LE YOU

LEYOU TECHNOLOGIES HOLDINGS LIMITED

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

Annual Report
2017

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Xu Yiran *(Chief Executive Officer and Chairman)*
(Re-appointed as Executive Director and appointed as Chairman on 5 September 2017)
Mr. Gu Zhenghao
Mr. Cao Bo *(Appointed on 5 September 2017)*
Mr. Lin Qinglin *(Chairman)*
(Resigned on 5 September 2017)
Mr. Wu Shiming *(Resigned on 5 September 2017)*

Non-Executive Directors

Mr. Eric Todd
Mr. Cheng Chi Ming Brian
(Appointed on 5 September 2017)
Mr. Li Zhigang *(Appointed on 5 September 2017)*

Independent Non-Executive Directors

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*

AUDIT COMMITTEE

Mr. Hu Chung Ming *(Chairman)*
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*

REMUNERATION COMMITTEE

Mr. Hu Chung Ming *(Chairman)*
Mr. Chan Chi Yuen
Mr. Xu Yiran *(Appointed on 5 September 2017)*
Mr. Lin Qinglin *(Resigned on 5 September 2017)*

NOMINATION COMMITTEE

Mr. Xu Yiran *(Chairman) (Appointed on 5 September 2017)*
Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Lin Qinglin *(Chairman)*
(Resigned on 5 September 2017)

COMPANY SECRETARY

Mr. Chan Siu Tak *(Appointed on 5 September 2017)*
Mr. Yau Yan Ming Raymond
(Resigned on 5 September 2017)

AUTHORISED REPRESENTATIVES

Mr. Xu Yiran *(Appointed on 5 September 2017)*
Mr. Chan Siu Tak *(Appointed on 5 September 2017)*
Mr. Wu Shiming *(Resigned on 5 September 2017)*
Mr. Yau Yan Ming Raymond
(Resigned on 5 September 2017)

LEGAL ADVISORS AS TO HONG KONG LAW

MinterEllison
Level 25, One Pacific Place,
88 Queensway, Admiralty,
Hong Kong

AUDITORS

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

STOCK CODE

1089

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.leyoutech.com.hk

Financial Highlights

	For the year ended 31 December		
	2017	2016	Change
	(US$'000)	(US$'000)	%
		(Restated)	
From continuing operations			
Revenue	**166,736**	111,802	+49%
Gross profit	**110,774**	72,571	+53%
Gross profit margin (%)	**66.4%**	64.9%	+1.5%
From continuing and discontinued operations			
Profit for the year attributable to the owners of the Company	**8,808**	8,132	+8%
EBITDA*	**49,110**	40,559	+21%
Basic earnings per share (US cents)	**0.30**	0.28	+7%
Diluted earnings per share (US cents)	**0.30**	0.28	+7%
Dividend per share (US$)	**Nil**	Nil	N/A

	As at 31 December 2017 (US$'000)	As at 31 December 2016 (US$'000) (Restated)	Change %
Balance sheet highlights			
Total assets	**313,431**	219,524	+43%
Total borrowings**	**568**	42,500	-99%
Net assets	**225,994**	149,460	+51%
Net assets per share (US$)	**0.07**	0.05	+40%
Current ratio	**3.99**	3.85	+4%
Gearing ratio***	**0.2%**	19.4%	-19.2%

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

** Total borrowings = Debenture + bond

*** Gearing ratio = Total borrowings/Total assets

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Leyou Technologies Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual report of the Company for the year ended 31 December 2017.

2017 was a milestone year for the Group. The Group successfully completed a series of acquisitions and re-organisation within the year, which helped enhance the Group's performance and financial position. Following the inclusion of the Company as a constituent stock of Morgan Stanley Capital International Hong Kong Small-Cap Index, the Company was recently selected as a constituent of the Hang Seng Internet & Information Technology Index, the Hang Seng Composite MidCap & SmallCap Index and the Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index, and on 5 March 2018, the Company was included in the list of Eligible Securities for Southbound Trading under Shenzhen Connect, reflecting the increasing recognition of the Company in the capital market.

Throughout the reporting period, the Group maintained a strong growth momentum. The Group recorded a total revenue of US$167 million, representing a year-on-year growth of 49%, and net profit attributable to shareholders of US$8.8 million and overall EBITDA of US$49 million, representing a substantial year-on-year growth of 21%. The basic and diluted earnings per share from continuing operations was US0.34 cents, representing a substantial year-on-year growth of 1.6 times. The number of total registered users of the Group's games recorded a dramatic increase of 62%, reaching 45.6 million. 2017 also saw the establishment of a solid foundation for the Group's future development as a new business pattern and product pipeline were deployed, bringing the Group a step closer to the goal of becoming a leading video game company worldwide.

NEW TEAMS, OPTIMISED STRATEGIES AND EXTENDED BUSINESS MODEL

During the reporting period, Port New Limited completed the mandatory offer for the shares of the Company and became the controlling shareholder of the Group. Following the change in the controlling shareholder, the Board was recomposed and I am pleased to be appointed as Chairman. Since its inception, the Board has formulated corporate strategies of focusing on developing and publishing high quality PC/Console video games targeting the global market and adopting an extended business model by putting together strong intellectual property ("IP"), development teams and publishing teams.

WARFRAME USERS HITTING RECORD HIGH ATTRIBUTABLE TO "GAME AS A SERVICE"

In October 2017, Warframe, one of the flagship products of the Group, released the Plains of Eidolon update, introducing a brand-new open landscape with Massively Multiplayer Online ("MMO") elements. The update soon gained great popularity among gamers and statistics such as the number of monthly active users ("MAU"), daily active users ("DAU") and concurrent users of Warframe hit record highs. The update also brought about various awards and nominations for the game Warframe. The continuous success of Warframe is a result of the persistent efforts of the development and publishing teams and their insistence on introducing creativity and perfection into the content and gameplay of Warframe, which speaks to the success of the Group adherence to the "Game as a Service" model.

GLOBALLY RENOWNED IP FOR DEVELOPING MARKET APPEALING TITLES

Within the year, the Company obtained the licenses of Transformers and Civilization from Hasbro Inc. and Hasbro International Inc. (collectively, "Hasbro") and Take Two International GmbH ("Take Two") respectively for the development of new video game products. The Group believes that such license grants reflect the recognition of the Group's game development and publishing capability from notable IP owners. As popular IP helps developers create market appealing titles, when combined with the state-of-the-art development and publishing capability of the Group, the prospects of new titles released by the Group becoming an instant hit is further enhanced.

ACQUISITIONS AND INVESTMENTS TO EXPAND THE PRODUCTION CAPACITY

During the reporting period, the Company completed the acquisitions of Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group") and Guangzhou Radiance Software Technology Co. Ltd. ("Guangzhou Radiance"), and also invested in Certain Affinity, LLC ("Certain Affinity"), a US-based renowned video game developer to become its 20% shareholder. Recent acquisitions and investments have enabled the Company to establish a close connection with world-class AAA studios and other studios with abundant experience in developing free-to-play games, which in turn substantially enhances the Group's production capability and capacity.

STRONG PRODUCT PIPELINE LAYS FOUNDATION FOR CONTINUOUS EXPONENTIAL GROWTH IN FUTURE

The Group commenced the development of multiple new titles, including Transformers Online and Civilization Online in 2017. The new titles under development in 2017, coupled with a series of new products currently in planning stages, form a strong product pipeline and lay a solid foundation for the Group's potential exponential growth over the next few years.

OPTIMISING THE FINANCIAL POSITION

While the Group undertakes rapid expansion and global deployment, on the other hand, the Group strives to optimise its financial position by increasing cash reserves and reducing leverage through a series of transactions, including disposing of non-core assets, placing of new shares and repaying the redeemable bond with a total principal of US$42 million in full. As at 31 December 2017, the Group's interest-bearing borrowings substantially decreased from US$43 million in 2016 to US$1 million. The Company believes that the optimised financial position strengthens its financing ability to meet any capital requirement for further expansion.

OUTLOOK FOR 2018

As an increasing number of traditional video game publishers begin to appreciate the advantages of "Game as a Service" model and join the market, we foresee that competition will continue to intensify in the market. Nevertheless, with the Group's positioning as a game changer in the global video game market, its global deployment strategy, game design concepts that are appealing to both Asian and western markets and the Group's thorough understanding of and experience with the "Game as a Service" model, which together form the Group's most valuable intangible assets and unique "wide moat", we are confident about the prospects of the Group's game products in the market.

In 2018, the Group will continue to update its existing games to provide more content and upgraded gameplay to ensure a steady and healthy growth in our revenue. On the other hand, the Group will endeavor to develop new game titles according to the planned timetable and quality standard determined by the Board. The Group will also make continuous efforts to enhance resource utilisation and integration and explore merger and acquisitions opportunities to further strengthen the overall competitive advantage of the Group.

ACKNOWLEDGEMENT

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

Mr. Xu Yiran
Chairman

16 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

BUSINESS OVERVIEW

The Group is primarily engaged in the development and publishing of high-quality PC/console online video games. The total revenue from continuing operations of the Group for the year ended 31 December 2017 was US$167 million, representing a year-on-year growth of 49%. As the major driver for such growth, the revenue generated from the game development and publishing business for the year ended 31 December 2017 amounted to US$146 million (2016: US$112 million), which accounted for 87% of the Group's total revenue (2016: 99%). The Group is in a rapid expansion phase with the development of multiple online game products underway. The Group is currently publishing several game titles worldwide, including Warframe and Dirty Bomb.

Revenue generated from work-for-hire and other businesses for the year ended 31 December 2017 was US$20 million (2016: Nil) and US$1 million (2016: US$0.3 million), which accounted for 12% and 1% of the total revenue respectively.

Market Observation and Core Strategy

According to the report issued by the market research firm Newzoo, the global games market generated US$116 billion in game software revenue in 2017, representing a growth of 10.7% compared to 2016, 56% of which was from the PC and console segment. Based on the aforementioned report, it is expected that the current growth of the global games market will continue with a Compound Annual Growth Rate ("CAGR") of 8.2% to reach revenue of US$144 billion in 2020.

In recent years, the Company has noticed the growing trend of the mobile gaming market starting to slow down and the provision of game content beginning to become saturated. This was due to the combined effects of the slowdown of growth in user and active device numbers after the exponential increase during the last decade and the overheated competition within this segment. Gamers gradually turned to products with higher quality, bigger screen and better immersive game experience, leading the industry to that direction as well.

Meanwhile, multiplayer online games and the introduction of multiplayer mode into traditional single-player games have become the most important niche markets. As evidenced by the notable expansion of the market size, an increasing number of AAA console games incorporate long-term progression model, social functions and in-game item purchases, etc. Games that support interaction among gamers enjoy far higher user satisfaction and loyalty than those that only allow human-computer interaction.

Moreover, free-to-play online games with micro-transactions have dominated the world's mobile gaming market as well as the regional PC gaming markets in the People's Republic of China ("PRC") and South Korea, which have demonstrated the superiority and universality of this business model. Game developers and publishers are increasingly aware that the model of maintaining live interaction with gamers and continuously providing game content via regular updates (i.e. "Game as a Service") ("GaaS") is more effective than the traditional premium sales model. On the other hand, with regard to big screen video games, free-to-play games took up only a small proportion of the major regional markets across the world except for certain parts of Asia, especially on consoles.

Based on the understanding and foregoing analysis of the current gaming market, we will mainly focus on the development and publishing of high-quality online games and generally adopt a GaaS monetisation method.

Game Development and Publishing

The table below sets forth the key operating data of the Group's game products:

	Year ended 31 December		
	2017	2016	Change
	(in thousands, unless otherwise stated)		
Total Registered Users	**45,588**	28,206	+62%

Warframe

Warframe is a free-to-play science fiction-themed multiplayer third-person shooter game available on PC and consoles (both PlayStation 4 and Xbox One). The game was developed and published by Digital Extremes Inc. and adopts a free-to-play model. It was first launched in March 2013 and continues to be one of the most-played games available on these platforms. Warframe has ranked among the top 3 most popular free-to-play games and top 10 most-played games overall in terms of number of players on Steam and received over 90% positive reviews from players. It is also the number one free-to-play game in terms of revenue on PlayStation 4 and Xbox One. The long-term success of Warframe is attributable to the unique and effective development and publishing capability of the Group for free-to-play games, which provides regular updates of premium game content for all platforms across the world, offers premium customer service, helps build a cohesive gamer community and facilitates communication between gamers and the development team through online and offline interaction.

