ying Him Anthony	-	150	-	-	150
Iu Tak Meng Teddy	-	150	-	-	150
	-	2,161	2,039	36	4,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2017					
<i>Executive Directors:</i>					
Sze Yan Ngai	-	1,402	2,000	18	3,420
Lam Kin Fai	-	579	47	18	644
<i>Non-executive Directors:</i>					
Wong Pui Yain	-	150	-	-	150
Hong Ming Sang	-	65	-	-	65
<i>Independent Non-executive Directors:</i>					
Yung Kai Tai	-	150	-	-	150
Fung Ying Him Anthony	-	150	-	-	150
Lu Tak Meng Teddy	-	150	-	-	150
	<u>-</u>	<u>2,646</u>	<u>2,047</u>	<u>36</u>	<u>4,729</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: 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 (2017: 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:

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and benefits in kind	1,374	1,375
Discretionary bonus	62	81
Retirement benefits – defined contribution plans	54	54
Total	<u>1,490</u>	<u>1,510</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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	
	2018	2017
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	–	–
	<u>3</u>	<u>3</u>

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

Senior management's emoluments

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

	Number of the individuals	
	2018	2017
Nil – HK\$1,000,000	<u>2</u>	<u>2</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018					
Opening net carrying amount	680	216	2,084	395	3,375
Additions	541	85	71	-	697
Depreciation	(629)	(90)	(1,188)	(249)	(2,156)
Written off	(113)	(36)	-	-	(149)
Exchange adjustment	-	(11)	(17)	-	(28)
Closing net carrying amount	<u>479</u>	<u>164</u>	<u>950</u>	<u>146</u>	<u>1,739</u>
As at 31 December 2018					
Cost	1,254	299	14,551	1,151	17,255
Accumulated depreciation	<u>(775)</u>	<u>(135)</u>	<u>(13,601)</u>	<u>(1,005)</u>	<u>(15,516)</u>
Net carrying amount	<u>479</u>	<u>164</u>	<u>950</u>	<u>146</u>	<u>1,739</u>
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	<u>680</u>	<u>216</u>	<u>2,084</u>	<u>395</u>	<u>3,375</u>
As at 31 December 2017					
Cost	1,807	556	16,567	1,151	20,081
Accumulated depreciation	<u>(1,127)</u>	<u>(340)</u>	<u>(14,483)</u>	<u>(756)</u>	<u>(16,706)</u>
Net carrying amount	<u>680</u>	<u>216</u>	<u>2,084</u>	<u>395</u>	<u>3,375</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. INTANGIBLE ASSETS

	HK\$'000
Year ended 31 December 2018	
Opening net carrying amount	20,116
Additions	1,768
Amortisation	(9,050)
Impairment	(4,754)
Exchange adjustment	-
Closing net carrying amount	<u>8,080</u>
As at 31 December 2018	
Cost	51,289
Accumulated amortisation	<u>(43,209)</u>
Closing net carrying amount	<u>8,080</u>
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	<u>20,116</u>
As at 31 December 2017	
Cost	51,795
Accumulated amortisation	<u>(31,679)</u>
Closing net carrying amount	<u>20,116</u>

The intangible assets represented licenses with finite useful life.

For the year ended 31 December 2018, an impairment loss of approximately HK\$4,754,000 (2017: HK\$5,544,000) (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% (2017: 11%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2018 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	16	<u>5,362</u>	<u>5,362</u>
Current assets			
Prepayments, deposits and other receivables		117	100
Cash at banks and on hand		20,170	21,653
Amount due from a subsidiary		<u>16,730</u>	<u>16,721</u>
		<u>37,017</u>	<u>38,474</u>
Current liabilities			
Accrual and other payables		382	277
Amount due to a subsidiary		<u>19</u>	<u>19</u>
		<u>401</u>	<u>296</u>
Net current assets		<u>36,616</u>	<u>38,178</u>
Net assets		<u>41,978</u>	<u>43,540</u>
EQUITY			
Share capital	24	1,600	1,600
Reserves	25	<u>40,378</u>	<u>41,940</u>
Total equity		<u>41,978</u>	<u>43,540</u>

On behalf of the Directors

Sze Yan Ngai
Director

Lam Kin Fai
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2018 are as follows:

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. TRADE RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	<u>5,137</u>	<u>14,094</u>

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

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

	2018 HK\$'000	2017 HK\$'000
Not more than 30 days	4,478	11,233
30-60 days	577	2,624
Over 60 days	<u>82</u>	<u>237</u>
	<u>5,137</u>	<u>14,094</u>

At each reporting date, the Group reviews receivables for evidence of impairment on both individual and collective basis. During the year ended 31 December 2018, the Group has no written off trade receivables (2017: Nil) directly to the profit or loss for the year. None of the trade receivables as at 31 December 2018 (2017: 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

	2018 HK\$'000	2017 HK\$'000
Prepayments	6,337	15,091
Deposits	561	804
Other receivables	<u>829</u>	<u>267</u>
	<u>7,727</u>	<u>16,162</u>

20. TRADE PAYABLES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. ACCRUED EXPENSES, OTHER PAYABLES, DEFERRED INCOME AND CONTRACT LIABILITIES

	2018 HK\$'000	2017 HK\$'000
Accrued expenses	4,114	4,484
Other payables	1,557	1,292
Receipt in advance	–	18
	<u>5,671</u>	<u>5,794</u>
Deferred income	–	16,741
	<u>5,671</u>	<u>22,535</u>

CONTRACT LIABILITIES

	31.12.2018 HK\$'000	1.1.2018* HK\$'000
Receipt in advance	3,860	18
Deferred income	7,814	16,741
	<u>11,674</u>	<u>16,759</u>

* The amounts in this column are after the adjustments from the application of HKFRS 15.