During the reporting period, Warframe released the Plains of Eidolon update, a brand new open world map with a Massively Multiplayer Online ("MMO") element. This has caused a sensation in the gamer community, and made Warframe hit new record highs on most of its operating data such as monthly revenue, Monthly Active Users ("MAU"), Daily Active Users ("DAU") and concurrent users. The average MAU from October to December 2017 was 44.7% higher than that of the first nine months of 2017. Warframe ranked No. 4 among all games on Steam in November 2017 in terms of total players, setting a new all-time record, following only to PLAYERUNKNOWN'S BATTLEGROUNDS, Dota 2 and Counter-Strike: Global Offensive. In addition, Warframe won multiple awards and nominations for the year, including Platinum Top Sellers on Steam, one of the 12 best-selling games (being one of the two free-to-play games on the list alongside with Dota 2), the Labor of Love 2017 Steam Award voted by gamers, and a nomination for The Games Awards.

Following its tremendous success in 2017, Warframe continues to evolve with big plans for 2018. The game will see another open world expansion in 2018, that adds to the most popular update to date, the Plains of Eidolon. Another huge content update will be revealed in July 2018 at TennoCon, the annual Warframe-themed event that draws thousands of fans from across the globe coming together to celebrate everything of Warframe for a day of interactive activities, developer panels and more. The day culminates in a livestream broadcast on twitch.tv reaching millions of fans anticipating the next big evolution planned for Warframe. The Plains of Eidolon was revealed at TennoCon 2017, released in October 2017 and became one of Warframe's most successful updates. The reveal in 2018 is expected to be equally exciting to players. With additional updates to be shipped in 2018, the Company believes the game will continue attracting global gamers and its upward growth trend. Beyond the game itself, we have started to extend the intellectual property value of Warframe to other mediums with comic books as the first step. Started in 2017, Volume 1 is nearing completion with its fifth comic book in the series to be released in 2018. As this strategy proves successful, more mediums will be explored to continue to build value in the Warframe brand.

Dirty Bomb

Dirty Bomb is a fast-paced first-person shooter game developed and published by Splash Damage Group which launched in June 2015 on Steam as a free-to-play game. Dirty Bomb has ranked among the top 20 among all free-to-play games on Steam, and has received over 80% positive reviews from gamers. Since the completion of the acquisition of Splash Damage Group, the Company noted that the monetisation has been dramatically improved, with average monthly revenue, average revenue per paid user ("ARPPU"), average revenue per monthly active user ("ARPMAU") and conversion for the last nine months of 2017 increasing significantly by 72.4%, 26.3%, 76.2% and 43.1%, respectively, compared to those of last twelve months.

Work-for-hire and Other Business

As at 31 December 2017, the Group had a number of backlog orders for work-for-hire. Such orders will continue to bring fixed cash income and certain orders contain profit sharing provisions that may potentially deliver more revenue in the future. Our other businesses mainly represented game hosting and support service and the sale of merchandise goods.

New Strong Product Pipeline

Guided by the new board, the Group has set up a highly experienced game design team, which has been responsible for working with and providing guidance to internal studios and third party developers and controlling the development of new game products.

The Group has established a new strong product pipeline including:

– Transformers Online, an online game being developed by Certain Affinity with the license granted by Hasbro;

– Civilization Online, an MMO with an exclusive license granted by Take Two, being developed by Guangzhou Radiance, who will be entitled to receive a developer royalty after the launch of the game; and

– Survived by, a pixel-style free-to-play action MMO, which was in closed alpha stage as at 31 December 2017 and is expected to be launched in the second quarter of 2018.

Additionally, the Group has multiple unannounced new products in various development stages, which are in good progress and are expected to be launched around the end of 2018 or early 2019. They are expected to lay a solid foundation for future revenue growth of the Group for next few years. Also, Splash Damage Limited, one of the Group's main studios, announced a co-operation with Wargaming.net, makers of the worldwide hit World of Tanks, in July 2017 and it is expected that more information about this exciting collaboration will be released in 2018.

Publishing and Marketing

During the reporting period, the Group strived to improve intra-group cooperation and synergies and to achieve an effective global deployment in terms of publishing and marketing. The Group has established publishing and marketing arms in the United States of America ("US"), Canada, United Kingdom ("UK") and PRC, and has been developing a group-wide proprietary publishing platform, to better serve the publishing of the Group's in-development game products in the future.

Meanwhile, the Group started to adopt a more proactive strategy on marketing, which was very well received by the market and helped increase our revenue substantially. Warframe's co-operation with Twitch to promote their Twitch Prime initiative was a very good example of our further improved marketing efforts.

Acquisitions and Investments

During the reporting period, the Group mainly completed the following transactions:

– Acquisition of Splash Damage Group, a AAA video game developer based in the UK and known for being a co-developer of AAA titles such as Wolfenstein: Enemy Territory, Enemy Territory: Quake Wars and Gears of War 4;

– Acquisition of 51% shares of Guangzhou Radiance, an online game developer in the PRC who has been exclusively licensed by Take Two to develop Civilization Online; and

– Acquisition of 20% shares of Certain Affinity, an AAA video game developer based in the US and known as co-developer of AAA titles such as Call of Duty, Halo and DOOM.

These acquisitions and investments have improved the development capability of the Group and rapidly expanded its team size. In the future, the Group will continue to exploring opportunities to work with independent game studios with strong development capability and/or original IPs and globally renowned large game publishers, whether by way of acquisition, investment or joint venture etc. Combined with the Group's expertise and competitive advantages in free-to-play online games, the Company believes that such cooperation will constantly improve the development and publishing capability of the Group.

Memorandum of Understanding in relation to a Proposed Acquisition

On 14 July 2017, the Company entered into a Memorandum of Understanding ("MOU") with an independent third party ("the Vendor") in relation to a proposed purchase of the shares ("Sale Shares") in a holding company ("Target Company") which operates social casual games business through its subsidiaries ("Proposed Acquisition"). The Sale Shares represent all or part of a minority shareholding of the Target Company owned by the Vendor.

Pursuant to the MOU, the Vendor will obtain the necessary approval for the sale of the Sale Shares ("Approvals") as soon as practicable. Upon such approvals being obtained, the parties shall negotiate and agree on the terms of the proposed transaction (such as the exact number of the Sale Shares, the consideration, mode of payment, profit guarantee) during a period of 6 months thereafter ("Exclusivity Period").

Up to the date of this annual report, the Vendor has not yet obtained the Approvals and the Exclusivity Period has not commenced yet. The MOU is still subsisting and the Company will make further announcement(s) to keep shareholders and potential investors of the Company informed of new developments regarding the Proposed Acquisition as and when appropriate.

Details of the MOU are set out in the announcement of the Company dated 14 July 2017.

Fund Raising Activities and Use of Proceeds

On 29 September 2017, the Company entered into a placing agreement to place up to 146,230,000 ordinary shares of HK$0.1 each at a placing price of HK$1.70 per placing share. The closing price of the shares of the Company on the date of the placing agreement was HK$1.87. The placing was completed on 24 October 2017 and a total of 146,230,000 ordinary shares with nominal value of HK$14,623,000 were issued to not less than six independent placees at a net price of HK$1.66 per placing share with aggregate net proceeds of US$31,171,000 (equivalent to approximately HK$243,000,000). The Directors consider that the placing provides a good opportunity to broaden the Company's shareholder base and funding channels.

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

Date of announcements	Event	Net proceeds	Intended use of net proceeds	Actual use of net proceeds as at the date of this annual report
29 September 2017 and 24 October 2017	Placing of 146,230,000 shares	US$31,171,000 (equivalent to approximately HK$243,000,000)	General working capital	(i) US$10,000,000 (equivalent to approximately HK$78,000,000) had been used for the acquisition of 20% interest in Certain Affinity (details of which are set out in the announcement of the Company dated 16 October 2017) (ii) US$9,768,000 (equivalent to approximately HK$76,190,000) had been used as general working capital

The Company intends to apply the remaining balance of US$11,403,000 (equivalent to approximately HK$88,810,000) from the placing as general working capital as previously disclosed.

Material Acquisitions and Disposal of Subsidiaries and Affiliate

1. *The Acquisition of Splash Damage Group*

   Splash Damage Group is a gaming studio with world-class game development capability. It is principally engaged in the entrusted game development business, self-owned IP game business and game service platform business. The Company acquired all the issued share capital of Splash Damage Group, comprising of Splash Damage Limited, Fireteam Limited and Warchest Limited, and the transaction was completed on 31 March 2017. Splash Damage Group had since then become indirectly wholly-owned subsidiaries of the Company.

   Further details of the acquisition of Splash Damage Group were set out in the announcements of the Company dated 3 July 2016, 29 July 2016, 5 August 2016, 29 August 2016, 26 September 2016 and 31 March 2017, and the circular of the Company dated 22 February 2017.

2. *Entering into an Investment Agreement with Guangzhou Radiance*

Guangzhou Radiance is a company incorporated in the PRC principally engaged in the development of computer software and online games. Guangzhou Radiance has been exclusively licensed by Take Two to develop a MMO game named "Civilization Online" ("Civilization Online") in consideration of the license fee payable by Guangzhou Radiance to Take Two. Guangzhou Radiance will be entitled to receive a developer royalty in the form of profit sharing upon the launch of the game subject to the terms of the development agreement made with Take Two.

On 31 July 2017, the Company entered into an investment agreement with Guangzhou Radiance and the sole shareholder of Guangzhou Radiance, pursuant to which the Company conditionally agreed to designate a wholly-owned foreign enterprise to be established in the PRC by the Company (the "PRC Subsidiary") to invest an amount of Renminbi ("RMB") equivalent to US$1 million for the equity interest in Guangzhou Radiance. The transaction was completed on 31 October 2017, and accordingly, the PRC Subsidiary held 51% of the issued share capital of Guangzhou Radiance as enlarged by the transaction and Guangzhou Radiance had become an indirect non-wholly-owned subsidiary of the Company.

Further details of the said transaction were set out in the announcement of the Company dated 31 July 2017.

3. *Acquisition of 20% of the Issued Share Capital of Certain Affinity and the Entering of a Game Development Agreement*

Certain Affinity is a limited liability company organised under the laws of the State of Texas, the US and principally engaged in the development of licensed games (including associated computer software product and add-ons).

On 15 October 2017, the Company and Certain Affinity entered into (i) the sale and purchase agreement pursuant to which the Company agreed to purchase series A preferred stock representing 20% of the issued share capital of Certain Affinity at a total consideration of US$10 million ("Sale and purchase agreement in Certain Affinity"); and (ii) the game development agreement pursuant to which Certain Affinity shall, under the direction of, and with input and cooperation from the Company, develop and produce for the Company the game based on certain intellectual property. The transaction was completed on 30 October 2017. At 31 December 2017, the consideration comprising of available-for-sale financial assets and financial assets at fair value through profit or loss amounted to US$8,100,000 and US$1,900,000 respectively.

Further details of the said transaction were set out in the announcement of the Company dated 16 October 2017.

4. *Disposal of the Entire Issued Share Capital of Leyou World Limited and its subsidiary (collectively, "Leyou World Group")*

   Leyou World Limited is a company incorporated in Hong Kong with limited liability and its principal activity is investment holding. The principal activities of the subsidiary of Leyou World Limited are engaged in the trading of electronic products in the PRC.

   On 18 August 2017, the Company entered into an agreement with the purchaser, China RS Group Limited (the "Purchaser"), pursuant to which the Company sold to the Purchaser the Company's entire interest in Leyou World Group at a consideration of approximately US$11,836,000 (equivalent to HK$92,400,000). The transaction was completed on 20 September 2017.

   Further details of the said transaction were set out in the announcement of the Company dated 18 August 2017.

Environmental, Social and Governance

For the year ended 31 December 2017, the Group has made continuous efforts and investment in minimising risks associated with environmental, social and governance ("ESG") factors, improving employee well-being and contributing back to the community. No non-compliance with laws and regulations in relation to environmental and social aspects was recorded. Engagement with internal and external stakeholders has resulted in raised concerns on material issues, which included: employment, development and training, intellectual property rights, consumer data protection, and anti-corruption. These aspects had been strictly managed by the Group. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing its ESG management.

Recognitions in the Capital Market and the Company was Included in the list of Eligible Securities for Southbound Trading under Shenzhen Connect

Following the inclusion of the Company as a constituent stock of Morgan Stanley Capital International Hong Kong Small-Cap Index, the Company was recently selected as a constituent of the Hang Seng Internet & Information Technology Index, the Hang Seng Composite MidCap & SmallCap Index and the Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index, and on 5 March 2018, the Company was included in the list of Eligible Securities for Southbound Trading under Shenzhen Connect, reflecting the increasing recognition of the Company in the capital market.

Event after the Reporting Period

Acquisition of Listed Securities

On 18 January 2018, the Company and an independent third party (the "Vendor") entered into a sale and purchase agreement pursuant to which the Company acquired from the Vendor 188,679,245 shares in Freeman Fintech Corporative Limited ("Freeman Fintech") (Stock Code: 279) (the "Acquisition of Listed Securities") for an aggregate consideration of approximately US$12,821,000 (equivalent to HK$100,000,000) (excluding stamp duty and related expenses).

On 2 February 2018, the Company and the Vendor entered into a further sale and purchase agreement pursuant to which the Company acquired from the Vendor a further 93,457,943 shares in Freeman Fintech for an aggregate consideration of approximately US$12,821,000 (equivalent to HK$100,000,000) (excluding stamp duty and related expenses).

The Company considers the Acquisition of Listed Securities to be in the interest of the Company for the reasons that:

(i) as the Company wishes to explore the prospects of expanding into electronic financial services to facilitate in-game purchases, should the Company subsequently decide to commence electronic financial services operation, the Acquisition of Listed Securities would facilitate the establishment of a business relationship between the Company and Freeman Fintech; and

(ii) the Group can leverage Freeman Fintech's extensive network in capital markets in order to optimise the Company's shareholder base, enhance investor relations or even bring attractive merger and acquisition opportunities.

In light of the aforesaid, together with the Company's interest in exploring the field of electronic financial services, the Company considers that the expected benefits of the Acquisition of Listed Securities justify an adjustment to the Company's strategy in respect of financial investment. Should attractive and suitable investment opportunities arise in the future, the Company may consider making further investments in a similar manner.

Further details of the acquisition of listed securities were set out in the announcement of the Company dated 2 February 2018.

Outlook

The Company is pleased with the substantial uptick in the market's interest in PC/console games which coincides with the Company's core strategic focus. Being one of the earliest to have identified the business opportunity and succeeded in the global market with free-to-play games, the Group will continue to focus on developing and publishing high quality PC/console games and provide best game experience with GaaS model. We are confident that with the Group's existing product portfolio maintaining a healthy growth and new games being developed smoothly the earnings of the Group will improve in the coming years and the Company will create more value for its shareholders.

FINANCIAL REVIEW

Change in Presentation Currency

During the year ended 31 December 2017, the Group changed its presentation currency from RMB to United States Dollars ("US$") for the preparation of its consolidated financial statements. The Directors considered that the use of US$ was more meaningful in presenting the operating results and financial position of the Group given the operations of the Group and would result in a more appropriate presentation of the Group's transactions in these consolidated financial statements.

Continuing Operations – Computer and Video Gaming Business

Revenue

Our total revenue increased significantly by 49%, from US$112 million for the year ended 31 December 2016 to US$167 million for year ended 31 December 2017, primarily due to the continuing growth of the Group's flagship product Warframe and the contribution from Splash Damage Group, another world-class video gaming studio in the UK which was acquired by the Group on 31 March 2017.

Revenue by nature of business

The following table sets out the breakdown of the Group's revenue by nature of business for the years ended 31 December 2017 and 2016, respectively:

	Year ended 31 December	
	2017	2016
	US$'000	US$'000
		(Restated)
Game development and publishing	**146,162**	111,551
Work-for-hire	**19,470**	–
Game-hosting and support service	**787**	–
Sale of merchandise goods	**317**	251
	166,736	111,802

Revenue by geographical market

The following table sets forth a breakdown of the Group's revenue by geographical market based on the locations of the principal operations of the subsidiaries for the years ended 31 December 2017 and 2016, respectively:

	Year ended 31 December	
	2017	2016
	US$'000	US$'000
		(Restated)
Canada	**144,080**	111,802
UK	**22,656**	–
	166,736	111,802

Gross Profit

Our total gross profit increased by 53%, from US$73 million for the year ended 31 December 2016 to US$111 million for the year ended 31 December 2017, primarily due to the steady growth of the gaming business.

The gross profit margin slightly increased from 64.9% for the year ended 31 December 2016 to 66.4% for the year ended 31 December 2017, primarily due to the economies of scale upon the steady growth of the gaming business.

Other Revenue and Gains

Other revenue and gains decreased by 43%, from US$1.1 million for the year ended 31 December 2016 to US$0.6 million for the year ended 31 December 2017, primarily due to the decrease in interest income on other receivables by US$0.7 million.

Selling and Marketing Expenses

Selling and marketing expenses increased by 141%, from US$5 million for the year ended 31 December 2016 to US$12 million for the year ended 31 December 2017, which was mainly driven by the increased marketing activities to further promote the brand awareness of Warframe and Dirty Bomb, as well as the selling and marketing expenses attributable to the Group subsequent to the acquisition of Splash Damage Group. The increase in selling and marketing expenses was in line with the steady revenue growth of our gaming business.

Administrative Expenses

Administrative expenses increased by 52%, from US$19 million for the year ended 31 December 2016 to US$29 million for the year ended 31 December 2017, primarily due to the legal and professional fees of the acquisition of Splash Damage Group which amounted to US$3.5 million, as well as the administrative expenses attributable to the Group subsequent to the acquisition of Splash Damage Group.

Amortisation of Intangible Assets

Amortisation of intangible assets increased by 19%, from US$17 million for the year ended 31 December 2016 to US$20 million for the year ended 31 December 2017, primarily as a result of the increased amortisation of intangible assets since the acquisition of Splash Damage Group.

Impairment of Intangible Assets

Impairment of intangible assets for the year ended 31 December 2017 amounted to US$5 million (2016: Nil), which was mainly due to the underperformance of a developed game.

Finance Costs

Finance costs decreased by 16%, from US$4 million for the year ended 31 December 2016 to US$3 million for the year ended 31 December 2017, primarily as a result of the repayment of the fixed coupon redeemable bond which was issued on 6 May 2016, with the principal amount of US$42 million, in full during the reporting period.

Equity-settled Share-based Payment Expenses

Equity-settled share-based payment expenses increased by 5.5 times, from US$2 million for the year ended 31 December 2016 to US$13 million for the year ended 31 December 2017, primarily as the Company granted 277,844,600 share options under the 2017 Share Option Scheme during the reporting period.

Taxation

Taxation increased by 45%, from US$10 million for the year ended 31 December 2016 to US$14 million for the year ended 31 December 2017. It was in line with the steady growth of the gaming business in Canada.

Discontinued Operations – Poultry and Trading Business

Revenue, gross profit and net loss from trading business for the year ended 31 December 2017 were US$5 million, US$0.2 million and US$0.04 million, respectively. The disposal of trading business was completed on 20 September 2017.

Revenue, gross profit and net profit from poultry business and trading business for the year ended 31 December 2016 were US$159 million, US$16 million and US$3 million, respectively. The disposal of poultry business was completed on 30 September 2016.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

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

As at 31 December 2017, cash and bank balances amounted to US$46 million (31 December 2016: US$13 million), which were denominated in US$, Canadian Dollars ("CAD"), British Pound ("GBP"), RMB and Hong Kong dollars ("HK$"). The increase in cash and bank balances was mainly due to the free cash flow generation and the proceeds from the placing of new shares, partly offset by the repayment of the interest-bearing borrowings.

Interest-bearing Borrowings

As at 31 December 2017, the total amount of interest-bearing borrowings was US$1 million (31 December 2016: US$43 million). The decrease in interest-bearing borrowings was mainly due to the repayment of the Group's interest-bearing bond in full (principal of US$42 million) during the reporting period. The aforesaid Group's bond was denominated in US$ and had an effective interest rate of 13.7% (31 December 2016: 13.7%).

Gearing Ratio

As at 31 December 2017, the gearing ratio of the Group was 0.2% (31 December 2016: 19.4%), which was significantly improved during the reporting period and reflected a healthier financial position of the Group. The gearing ratio was calculated by dividing total borrowings by total assets of the Group as at 31 December 2017.

PROSPECT

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

OTHER INFORMATION

Human Resources

As at 31 December 2017, the Group had 722 employees (31 December 2016: 294).

Staff Costs

Staff costs from continuing operations, including directors' emoluments, amounted to US$31 million for the year ended 31 December 2017 (2016: US$21 million). All of the Group members are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered.

Retirement Costs Benefits

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

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

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

A defined contribution plan is a pension plan under which the Group's subsidiaries which operate in UK pay fixed contributions into a separate entity. The Group's subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group's subsidiaries have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share Option Scheme

On 25 August 2017, the share option scheme of the Company adopted in 2010 (the "2010 Share Option Scheme") was terminated and a new share option scheme was adopted (the "2017 Share Option Scheme"). The 2017 Share Option Scheme was adopted for a period of 10 years commencing from 25 August 2017. Details of the rules of the 2017 Share Option Scheme were set out in the circular of the Company dated 8 August 2017.

In respect of the 2010 Share Option Scheme, as a result of the mandatory cash offers by Kingston Securities for and on behalf of Port New Limited (details of which are set out in the composite offer and response document dated 2 June 2017), all outstanding options granted under the 2010 Share Option Scheme were cancelled at the close of the mandatory cash offers on 23 June 2017. As for the 2017 Share Option Scheme, as at the date of this annual report, the total number of options granted under the 2017 Share Option Scheme is 277,844,600 share options.

FOREIGN EXCHANGE RISK

The Group's main operations are in Canada, the UK, PRC (including Hong Kong SAR) and US. Most of the assets, income, payment and cash balances are denominated in US$, RMB, CAD and GBP. The Group has not entered into any foreign exchange hedging arrangement. The Directors consider that exchange rate fluctuation has no significant impact on the Group's performance.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2017, the Group had operating lease commitments of US$25 million (31 December 2016: US$13 million).

As at 31 December 2017, the Group had capital commitments of US$25 million (31 December 2016: US$2 million).

Corporate Governance Report

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICES

Deviations from the Code

In the opinion of the Directors, the Company has complied with the relevant code provisions (the "Code Provision(s)") set out in the Code, except for Code Provisions A.4.1, D.1.4 and A.2.1 as explained below.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. No appointment letter was issued by the Company to Mr. Yang Chia Hung (resigned on 5 July 2017) and Mr. Hu Chung Ming was not re-appointed for a specific term after his previous term expired in 2016. As at the date of this annual report, Mr. Hu is not appointed for a specific term but is subject to retirement by rotation at least once in every three years in accordance with the articles of association of the Company (the "Articles") which, in the opinion of the Directors, meets the objective of the Code.

Under Code Provision D.1.4, directors should clearly understand the delegation arrangements in place. The Company should have formal letters of appointment for Directors setting out the key terms and conditions relative to their appointment. The Company did not have formal letters of appointment for Mr. Wu Shiming (resigned on 5 September 2017), an executive Director, and Mr. Hu Chung Ming and Mr. Yang Chia Hung (resigned on 5 July 2017), independent non-executive Directors. However, they are subject to retirement by rotation at least once in every three years in accordance with the Articles. In addition, the Directors are required to observe the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors actively comply with the requirements under the Listing Rules, applicable legal and regulatory requirements and the Company's business and governance policies.

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

Save as aforesaid, in the opinion of the Directors, the Company has met all the Code Provisions set out in the Code during the year ended 31 December 2017.

Non-compliance with Rules 3.10(1) and 3.21 of the Listing Rules

Mr. Kwan Ngai Kit was first appointed as an independent non-executive Director on 5 July 2017. Pursuant to article 83(3) of the Articles, a Director appointed by the Board to fill a casual vacancy on the Board shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting. Inadvertently, the Company omitted to propose the re-election of Mr. Kwan Ngai Kit at the general meeting following his appointment on 25 August 2017 and consequently he ceased to be an independent non-executive Director after the meeting.

As a result of the cessation of Mr. Kwan Ngai Kit's appointment on 25 August 2017, the Company only had two independent non-executive Directors and the number of independent non-executive Directors fell below the minimum number of independent non-executive directors required under Rule 3.10(1) of the Listing Rules. In addition, following the said cessation of appointment, the number of members of the Audit Committee of the Company (the "Audit Committee") fell below the minimum required under Rule 3.21 of the Listing Rules.

Shortly after the cessation of Mr. Kwan Ngai Kit's appointment, Mr. Kwan Ngai Kit was re-appointed as an independent non-executive Director and a member of the Audit Committee on 5 September 2017. Upon Mr. Kwan's re-appointment, the Company ceased to be non-compliant with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules. Mr. Kwan Ngai Kit was subsequently re-elected at the extraordinary general meeting of the Company held on 27 September 2017.