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

The Directors consider that the carrying amounts of accrued expenses, other payables and contract liabilities 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	2018 HK\$'000	2017 HK\$'000
Innepage Limited	(i) & (ii)	–	200
Tommo Inc.	(i) & (ii)	–	200
		<u>–</u>	<u>400</u>

(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.

b) Amount due to a related company

	2018 HK\$'000	2017 HK\$'000
Suzhou Snail Digital Technology Company Limited	<u>43</u>	<u>97</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. DEFERRED TAXATION

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

	2018 HK\$'000	2017 HK\$'000
<u>Accelerated tax depreciation</u>		
At beginning of year	-	242
Credit for the year (note 9)	-	(242)
At ending of year	-	-

As at 31 December 2018, the Taiwan branch has unused tax losses of approximately HK\$15,139,000 (2017: HK\$13,203,000) 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 2018, 漫遊移動科技(深圳)有限公司 has unused tax losses of approximately HK\$6,509,000 (2017: 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 2018, the Group excluding Taiwan branch and 漫遊移動科技(深圳)有限公司 has unused tax losses of approximately HK\$45,915,000 (2017: HK\$25,104,000) 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

	2018 Number	2018 HK\$'000	2017 Number	2017 HK\$'000
Ordinary shares	<u>160,000,000</u>	<u>1,600</u>	<u>160,000,000</u>	<u>1,600</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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	Other reserve	Accumulated losses	Total reserve
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	41,129	5,276	(2,324)	44,081
Loss for the year	—	—	(2,141)	(2,141)
At 31 December 2017 and 1 January 2018	41,129	5,276	(4,465)	41,940
Loss for the year	—	—	(1,562)	(1,562)
At 31 December 2018	<u>41,129</u>	<u>5,276</u>	<u>(6,027)</u>	<u>40,378</u>

Share premium

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

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 Capitalization Issue and the Placing. Options lapsed in accordance with the terms of the Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

No share options were granted under the Scheme during the year. At 31 December 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. RELATED PARTY TRANSACTIONS

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

	Notes	2018 HK\$'000	2017 HK\$'000
Royalty expenses paid to:			
Suzhou Snail Digital Technology Company Limited	(i)	319	1,386
Game development services fee paid to:			
Innpage Limited	(ii)	-	162
		<u> </u>	<u> </u>

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 Innpage 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

	2018 HK\$'000	2017 HK\$'000
Total remuneration of Directors and other members of key management during the year was as follows:		
Fees, salaries and staff welfare benefits	4,173	4,384
Discretionary bonus	2,111	2,143
Total short-term employee benefits	<u>6,284</u>	<u>6,527</u>
Defined contribution plans (post employment benefits)	<u>121</u>	<u>107</u>
	<u>6,405</u>	<u>6,634</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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:

	2018 HK\$'000	2017 HK\$'000
Within one year	1,987	2,378
In the second to fifth years	1,359	319
	<u>3,346</u>	<u>2,697</u>

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

	2018 HK\$'000	2017 HK\$'000
Contracted but not provided for – Acquisition of intangible assets	<u>2,355</u>	<u>4,017</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

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

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Loans and receivables:		
Trade receivables	5,137	14,094
Deposits	561	804
Amounts due from non-controlling shareholders of a subsidiary	–	400
Cash at banks and on hand	45,684	42,459
	<u>51,382</u>	<u>57,757</u>
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	3,744	2,521
Accrued expenses and other payables	5,671	5,794
Amount due to a related company	43	97
	<u>9,458</u>	<u>8,412</u>

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 arises.

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

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.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

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

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

The credit quality of the amounts due from related parties and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The Directors are of the opinion that the credit risk of other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2018.

There is no single customer contributed to 10% or more revenue to the Group's revenue for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 31 December 2018 and 2017 are as follows:

The trade receivables from game distribution platforms and payment channels represented over 10% of trade receivables balances of the Group as of 31 December 2018 and 2017 were as follows:

	2018	2017
Game Distribution Platform A	35.9%	55.2%
Game Distribution Platform B	45.0%	29.8%
Game Distribution Platform C	11.7%	9.7%
	<u>92.6%</u>	<u>94.7%</u>

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 2018

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. FINANCIAL RISK MANAGEMENT (continued)

32.4 Liquidity risk (continued)

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
	<u>8,182</u>	<u>117</u>	<u>113</u>	<u>8,412</u>	<u>8,412</u>

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

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 2018 amounted to approximately HK\$47,356,000 (2017: HK\$71,577,000), which the management considers as optimal having consider the projected capital expenditures and the projected strategic investment opportunities.

34. SUBSEQUENT EVENT

As detailed in the Company's announcement dated 19 March 2019, a wholly-owned subsidiary of the Company has entered into an exclusive license agreement with a third party in January 2019, pursuant to which this wholly-owned subsidiary was granted a regional exclusive comic adaptation rights and exclusive games development rights of a TV series.