DIRECTORS

The Board

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

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

During the year, the Board held 20 meetings and the Company held its annual general meeting on 23 June 2017 and 3 extraordinary general meetings on 9 March 2017, 25 August 2017 and 27 September 2017, respectively. The attendance records of each Director at the Board meetings and general meetings in 2017 are set out below:

Directors	**Board Meetings**	**General Meetings**
Executive Directors		
Mr. Xu Yiran *(Re-appointed on 5 September 2017)*	5/8	0/1
Mr. Gu Zhenghao	14/15	3/3
Mr. Cao Bo *(Appointed on 5 September 2017)*	3/4	0/1
Mr. Lin Qinglin *(Resigned on 5 September 2017)*	0/16	0/3
Mr. Wu Shiming *(Resigned on 5 September 2017)*	0/16	1/3
Mr. Hsiao Shih-Jin *(Resigned on 5 July 2017)*	0/11	0/2
Mr. Law Kin Fat *(Resigned on 30 June 2017)*	5/10	2/2
Mr. Wong Ka Fai Paul *(Resigned on 14 March 2017)*	4/5	1/1
Non-executive Directors		
Mr. Eric Todd	17/20	2/4
Mr. Cheng Chi Ming Brian *(Appointed on 5 September 2017)*	0/4	0/1
Mr. Li Zhigang *(Appointed on 5 September 2017)*	1/4	0/1
Independent Non-executive Directors		
Mr. Hu Chung Ming	19/20	3/4
Mr. Chan Chi Yuen	15/20	4/4
Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*	5/7	0/1
Mr. Yang Chia Hung *(Resigned on 5 July 2017)*	0/11	0/2

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

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

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

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

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

According to the current Board practice, any material transaction, which involves a conflict of interests on the part of any Director, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of independent non-executive Director(s). Directors are required to abstain from voting and are not counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

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

Chairman and Chief Executive Officer

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

Mr. Xu Yiran performs the dual roles of Chairman and Chief Executive Officer of the Company with effect from 5 September 2017. In light of the rapid development of the Group, the Board believes that by vesting the roles of both chairman and chief executive officer in the same person, the Group can enjoy consistent leadership which in turn facilitates strategic planning and prompt and effective execution of business plans. In addition, under the current composition of the Board, namely three executive Directors, three non-executive Directors and three independent non-executive Directors, we believe that the interests of shareholders of the Company are adequately and fairly represented. The Board considers that the present corporate governance arrangement does not impair the balance of power and authority within the Group.

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

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

- providing leadership for the Board;

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

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

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

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

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

Board Composition

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

Executive Directors:

Mr. Xu Yiran *(Chairman and Chief Executive Officer)*
(Re-appointed as executive Director and appointed as Chairman on 5 September 2017)
Mr. Gu Zhenghao
Mr. Cao Bo *(Appointed on 5 September 2017)*
Mr. Lin Qinglin *(Chairman) (Resigned on 5 September 2017)*
Mr. Wu Shiming *(Resigned on 5 September 2017)*
Mr. Hsiao Shih-Jin *(Resigned on 5 July 2017)*
Mr. Law Kin Fat *(Resigned on 30 June 2017)*
Mr. Wong Ka Fai Paul *(Resigned on 14 March 2017)*

Non-executive Directors:

Mr. Eric Todd
Mr. Cheng Chi Ming Brian *(Appointed on 5 September 2017)*
Mr. Li Zhigang *(Appointed on 5 September 2017)*

Independent Non-executive Directors:

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*
Mr. Yang Chia Hung *(Resigned on 5 July 2017)*

An updated list of the Directors by category identifying their role and function is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether a Director is an independent non-executive Director and expresses the respective roles and functions of each Director.

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

Details of the biographies of the Directors are given under the section headed "Directors and Senior Management Profile" of this annual report on pages 44 to 47.

None of the Directors is related to each other.

The independent non-executive Directors play an important role on the Board. They are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of the shareholders and the Group as a whole. Throughout the year of 2017, the Board endeavored to meet the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. Save for the cessation of Mr. Kwan Ngai Kit's appointment on 25 August 2017 which left the Company with only two independent non-executive Directors, which fell below the minimum number of independent non-executive directors required under Rule 3.10(1) of the Listing Rules, the number and mix of independent non-executive Directors on the Board for the year under review met the applicable requirements under the Listing Rules.

Appointments, re-election and removal

Pursuant to Rule 3.13 of the Listing Rules, the Company has received an annual confirmation from each independent non-executive Director confirming his independence. The Company has assessed the independence of the independent non-executive Directors and considers that for the year ended 31 December 2017, all of them to be independent based on the independence criteria under the Listing Rules, their non-involvement in the daily operation and management of the Company, and the absence of any relationships which may interfere with the exercise of their independent judgements.

None of the independent non-executive Directors have served the Company for more than 9 years.

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

Nomination of Directors

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

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

Responsibilities of Directors

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

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

The Board views that the non-executive Directors are well aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgement at Board meetings, taking the lead where potential conflicts of interest arise, scrutinising the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and Nomination Committee as required. Save for Mr. Hu Chung Ming, who was not appointed for a specific term when his appointment was renewed in 2016, all non-executive Directors (including independent non-executive Directors) were appointed for an initial term of three years commencing from the date of their respective appointment, subject to retirement by rotation pursuant to the Articles.

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

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

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

Induction and Continuous Professional Development

The Directors are continually updated with business and market changes, as well as legal and regulatory developments to facilitate the discharge of their responsibilities through various Board meetings, Board papers, memoranda and updates on corporate governance practices and director's responsibilities under the Listing Rules, applicable laws and other relevant statutory requirements. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the year under review:

Directors	**Corporate governance/ Updates on law, rules and regulations**	**Accounting/ Finance/ Management/ Other professional skills**	**Updates on business and market changes**
Executive Directors			
Mr. Xu Yiran *(Re-appointed on 5 September 2017)*	✓	✓	✓
Mr. Gu Zhenghao	✓	✓	✓
Mr. Cao Bo *(Appointed on 5 September 2017)*	✓	✓	✓
Non-Executive Directors			
Mr. Eric Todd	✓	✓	✓
Mr. Cheng Chi Ming Brian *(Appointed on 5 September 2017)*	✓	✓	✓
Mr. Li Zhigang *(Appointed on 5 September 2017)*	✓	✓	✓
Independent Non-executive Directors			
Mr. Hu Chung Ming	✓	✓	✓
Mr. Chan Chi Yuen	✓	✓	✓
Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*	✓	✓	✓

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

Securities Transactions Guidelines

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

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2017, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2017 are set out in the "Report of the Directors" of this annual report.

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

DELEGATION BY THE BOARD

Management Functions

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

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

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

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

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

The types of decisions that the Board has delegated to the management include:

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

Board Committees

Nomination Committee

The Nomination Committee is governed by its terms of reference which are closely aligned with the relevant Code Provisions requirements and are available on the websites of the Company and the Stock Exchange.

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

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy; and
- monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Directors.

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

Members of Nomination Committee	**Attendance/Number of Meetings(s) held during the tenure of memberships**
Executive Directors	
Mr. Xu Yiran *(Committee Chairman) (Appointed on 5 September 2017)*	N/A
Mr. Lin Qinglin *(Resigned on 5 September 2017)*	0/5
Independent Non-Executive Directors	
Mr. Hu Chung Ming	5/5
Mr. Chan Chi Yuen	5/5

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

- the structure, size and composition of the Board;
- the independence of independent non-executive Directors;
- the re-election of Directors;
- the nomination of Directors; and
- the sufficiency of time commitment of Directors.

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

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

Criteria for Nomination of Directors

1. Common Criteria for All Directors

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

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

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

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

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

The Company recognises the benefits of board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve board diversity through considering a number of factors, including professional qualifications and experience, cultural and educational background, gender, age and length of service when reviewing the composition of the Board. The Company also takes into consideration factors based on its own business model and specific needs from time to time in determining the optimal composition of the Board.

The Board will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Company considers that the current composition of the Board is characterised by diversity, whether considered in terms of professional background and skills.

Remuneration Committee

Remuneration of Directors

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

The Remuneration Committee is governed by its terms of reference, which were revised by the Board on 28 March 2012 pursuant to the Code. The terms of reference are made available on the websites of the Company and the Stock Exchange.

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

During the year, 7 Remuneration Committee meetings were held. The attendance records of each member of the Remuneration Committee at the said committee meetings are set out below:

Members of Remuneration Committee	**Attendance/Number of Meetings(s) held during the tenure of memberships**
Executive Directors	
Mr. Xu Yiran *(Appointed on 5 September 2017)*	0/1
Mr. Lin Qinglin *(Resigned on 5 September 2017)*	0/6
Independent Non-Executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	7/7
Mr. Chan Chi Yuen	7/7

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

- considered the proposed remuneration of Mr. Xu Yiran, Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors, Mr. Li Zhigang and Mr. Cheng Chi Ming Brian as non-executive Directors, Mr. Kwan Ngai Kit as independent non-executive Director;
- reviewed the Company's emolument policy and structure for all Directors and senior management of the Company; and
- reviewed salary adjustment and 2016 bonus proposal of the Group and recommended the same to the Board for consideration.

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

Emoluments of Directors

The emoluments of the Directors of the Company for the year ended 31 December 2017 are set out on Note 12 of this annual report.

Audit Committee

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

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Hu Chung Ming (as Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit. Mr. Hu Chung Ming is the chairman of the Audit Committee, who has considerable experience in accounting and financial management. The number of members of the Audit Committee fell below the minimum required under Rule 3.21 of the Listing Rules following the cessation of Mr. Kwan Ngai Kit's appointment as an independent non-executive Director and a member of the Audit Committee on 25 August 2017. Please refer to the section headed "Non-compliance with Rules 3.10(1) and 3.21 of the Listing Rules" of this annual report for further details.

The Audit Committee is governed by its terms of reference, which were further revised by the Board on 17 December 2015 pursuant to the Code. The terms of reference are made available on the websites of the Company and the Stock Exchange.

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

Members of Audit Committee	Attendance/Number of Meetings(s) held during the tenure of memberships
Independent Non-Executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	3/3
Mr. Chan Chi Yuen	3/3
Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*	N/A
Mr. Yang Chia Hung *(Resigned on 5 July 2017)*	0/2

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

- the completeness and accuracy of the 2016 annual report and 2017 interim report;
- the Company's compliance with statutory and regulatory requirements, developments in accounting standards and the effect on the Company;
- the internal control report for year ended 31 December 2016;
- the connected transactions for year ended 31 December 2016;
- the scope of audit of risk management and internal control of the Group;
- findings and recommendations from the management on internal control;
- the terms of engagement of the external auditors;
- the nature and scope of work of the external auditors;
- the management letter prepared by the external auditors; and
- recommendations to the Board on the re-appointment of HLB Hodgson Impey Cheng Limited as the external auditors.

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

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Group had net assets of US$226 million as at 31 December 2017 and recorded a profit attributable to owners of the Company of US$9 million for the year ended 31 December 2017.

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

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

The statement by the external auditors of the Company regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" on pages 73 and 79 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the consolidated financial statements set out on pages 80 to 185 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives is explained in the section headed "Management Discussion and Analysis" set out on pages 8 to 23 of this annual report.

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

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

Risk Management and Internal Controls

The Board recognises its responsibility to ensure the Company maintains a sound and effective risk management and internal control system. The Group's internal control system is designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework includes risk identification, risk assessment, risk treatment and monitoring and reviewing of the effectiveness of the measures. This risk management framework is guided by the three-tier risk management approach. At the first line of defense, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defense, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defense is effective. As the final line of defense, the audit committee of the Company, with the professional advices and opinions from the external professional consultant by whom internal audit work of the Group was conducted on annual basis, ensures that the first and second lines of defense are effective through constant inspection and monitoring.

In addition to the review of risk management and internal controls undertaken by the external professional consultants, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

By taking all the appropriate actions above, The Board is of the view that the the risk management and internal control systems of the Group are considered as effective and adequate.

Auditors' Remuneration

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

	US$'000
Audit services	218
Non-audit services (including taxation compliance and agreed upon procedures)	45

COMPANY SECRETARY

Mr. Chan Siu Tak ("Mr. Chan") was appointed as company secretary of the Company (the "Company Secretary") on 5 September 2017. The biographical details of Mr. Chan are set out under the section headed "Directors and Senior Management Profile".

Mr. Chan took not less than 15 hours of relevant professional training during the year ended 31 December 2017.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

The general meetings of the Company provide the best opportunity for communication between the Board and shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman and chairman of the Remuneration Committee, Nomination Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at the shareholders' meetings.

The external auditors of the Company, HLB Hodgson Impey Cheng Limited, also attended the Company's annual general meeting held on 23 June 2017 to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

Voting by Poll

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

Shareholders' Rights

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

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

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

Shareholders and other stakeholders may send their enquires and concerns to the Board in writing for the attention of the Company Secretary at Suite 3201, 32/F., Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong or by sending e-mail to enquiry@leyoutech.com.hk. The Company Secretary will forward the enquiries or concerns to the CEO and Chairman or senior management as appropriate for handling.

(iii) Procedures for Putting Forward Proposals at Shareholders Meetings

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

In compliance with the Code, a shareholders communication policy was formulated on 28 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with the shareholders. The effectiveness of shareholders communication under the shareholders communication policy will be reviewed by the Board from time to time.

Constitutional Document

During the year ended 31 December 2017, there had not been any change in the Company's memorandum and articles of association.

Conclusion

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

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Xu Yiran ("Mr. Xu")

Mr. Xu, aged 45, was appointed as an executive Director and CEO of the Company on 30 June 2017. His term of appointment as an executive Director ended on 25 August 2017 and he was re-appointed as an executive Director on 5 September 2017. In addition, he was appointed as the chairman of the Board, the chairman of the nomination committee of the Company, a member of the remuneration committee of the Company and an authorised representative of the Company under the Listing Rules.

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

Mr. Gu Zhenghao ("Mr. Gu")

Mr. Gu, aged 47, was appointed as an executive Director on 14 March 2017. He graduated with a Bachelor's degree in Economics from Renmin University of China in July 1992. Mr. Gu has over 20 years of experience in the banking and investment industry. Mr. Gu worked in China Construction Bank Co., Ltd. Shenzhen Branch（中國建設銀行股份有限公司深圳市分行）from July 1992 to July 2013, and also worked in Shenzhen Zhanfei Investment Limited（深圳市展飛投資有限公司）from August 2013 to March 2016.

Mr. Cao Bo ("Mr. Cao")

Mr. Cao, aged 31, was appointed as an executive Director on 5 September 2017. He graduated from The University of Bath with a Bachelor's degree in Science in Mathematical Sciences with first-class honours in June 2008 and obtained a Master's degree of Science in Mathematical and Computational Finance from The University of Oxford in October 2009. He served as the trust manager of the trust business division of China Credit Trust Co., Ltd. from August 2009 to January 2017. He has been serving as the managing director of the Trust Investment Department of Zhongrong International Trust Co., Ltd since January 2017.

NON-EXECUTIVE DIRECTORS

Mr. Eric Todd ("Mr. Todd")

Mr. Todd, aged 56, was appointed as a non-executive Director on 24 July 2015. He possesses extensive professional experience in the auditing, financial management, investment and media industry. Mr. Todd holds a Bachelor's degree in Business Administration in Accounting and Finance from the School of Management of Boston University in Massachusetts, USA. Mr. Todd has qualified as an U.S. Certified Public Accountant in 1989 and was a member of the American Institute of Certified Public Accountants from 1989 to 2010.

Mr. Todd is currently an executive director of Kong Shum Union Property Management (Holding) Limited (stock code: 8181) but resigned as the chairman on 6 March 2018. He is also an executive director of Hsin Chong Group Holdings Limited (stock code: 404). He was an independent non-executive director of Ngai Shun Holdings Limited (stock code: 1246) from July 2016 to August 2017. Mr. Todd worked for the international accounting firm KPMG and the Standard Chartered Group respectively between 1985 and 1995. He was the finance director for several manufacturing and media production and distribution companies from 1999 to 2008. Mr. Todd has been working as a business consultant since 2009 specialising in the finance, investment and media sectors.

Mr. Li Zhigang ("Mr. Li")

Mr. Li, aged 46, was appointed as a non-executive Director on 5 September 2017. He graduated from Capital University of Economics and Business with a Diploma in Foreign Accounting in 1996. Mr. Li served as the branch deputy governor of the management department of Beijing and the deputy general manager of the northern regional risk management center of the energy finance division of China Minsheng Bank from July 2004 to June 2015. He is currently the administration director of Zhongrong International Trust Co., Ltd. and a director of Jiangyin Zhongnan Heavy Industries Co., Ltd（中南重工股份有限公司）(formerly known as Zhongnan Red Culture Group Co., Ltd. 中南紅文化集團股份有限公司) (stock code: 002445; a company listed on the Shenzhen Stock Exchange).

Mr. Cheng Chi Ming Brian ("Mr. Cheng")

Mr. Cheng, aged 35, was appointed as a non-executive Director on 5 September 2017. He holds a Bachelor's degree in Science from Babson College in Massachusetts, USA. Mr. Cheng was a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets. He is currently an executive director of NWS Holdings Limited (stock code: 659), the chairman and a non-executive director of Integrated Waste Solutions Group Holdings Limited (stock code: 923) and a non-executive director of each of Haitong International Securities Group Limited (stock code: 665), Wai Kee Holdings Limited (stock code: 610) and Beijing Capital International Airport Co., Ltd. (stock code: 694), all of which are listed on the Main Board of the Stock Exchange. He is also a director of SUEZ NWS Limited and a number of companies in Mainland China. Mr. Cheng was a non-executive director of Newton Resources Ltd (stock code: 1231; a company listed on the Main Board of the Stock Exchange) (resigned on 23 January 2017) and a non-executive director of Tharisa plc, whose shares are listed on the Johannesburg Stock Exchange Limited and the London Stock Exchange plc. (retired on 1 February 2017).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. Hu, aged 45, was appointed as an independent non-executive Director on 17 December 2010. Mr. Hu is also the chairman of each of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Hu has been a certified practising accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow member of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings Limited (中國軟包裝控股有限公司) from 2003 to 2007, Yunnan Junfa Real Estate Company Limited (雲南俊發房地產有限責任公司) from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (stock code: 1938) from 2009 to 2011 respectively. Mr. Hu is currently the chief financial officer and the company secretary of Mobile Internet (China) Holdings Limited (formerly known as China Packaging Holdings Development Limited (stock code: 1439). Mr. Hu graduated from the University of Queensland with a Bachelor's degree in Commerce in December 1996.

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

Mr. Chan, aged 51, was appointed as an independent non-executive Director on 24 July 2015. He is also a member of each of the audit committee, remuneration committee and nomination committee of the Company. He obtained a Bachelor's degree with honours in Business Administration and a Master of Science with distinction in Corporate Governance and Directorship. He is a fellow of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales. Mr. Chan Chi Yuen is a practising certified public accountant and has extensive experience in financial management, corporate development, corporate finance and corporate governance.

Mr. Chan is currently an executive director and the chief executive officer of Noble Century Investment Holdings Limited (stock code: 2322), an executive director of e-Kong Group Limited (stock code: 524), an executive director and the chairman of Royal Century Resources Holdings Limited (stock code: 8125), an independent non-executive director of Asia Energy Logistics Group Limited (stock code: 351), China Baoli Technologies Holdings Limited (stock code: 164), Media Asia Group Holdings Limited (stock code: 8075), New Times Energy Corporation Limited (stock code: 166) and Affluent Partners Holdings Limited (stock code: 1466).

Mr. Chan was an executive director of Co-Prosperity Holdings Limited (stock code: 707) from December 2014 to October 2015, an executive director of South East Group Limited (now known as China Minsheng Drawin Technology Group Limited) (stock code: 726) from December 2013 to July 2015, an independent non-executive director of U-RIGHT International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited) (stock code: 627) from November 2010 to December 2017 and an independent non-executive director of Jun Yang Financial Holdings Limited (to be renamed as Power Financial Group Limited) (stock code: 397) from January 2005 to October 2017. The shares of all the aforesaid companies are listed and traded on the Stock Exchange.

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

Mr. Kwan, aged 37, was appointed as an independent non-executive Director and a member of the audit committee of the Company on 5 July 2017. His term of appointment ended on 25 August 2017 and he was re-appointed as an independent non-executive Director and a member of the audit committee of the Company on 5 September 2017. He has been the chief financial officer and the company secretary of Modern Dental Group Limited (stock code: 3600) since 26 October 2016, and is responsible for corporate finance, merger and acquisition matters, financial and accounting management, investor relations, corporate governance as well as compliance affairs. Mr. Kwan was an executive director of Vision Fame International Holding Limited (stock code: 1315) from February 2015 to October 2016, where he also served as chief financial officer and company secretary from June 2014 to October 2016. Prior to March 2014, he worked as a senior manager in both the assurance department and the professional practice department of Ernst & Young during which he acquired extensive capital market transaction experience. He has been an independent non-executive director of Group Sense (International) Limited (stock code: 601) since 6 June 2016, Lai Group Holding Company Limited (stock code: 8455) since 24 March 2017 and A & S Group (Holdings) Limited (stock code: 1737) since 21 February 2018 respectively. Mr. Kwan is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwan obtained a Master's degree in Business Administration from The Chinese University of Hong Kong in November 2014 and a Bachelor's degree from The Hong Kong Polytechnic University in November 2002.

COMPANY SECRETARY

Mr. Chan Siu Tak, aged 40, was appointed as financial controller and company secretary of the Company since July 2017 and September 2017 respectively. Mr. Chan is an associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan graduated from the Hong Kong Polytechnic University with a Bachelor's degree in Accountancy. Mr. Chan has over 17 years of experience in accounting and financial management, audit, corporate governance and company secretarial matters. Prior to joining the Company, Mr. Chan worked for another listed company in Hong Kong and an international accounting firm.

Report of the Directors

The directors of the Company (the "Directors") are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are the development and publishing of online multiplayer PC and console video games. The Group ceased its trading of electronic products in the PRC during the year.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 80 to 185 of this annual report.

The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

BUSINESS REVIEW

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

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

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees are also discussed under section headed "Environmental, Social and Governance Report" on pages 60 to 72 of this annual report.

Principal Risks and Uncertainties

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

OPERATIONAL RISK

The Group is dedicated to maintaining its hardware and providing software updates to enhance the gaming experience of our players, which may be adversely affected by any server and software problems that will in turn affect the game and the Company's reputation.

COMPETITION RISK

The Group faces competition in the online game industry. New technologies such as Virtual Reality and ever-changing hardware in both PC and mobile devices intensify competition among game developers in the market. The Group has dedicated considerable effort in addressing feedback from existing players in developing and improving our games in order to retain players and prolong their playing time. We also conduct research and develop new ideas on an ongoing basis to attract new players.

REGULATORY RISK

The Group faces different regulators when distributing our games in different countries. The Group will make adjustments to both the graphics and language used in our games to comply with all applicable regulations.

FINANCIAL RISK

The Group is exposed to a variety of financial risks in our normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to Note 40 to the consolidated financial statements. The Board is dedicated to ensuring the risk management practices of the Group are sufficient to mitigate the risks in our businesses and operations as efficiently and effectively as possible.

Environmental Policy and Performance

Environmental policies and performance are generally subject to the increasing attention of and stricter environmental regulations and policies set by the relevant government authorities of the communities in which our business operates. The Group follows closely on the applicable environmental regulations and policies and changes in other external factors to monitor their impact on the Group's business development. The Group is dedicated to fulfilling our environmental and social responsibilities to improve and maintain the long-term sustainability of the communities in which our business operates. The Group endeavours to comply with relevant environmental laws and regulations, as well as to implement effective measures in order to achieve effective utilisation of resources, energy saving and waste reduction. The Group has adopted green initiatives and measures in our daily operations which include resource recycling, energy saving measures and water saving practices. In the event that any member of the Group is found to be in breach of the applicable environmental regulations or policies, the Group may be required to pay a fine and adopt rectification measures. Nonetheless, as the Group does not engage in manufacturing business activities as at the date of this annual report, the Directors believe that the impact of the applicable environmental regulations and policies on the operations of the Group is limited.

Compliance with the Relevant Laws and Regulations

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

Relationships with Employees, Customers and Suppliers

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

The Group has established long term business relationships with its major suppliers and customers. The Group will endeavor to maintain its established relationship with these existing suppliers and customers.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 186 of this annual report. This summary does not form part of the audited consolidated financial statements.

The Board has resolved to adopt US$ instead of RMB as the presentation currency of its consolidated financial statements, which constitutes a change in accounting policy that is accounted for retrospectively. The comparative financial figures for the four financial years ended 31 December 2016 have been restated in US$.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share options and share capital during the year, together with the reasons therefore, are set out in Notes 35 and 36 to the consolidated financial statements.

Share Option Scheme

On 25 August 2017, the share option scheme of the Company adopted in 2010 (the "2010 Share Option Scheme") was terminated and a new share option scheme was adopted (the "2017 Share Option Scheme"). The 2017 Share Option Scheme was adopted for a period of 10 years commencing from 25 August 2017. The terms of the 2017 Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The purpose of the 2017 Share Option Scheme is to recognise and motivate the contribution of any participant (the "Participant") which includes any full-time or part-time employee of the Group (including any executive and non-executive Director), adviser, consultant, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group, and to provide incentives and help the Company retain its existing employees and recruit additional employees and provide them with a direct economic interest in attaining the long-term business objectives of the Company.

An offer for grant of options must be accepted within 20 business days from the offer date. The amount payable by each Participant to the Company on acceptance of the offer for grant of options is HK$1.00. The subscription price for a share of the Company under the 2017 Share Option Scheme is a price determined by the Board at its absolute discretion at the time of grant, which in any case shall not be less than the highest of:

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

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

(iii) the nominal value of the shares.

The maximum number of the shares issuable under share options granted to each grantee under the 2017 Share Option Scheme within any 12-month period is limited to 1% of the shares in issue as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval of the independent non-executive Directors. In addition, any grant(s) of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares in issue with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK$5 million within any 12-month period is subject to shareholders' approval in a general meeting.

As at the date of this annual report, the total number of shares available for issue under the 2017 Share Option Scheme is 14,623,400 shares, representing 0.48% of the total number of shares in issue as at the date of this annual report.

Movements in Share Capital

On 24 October 2017, the Company issued 146,230,000 shares at the placing price of HK$1.7 per share pursuant to the placing agreement dated 29 September 2017 to not less than six placees who are, to the best of the Directors' knowledge, information and beliefs, independent third parties of the Company. The placing price of HK$1.7 per share represented a discount of approximately 9.1% to the closing price of HK$1.87 per share as quoted on the Stock Exchange on the date of the placing agreement. The net proceeds were US$31,171,000 (equivalent to approximately HK$243,000,000), representing a net issue price of approximately HK$1.66 per share. The Directors consider that the placing provides a good opportunity to broaden the Company's shareholder base and funding channels.

As at the date of this annual report, of the net proceeds from the placing, the Company applied (i) US$10,000,000 (equivalent to approximately HK$78,000,000) for the acquisition of 20% interest in Certain Affinity; and (ii) US$9,768,000 (equivalent to approximately HK$76,190,000) as general working capital. The Company intends to apply the remaining balance of US$11,403,000 (equivalent to approximately HK$88,810,000) as general working capital as previously disclosed.

Details of movements in the share options granted under the 2010 Share Option Scheme during the year ended 31 December 2017 are as follows:

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Number of share options: Outstanding as at 1 January 2017	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2017
Executive Director							
Mr. Law Kin Fat (Note 1)	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	14,400,000	(14,400,000)	–	–
Chief Executive Officer							
Mr. Wong Haitong (Note 2)	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	14,400,000	(14,400,000)	–	–
Consultants	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	100,800,000	(27,400,000)	(73,400,000)	–
Total				129,600,000	(56,200,000)	(73,400,000)	–

Notes:

1. Mr. Law Kin Fat resigned as an executive Director and vice chairman of the Company with effect from 30 June 2017.

2. Mr. Wong Haitong resigned as a chief executive officer of the Company with effect from 30 June 2017.

3. The 2010 Share Option Scheme was terminated on 25 August 2017.

4. The weighted average closing price of shares immediately before the dates on which the options were exercised is HK$1.62.

Details of movements in the share options granted under the 2017 Share Option Scheme during the year ended 31 December 2017 are as follows:

				Number of share options				
Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2017
Executive Directors								
Mr. Xu Yiran	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	–	29,246,800	–	–	29,246,800
Mr. Gu Zhenghao	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	–	29,246,800	–	–	29,246,800
Sub-total				–	58,493,600	–	–	58,493,600
Employees	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	–	43,870,200	–	–	43,870,200
	24 October 2017	24 October 2018 to 24 October 2022	HK$1.91	–	29,246,791	–	–	29,246,791
	24 October 2017	24 October 2019 to 24 October 2022	HK$1.91	–	29,246,791	–	–	29,246,791
	24 October 2017	24 October 2020 to 24 October 2022	HK$1.91	–	29,246,818	–	–	29,246,818
Sub-total				–	131,610,600	–	–	131,610,600
Consultants	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK$1.91	–	87,740,400	–	–	87,740,400
Total				–	277,844,600	–	–	277,844,600

Notes:

(a) The share options were vested upon grant.

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

(c) The closing price of shares immediately prior to the date of grant was HK$1.88.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Capital and Share Options" in this Report of the Directors, no other equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2017.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling US$260,000 (2016: US$110,000).

PRE-EMPTIVE RIGHTS

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

RESERVES

As at 31 December 2017, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses amounted to US$124,389,000 (2016: US$121,398,000).

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 85 to 86 of this annual report and Note 45 to the consolidated financial statements respectively.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities.

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, sales to the Group's largest and five largest customers accounted for 29% and 81% of the Group's total sales respectively. For the year ended 31 December 2017, purchases from the Group's largest and five largest suppliers accounted for 4% and 13% of the Group's total cost of sales respectively.

None of the Directors or any of their associates or any shareholders of the Company (which to the best of the knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers for the year ended 31 December 2017.

DIRECTORS

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

Executive Directors:

Mr. Xu Yiran *(Chairman and Chief Executive Officer)*

(Re-appointed as Executive Director and appointed as Chairman on 5 September 2017)

Mr. Gu Zhenghao

Mr. Cao Bo *(Appointed on 5 September 2017)*

Mr. Lin Qinglin *(Chairman) (Resigned on 5 September 2017)*

Mr. Wu Shiming *(Resigned on 5 September 2017)*

Mr. Hsiao Shih-Jin *(Resigned on 5 July 2017)*

Mr. Law Kin Fat *(Resigned on 30 June 2017)*

Mr. Wong Ka Fai Paul *(Resigned on 14 March 2017)*

Non-executive Directors:

Mr. Eric Todd

Mr. Cheng Chi Ming Brian *(Appointed on 5 September 2017)*

Mr. Li Zhigang *(Appointed on 5 September 2017)*

Independent Non-executive Directors:

Mr. Hu Chung Ming

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit *(Re-appointed on 5 September 2017)*

Mr. Yang Chia Hung *(Resigned on 5 July 2017)*

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 44 to 47 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Directors are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group.

CHANGE IN DIRECTOR'S INFORMATION

In October and December 2017, Mr. Chan Chi Yuen, an independent non-executive Director, resigned as an independent non-executive director of Jun Yang Financial Holdings Limited (to be renamed as Power Financial Group Limited) (stock code: 397) and U-RIGHT International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited) (stock code: 627) respectively.

In February 2018, Mr. Kwan Ngai Kit, an independent non-executive Director, was appointed as an independent non-executive director of A & S Group (Holdings) Limited (stock code: 1737).

In March 2018, Mr. Eric Todd, a non-executive Director, resigned as the chairman of Kong Shum Union Property Management (Holding) Limited (Stock Code: 8181) and remains as an executive director.

DIRECTORS' EMOLUMENTS

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

Emolument Policy and Long-Term Incentive Plan

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

The emoluments payable to the Directors and senior management are set out in Notes 12 and 13 to the consolidated financial statements.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director/ Chief Executive	Capacity/nature of interests	Number of ordinary shares/ underlying shares held	Approximate percentage of the Company's issued share capital
Mr. Xu Yiran	Beneficial owner	29,246,800	0.95%
Mr. Gu Zhenghao	Beneficial owner	29,246,800	0.95%

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the interests or short positions of the persons (other than the Directors or chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	Capacity/nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Port New Limited (Note)	Beneficial owner	1,783,989,522	58.09%

Note: Port New Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Yuk Kwok Cheung, Charles. Meanwhile, Mr. Li Zhigang, one of non-executive Directors, is one of the two directors of Port New Limited.

Save as disclosed above, as at 31 December 2017, no person (other than the Directors or chief executives of the Company) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

The Directors consider that those related party transactions disclosed in Note 41(a) to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules but are exempt from any of the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. In particular, the transaction under category (a) in Note 41(a) was conducted on normal commercial terms where all of the percentages ratios (other than the profit ratio) were less than 5% and the total annual consideration was less than HK$3,000,000.

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

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

INTERESTS OF CONTROLLING SHAREHOLDER IN CONTRACTS

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

EVENT AFTER THE REPORTING PERIOD

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

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders of the Company entitled to attend and vote at the annual general meeting of the Company to be held on Friday, 25 May 2018, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during the period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 May 2018.

CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 24 to 43 of this annual report.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the conclusion of the Company's forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

Mr. Xu Yiran
Chairman

Hong Kong, 16 March 2018

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

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

The Group is a rapidly expanding developer and publisher of PC and home console video games around the globe, and also a market leader in the niche of free-to-play online multiplayer games. This ESG report covers the Group's overall environmental and social performances of its major computer and video gaming operations. This covers performances of Digital Extremes and Splash Damage Group in the game development studios in Toronto, Canada (including its cafeteria operation) and Kent, the UK respectively, from 1 January 2017 to 31 December 2017, unless otherwise stated.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values input and feedback of its stakeholders as they bring potential impacts to the Group's business. Internal and external stakeholders have been involved in regular engagement activities to share views regarding the Group's operation and performances. The Group has specifically engaged the board members, senior management, suppliers and clients to gain further insights on ESG material aspects and challenges in the reporting period. Through meetings and surveys, the Group and its stakeholders identified the following top five material aspects:

- Employment;
- Development and training;
- IP rights;
- Consumer data protection; and
- Anti-corruption.

The above aspects were strictly managed through the Group's policies and guidelines. Management of the aspects have been described in separate sections below. The Group is committed to conducting its business in a transparent, equitable, legal and socially responsible manner. The Group will continue to participate in meetings and gatherings with stakeholders to understand their expectations and concerned material aspects and feedback on its ESG performances.

CORPORATE MEMBERSHIPS

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

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on the environmental, social and governance approach and performance. Comments or advice on this report and its contents are welcome by email to enquiry@leyoutech.com.hk.

THE GROUP'S SUSTAINABILITY VISION AND COMMITMENT

The Group envisions to be a world leading online video game developer and provider to give satisfaction and happiness to our players as well as stakeholders, and be an environmentally and socially responsible corporation.

The Group believes that ESG factors are significant considerations for the long-term operations of its business. We strive to operate our business using principles aimed at minimising the risks associated with ESG factors. These principles involve identifying ways in which the Group can: lessen our impact on the environment; focus on employee well-being; give back to the community; ensure compliance with legal and regulatory requirements; and adhere to high ethical standards. All of its employees are empowered to apply and continually improve upon our ESG initiatives.

A. ENVIRONMENTAL

The Group strictly abides by the local environmental laws, rules and regulations. We aim to grow and deliver returns to shareholders without environmental detriment. The business operation of the Group involves consumption of natural gas, electricity and water, and generates small amount of hazardous and non-hazardous wastes. We strive to reduce adverse environmental impact through conservation of energy, water and resources. Most of the packaging materials of our merchandises are also made from recyclable materials. The Group is aware that business air travels contribute to a significant amount of its carbon emission. We will continue to explore means to avoid business air travels.

1. Emissions

(i) Air Pollutant Emissions

The Group consumed natural gas in the reporting period, which contributed to the emission of 0.62 kg of nitrogen oxides ("NO_x") and insignificant amount of sulphur oxides ("SO_x").

(ii) Greenhouse Gas Emissions

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tCO_2e)	Total Emission (in percentage)
Scope 1 Direct Emission			
Combustion of natural gas for stationary source		7.53	0%
Scope 2 Indirect Emission			
Purchased electricity		953.26	7%
Purchased natural gas		2.42	
Scope 3 Other Indirect Emission			
Paper waste disposal		0.82	93%
Water consumption		2.05	
Business air travel		12,524.37	
Total		13,490.45	100%

Note 1: Emission factors were made reference to Appendix 27 to the Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Emission factor for calculation of emission from combustion of natural gas for stationary source was made reference to the Guide: Greenhouse Gas Emissions Reporting on Section 4(1) of Ontario Regulation 452/09.

Note 3: Emission factors for calculation of emission from purchased electricity in the video gaming operations in Canada and the UK were made reference to the carbon footprint calculator on the London Hydro website and the ESG Energy Fuel Mix on the EDF Energy website respectively.

Note 4: Emission factors for calculation of emission from water supply and water treatment in the UK were made reference to the UK Government GHG Conversion Factors for Company Reporting.

The Group's activities contributed to 13,490.45 tonnes (0.30 tCO_2/m^2) of carbon dioxide equivalent emission (including carbon dioxide, methane and nitrous oxides) in the reporting period. Consumption of natural gas, electricity, water and paper will be discussed in the below Use of Resources section.

Business Air Travel

Employees travel by air for meetings with colleagues, suppliers and clients. The Group keeps track of their business air travels and avoids travelling by air whenever possible. During the reporting period, its business air travels contributed to a total of 12,524.37 tonnes of carbon dioxide equivalent emission. The Group is aware that business air travels contribute to a significant amount of its carbon emission. We strive to reduce our carbon footprint by encouraging the use of public transit (such as train and carpooling for local travel), providing bicycle parking, using video conference and choosing the most efficient routes for air travel whenever possible.

(iii) *Hazardous Waste*

The major hazardous wastes generated by the Group during the reporting period were cooking grease, printer toner cartridges and batteries. All hazardous wastes are collected regularly by qualified collectors. The Group's cafeteria operation installed grease trap and grease is collected regularly by qualified grease trap specialist which uses food waste as natural soil conditioner.

Hazardous Wastes	**Wastes Generated in 2017**
Cooking grease	100 gallons
Printer toner cartridges	10 kg
Batteries	13 kg

(iv) *Non-hazardous Waste*

The Group generated domestic waste, recyclable waste (including cards, paper and glasses) and organic waste. Domestic waste, recyclable waste and organic waste were collected separately. The Group also utilises reusable dishes and utensils in its cafeteria. The staff of our cafeteria operation aims to minimise organic waste by repurposing leftover food for other meals. A total of 15.32 tonnes of non-hazardous waste was generated during the reporting period.

Non-hazardous Wastes	**Wastes Generated in 2017 (in tonnes)**
Domestic waste	11.16
Recyclable waste	1.56
Organic waste*	2.6

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

2. **Use of Resources**

The Group is involved in the use of natural gas, electricity, fresh water and paper. The packaging of all tangible merchandises was outsourced, therefore the Group does not involve in any packaging materials consumption but most of the packaging materials of its merchandises were recyclable.

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

(i) Energy Consumption

The energy use involved in the Group's operation includes the consumption of natural gas and electricity. The Group consumed a total of 1,553.63 MWh (energy intensity of 0.03 MWh/m^2) in the reporting period.

Energy Consumption Sources	**Energy Consumption (in MWh)**
Natural gas	4.04
Electricity	1,549.59

a. Natural Gas

Natural gas was consumed for cooking in the cafeteria operation in Canada. A total of 3,682.37 m^3 was consumed in the reporting period. By routinely upgrading the kitchen appliances, the Group ensures efficient use of energy.

b. Electricity

The Group had consumed an electricity intensity of 0.03 MWh/m^2 during the reporting period. The Group reduces electricity consumption by:

- installing light fixtures that are energy efficient and motion activated to ensure lights are turned off during non-working hours;
- restricting heating and cooling devices with time controls;
- encouraging employees to power down their workstations when they are not in use; and
- maintaining kitchen appliances regularly to ensure operation efficiency.

(ii) *Water Consumption*

Water consumption record of Digital Extremes was not available as the consumption was managed by the office building landlord. A total of 1,950.22 m^3 (water intensity of 0.08 m^3/m^2) of water was supplied by the municipal water supplier for Splash Damage Group during the reporting period. Dual flush toilet units have been installed to reduce water consumption.

(iii) *Paper*

A total of 171.55 kg of paper used for daily office operation was disposed of during the reporting period, contributing to a total of 0.82 tonnes of equivalent carbon dioxide emission. A total of 857 kg of paper was recycled during the reporting period, contributing to a reduction of 4.11 tonnes of equivalent carbon dioxide emission.

The Group reduces paper use at source, uses paper from sustainable sources and encourages recycling of paper. To limit the use of paper, employees are provided with whiteboards and remote access to their work stations in meeting rooms. Electronic administration is adopted which encourages maintenance of electronic records rather than paper records. For unavoidable consumption, Forest Stewardship Council ("FSC") certified paper is purchased to ensure paper used is produced from sources with sustainable forest management. Recycling bins are also provided at each office desk and in common areas to encourage recycling of waste paper.

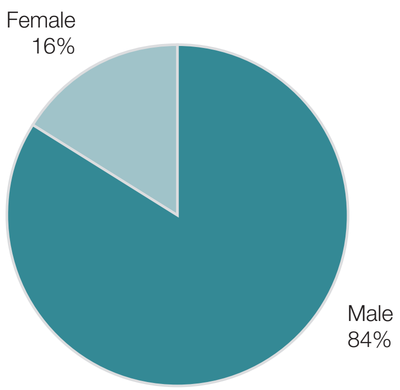
B. SOCIAL

1. Employment and Labour Practices

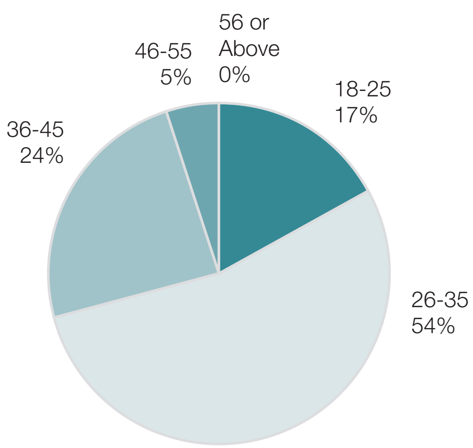
(i) *Employment*

The Group had 599 employees in UK and Canada as at 31 December 2017, all of whom were full-time employees. A total of 78 employees left the Group during the reporting period (turnover rate: 13.02%).

Distribution of Employees by Gender

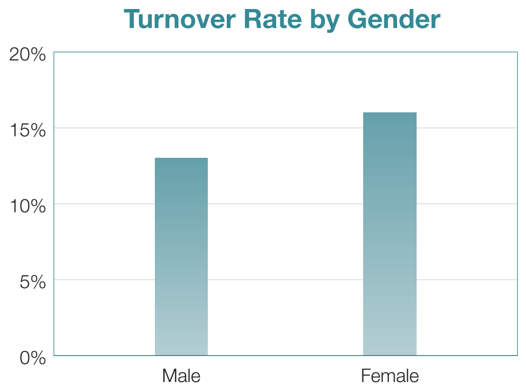


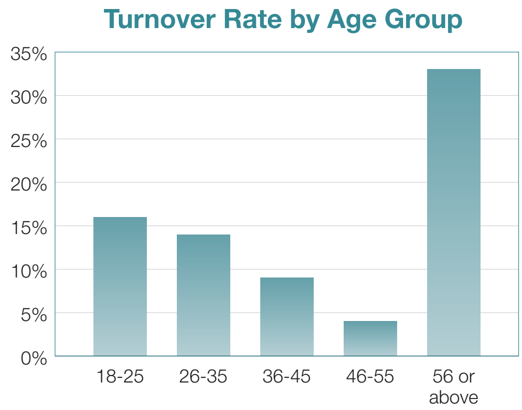
Distribution of Employees by Age Group

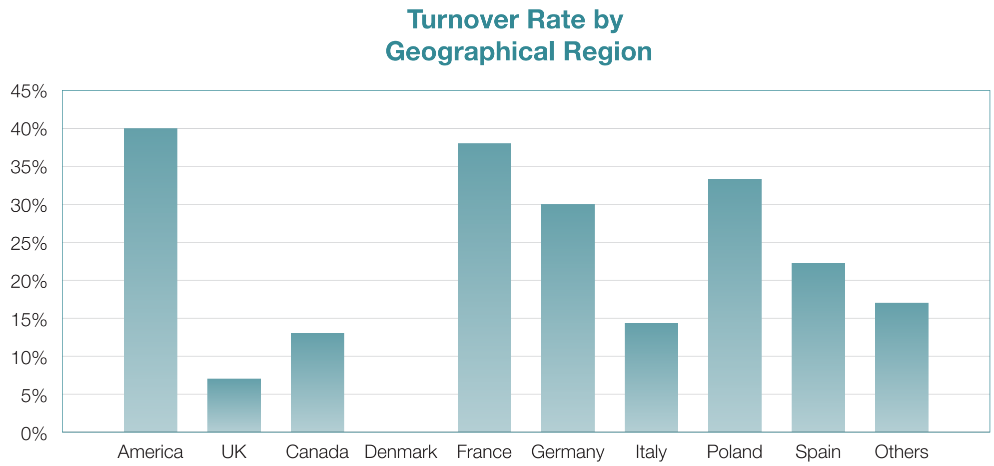


Distribution of Employees by Geographical Region

Canada	45%
UK	32%
Spain	3%
America	2%
Italy	2%
Germany	2%
Netherlands	2%
France	1%
Austria	1%
Poland	1%
Romania	1%
Others[1]	8%







[1] *Others include employees from geographical regions (less than 1% each) including Australia, Belgium, Brazil, Bulgaria, China, Finland, Greece, Hungary, India, Ireland, Latvia, Lithuania, Luxembourg, Mexico, Montenegro, New Zealand, Norway, Portugal, Russia, Slovakia, South Africa, South Korea, Sweden, Swiss, Turkey and Ukraine.*

The Group particularly values feedback from its employees. Employees can raise their concerns through weekly company updates and surveys to rate satisfaction of their workplaces, products or services. Senior management will discuss the raised topics, address areas of concern and take actions as appropriate. One of the major material ESG aspects raised by the Group's employees was salary. The Group addresses salary concerns of employees in a transparent manner by disclosing its salary benchmarking exercises to employees.

Under Brexit, Splash Damage Group had experience of European candidates not accepting jobs in the UK. Splash Damage Group will consider to be more resourceful on attracting job candidates and retaining existing employees. No material non-compliance in relation to employment was recorded during the reporting period.

Employee Compensation and Benefits

The Group meets and exceeds all applicable local laws and standards related to employment and labour practices. This includes respecting employee rights, offering competitive wages, insurance and paid leave (such as maternity, parental, compassionate, sick leave, and health days above the legislated minimum requirement), providing safe work environments, and implementing non-discriminatory hiring practices. In cases of overtime work, employees will be compensated through hourly pay, time off in lieu or annual bonuses.

The Group recruits through advertisement in an open and transparent manner. Applications from external sources or internal referral will undergo standard selection according to the requirements of the positions. Competitive salary with discretionary bonus is offered to attract talents. Salary is reviewed once to twice a year and is determined with reference to the market trend and employee's competency, qualifications and experience.

During the reporting period, Splash Damage Group was listed on the Best Company 2 Star Accreditation, a UK accreditation system for organisations that demonstrate high levels of employee engagement based on staff feedback. Digital Extremes was selected as one of Canada's Top 100 Employers (2018) due to the following reasons:

- it has an employee social committee which manages and hosts events such as rooftop party, monthly happy hours, Christmas party, summer barbecue with live band, bouncy castle, games, and face-painting;

- its office has a stocked employee lounge, game library, and canteen and dining room, with healthy meals prepared daily and special treats provided every Friday; and

- it provides maternity and parental leave top-up payments (to 80% of salary up to 32 weeks) to employees who are new mothers and allows them to extend their leave.

Employee Communication

The Group conducts regular performance reviews with its employees. Splash Damage Group communicates monthly with employees through the Employee Growth Program ("EGP"), which discusses specific areas (such as learning and development, and career planning) with its employees. Underperforming employees will be provided with assistance and support under the Performance Improvement Plan.

To strengthen employees' sense of belonging, monthly and annual social events are organised in which employees could participate with their families and friends. The Group also promotes employee wellbeing by engaging employees in different sports teams including baseball, hockey, basketball and soccer teams.

Labour Standards and Equal Opportunity

There was no child labour nor forced labour in the Group. All employees signed and agreed on the terms laid out in the employment contracts. Job applicants' identification documents are checked to ensure that they are legally entitled to work for the Group and no child labour is hired. The Group however provides opportunities to students (aging from 15 to 23 years old) who want to gain work experience. Work experience guidelines are followed in these cases. No material non-compliance in relation to prevention of child and forced labour was recorded during the reporting period.

While there is no policy on anti-discrimination, nevertheless equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws.

(ii) Employee Health and Safety

Occupational Health and Safety

Apart from complying with all local applicable occupational health and safety laws, the Group has its internal policies regarding employee health and safety as well as ergonomic hazards at workplace. Policies are regularly updated and trainings regarding fire safety, display screen equipment, stress awareness, office health and safety awareness and manual handling are provided to employees. Specialised ergonomic equipment are also provided to employees upon request.

The cafeteria operation strictly follows the safe working practices. Employee allergies are documented and taken into consideration in the kitchen areas. Any health and safety concerns or incidents will be brought to the attention of the Group's human resources department as well as the health and safety committee. Together they ensure the source of concern is addressed in a sufficient manner to prevent recurrence. No material non-compliance in relation to health and safety laws and regulations was recorded during reporting period.

Occupational Health and Safety Data in 2017

Work related fatality	0
Work injury cases >3 days	0
Work injury cases ≤3 days	0
Lost days due to work injury	0

Food Health and Safety

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

To ensure all standards under the local food safety laws are met, staff of the cafeteria regularly check the thermometers to ensure that food is kept at proper temperature during storage, preparation, cooking and service. Food is protected from cross-contamination by having a separate preparation area for raw meats. Staff also regularly washes hands, knives, dishes and cloths. All surfaces are sanitised multiple times throughout the day.

(iii) *Development and Training*

The Group does not have published policies regarding development and training. However, it provides annual funding for full-time employees to develop their careers through various means including courses at an accredited college or university, software training courses, industry seminars, events and conferences. Splash Damage Group has also created its own leadership programme. Training needs are identified through monthly appraisal conversations to ensure trainings provided are catered to employee needs.

2. Operating Practices

(i) *Supply Chain Management*

The Group has its own procurement policy and is committed to procuring in a timely, efficient and effective manner with due regard to best practices. Vendor selection is based on a variety of factors which includes the business reputation of the supplier in addition to cost effectiveness. Credit checks and margin checks are performed when necessary. Preference of vendor selection is also given to energy efficient equipment (e.g. those with A++ grade energy label). The Group engages reliable vendors and review vendors' performances and cost on a regular basis. If a supplier is not meeting the expectations, actions will be taken by the Group depending on the specific circumstances and the details of the contract. The Group involves over 600 major suppliers from all over the world including the UK, the US, Canada, Germany, Czech Republic, Netherlands, Sweden and Japan, etc.

(ii) *Product Responsibility*

The Group follows best practices and ensures all content complies with the standards set by the Entertainment Software Rating Board ("ESRB") or other ratings boards as necessary. We commit to ensuring that our games do not include restricted content unless otherwise authorised by management. This includes, but is not limited to:

- sexually explicit content;
- hate speech;
- bullying and harassment;
- sensitive events;
- gambling;
- illegal activities; and
- unauthorised use of copyrighted content.

The Group continuously incorporates valid feedback from players into the game updates to ensure constant improvement. Game products of the Group had the following nominations and awards for in the reporting period:

- Best Ongoing Game in the 2017 Game Awards (nominated);
- Labor of Love Award in the 2017 Steam Awards (won);
- Best Business for Customer Service in the Bromley Business Awards (nominated); and
- Best Business for Innovation and Growth in the Bromley Business Awards (nominated).

Product Assurance and Recall

The quality assurance department performs extensive testing on all released content to find bugs, troubleshoot and implement fixes. Bugs may be identified after the content has been released in which case the development team will implement a hotfix as soon as practicable.

During the ratings process, if the ESRB or other regulatory body identifies any infractions of their policies, the Group will be notified and will resolve any issues identified before release of the content. There was no product recalled for safety and health reasons during the reporting period.

IP Rights

Game merchandises were created using the Group's own proprietary technology which are filled with original characters, locations, sounds and music. The Group possesses a lot of internal IPs. Therefore, an internal policy has been established to ensure that adequate measures are in place to safeguard internal IPs and mitigate potential revenue loss in an event that any IP is inappropriately used by a third party. Registration of a particular IP is determined depending on the assessment of how the IP will be used, the cost in dollars and time, and the risk of loss. Newly registered trademarks will be communicated internally via email or staff communication platforms. IP rights will not be granted without a signed contract and a non-disclosure agreement in place. The Group checks online from time to time to ensure that no self-owned IP is used without consent. Employees are also aware of the Group-owned IPs through the rules and details in the employee handbook. All employees have undertaken to respect and protect both internal and third party IP rights. For any infringement found, the Group will initiate a cease and desist or a lawsuit to seek damages. No case regarding IP rights infringement was received during the reporting period.

Information Security Management

The Group handles user data in a vigilant manner. Any sensitive user data, including personally identifiable information, financial and payment information, authentication information, phonebook or contact data, microphone and camera sensor data, and sensitive device data, shall be handled securely and only shared as authorised and accepted in the terms of use of the game. Sensitive information is only accessible by those who have the authority to manage the information. The Group's employee handbook contains provisions concerning confidentiality. Employees are prohibited to access confidential information without approval or to leak the confidential information.

During the reporting period, no complaint from regulatory bodies regarding customer privacy was recorded. The Group has also reviewed its privacy policies and auditing its data storage as part of its compliance with the upcoming General Data Protection Regulation ("GDPR") legislation in the reporting period.

(iii) Anti-corruption

The Group is committed to integrity and ethical behaviour at workplace, and will foster and maintain an environment where employees can work safely and appropriately. We comply with all applicable local laws on prohibiting corruption and bribery. Our internal whistle-blower policy ensures that all employees understand that they could report any wrongdoing that may adversely impact the Group, customers, shareholders, employees, investors, or the public at large, without fear of retaliation or a negative impact on their employment status. The Group's monitoring committee has the authority to make final decisions regarding employees' wrongdoing, harassment claims, and resulting actions.

Individuals who believe that they have witnessed an act or acts of wrongdoing should report the incident(s) to the monitoring committee through email. The committee will conduct subsequent investigations which are considered confidential. Complainant and respondent will be treated fairly and respectfully with protection on privacy. Upon conclusion that an instance of workplace wrongdoing has indeed occurred, the respondent will be subject to disciplinary actions, which may result in suspension of duties, outright termination of employment and possible legal action depending on severity of the action.

The Group has not received any alerts through the whistle-blower program and there was no concluded legal case regarding corrupt practices brought against the Group or our employees during the reporting period.

3. Community Investment

The Group attaches great importance to contributing back to the community and gives vast support to charities, industry-related events and community events. Employees are empowered to participate in voluntary services of their own choices and the Group will support their cause with matching contributions; consumers are encouraged to contribute to charities through in-game promotions.

During the reporting period, the Group donated to Lester B. Pearson School, St. Jude Children's Research Hospital, charities and sponsored events as listed below. Apart from monetary contribution, the Group also helped local families in need by providing them with food and presents that were donated by our employees.

List of registered charities:

- Special Effect
- The Movember Foundation
- World Land Trust
- British Heart Foundation
- The Royal British Legion
- Macmillan Cancer Support
- War Child
- Covenant House Toronto
- Children's Health Foundation
- Leukemia & Lymphoma Society
- Canadian Cancer Society
- Stack-Up.org
- London Humane Society

List of sponsored events:

- Capital Gaming Expo
- Forest City Film Festival
- Toronto Game Jam
- Forest City Comicon
- Junior Achievement

Independent Auditors' Report

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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

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

OPINION

We have audited the consolidated financial statements of Leyou Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 80 to 185, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of game development and publishing services	
Refer to Notes 3, 4 and 6 to the consolidated financial statements.	
Game development and publishing revenue of approximately US$146,162,000 for the year ended 31 December 2017 was recognised over the estimated usage pattern that paying players typically play the game. The proceeds from sale of virtual currency through on-line game was recognised as deferred revenue. The determination of estimated average playing period of paying players for the game require significant management estimation.	Our procedures in relation to revenue recognition of game development and publishing services included: • Evaluating whether the Group's revenue recognition policies in compliance with HKFRSs for game development and publishing services; • Assessing the appropriateness of the methodologies and assumptions used in the estimation of usage pattern by checking the mathematic formula as well as comparing them with historical data and industry practice; • On sample basis, checking the key inputs used in the estimation with the original data directly extracted from the game service system; • For selected samples, re-calculate the related usage pattern of selected games, and compared the results with usage pattern prepared by management; and • Performing test of details, on a sample basis, by comparing the details and amount of the transactions selected with the details and amounts shown on the underlying documentation. We found that the accounting estimates made by the management in relation to the revenue recognition to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill	
Refer to Notes 3, 4 and 20 to the consolidated financial statements.	
The Group has goodwill of approximately US$127,641,000 relating to the computer and video games business as at 31 December 2017. Management performed impairment assessment of on-line gaming operation and retail game development business and concluded that no impairment is necessary to provide. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support the management's estimations.	Our procedures in relation to the management's impairment assessment of goodwill included: • Evaluating the competency, capabilities and objectivity of the independent professional external valuer; • Assessing the appropriateness of the valuation methodology, key assumptions and estimates used based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by the management in relation to the value in use calculations to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Acquisition of subsidiaries	
Refer to Notes 3 and 37 to the consolidated financial statements.	
On 31 March 2017 and 31 October 2017, the Group acquired the entire equity interest in Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group") and invested for 51% equity interest in Guangzhou Radiance Software Technology Co. Ltd（廣州榮端軟件科技有限公司）("Guangzhou Radiance") respectively. The total consideration was approximately US$109,100,000 and US$1,000,000 respectively. Contingent consideration payable of approximately US$51,882,000 was recognised in relation to the acquisition of Splash Damage Group. The fair value of net assets acquired from the business combination was approximately US$17,784,000 and US$1,209,000 respectively. As a result, the Group has recognised goodwill of approximately US$91,316,000 and US$383,000 respectively in the consolidated statement of financial position. The acquisition requires the identification of assets acquired and the liabilities assumed and the consideration measured at their acquisition-date fair values, which require significant management judgement. Independent external valuations were obtained in order to support the management estimations.	Our procedures in relation to the management determination the fair values of net assets acquired included: • Evaluating the competency, capabilities and objectivity of the independent professional external valuer; • Assessing the appropriateness of the valuation methodology, key assumptions and estimates used based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by the management in relation to the value in use calculations to be reasonable based on available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895
Hong Kong, 16 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	**2017** **US$'000**	2016 US$'000 (Restated)
Continuing operations			
Revenue	6	**166,736**	111,802
Cost of sales		**(55,962)**	(39,231)
Gross profit		**110,774**	72,571
Other revenue and gains	7	**611**	1,066
Net loss on financial assets at fair value through profit or loss	11	**(5,955)**	(3,864)
Impairment loss of available-for-sale financial assets		**–**	(1,164)
Loss on disposal of available-for-sale financial assets		**(2)**	(2,315)
Fair value change of contingent consideration payable	37(a)	**2,716**	–
Amortisation of intangible assets	21	**(20,364)**	(17,144)
Impairment of intangible assets	21	**(4,872)**	–
Selling and marketing expenses		**(11,958)**	(4,955)
Administrative expenses		**(28,914)**	(18,967)
Finance costs	8	**(3,371)**	(3,990)
Other operating expenses		**(1,042)**	(212)
Equity-settled share-based payment expenses	11	**(12,528)**	(1,927)
Profit before taxation	11	**25,095**	19,099
Taxation	9	**(13,823)**	(9,549)
Profit for the year from continuing operations		**11,272**	9,550
Discontinued operations			
(Loss)/profit for the year from discontinued operations	10	**(1,026)**	4,530
Profit for the year		**10,246**	14,080
Profit/(loss) for the year attributable to:			
Owners of the Company			
– from continuing operations		**9,834**	3,781
– from discontinued operations		**(1,026)**	4,351
Non-controlling interests			
– from continuing operations		**1,438**	5,769
– from discontinued operations		**–**	179
		10,246	14,080

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000 (Restated)
Earnings per share			
From continuing and discontinued operations			
Basic (US cents per share)	15	**0.30**	0.28
Diluted (US cents per share)	15	**0.30**	0.28
From continuing operations			
Basic (US cents per share)	15	**0.34**	0.13
Diluted (US cents per share)	15	**0.34**	0.13

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000 (Restated)
Profit for the year		**10,246**	14,080
Other comprehensive income/(loss) for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Loss on revaluation of available-for-sale financial assets during the year		**–**	(1,164)
Reclassification relating to fair value loss on available-for-sale financial assets		**–**	1,164
Exchange differences on translating foreign operations		**13,790**	3,169
Reclassification adjustments relating to foreign operations disposed of during the year	10(d)	**669**	(604)
Other comprehensive income for the year, net of income tax		**14,459**	2,565
Total comprehensive income for the year		**24,705**	16,645
Total comprehensive income for the year attributable to:			
Owners of the Company		**23,084**	7,781
Non-controlling interests		**1,621**	8,864
		24,705	16,645

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 US$'000	2016 US$'000 (Restated)	2015 US$'000 (Restated)
Non-current assets				
Property, plant and equipment	17	**6,121**	2,205	57,502
Investment property	18	**–**	–	135
Prepaid lease payments	19	**–**	–	7,372
Prepayment for prepaid lease payments		**–**	–	3,857
Goodwill	20	**127,641**	27,443	26,566
Intangible assets	21	**57,913**	60,409	74,798
Development expenditure	22	**12,364**	624	416
Biological assets	23	**–**	–	839
Deferred tax assets	16	**–**	–	512
Available-for-sales financial assets	24	**8,100**	4,427	10,195
		212,139	95,108	182,192
Current assets				
Inventories	25	**285**	272	28,697
Biological assets	23	**–**	–	2,360
Trade receivables	26	**31,538**	13,733	17,476
Deposits paid, prepayments and other receivables	27	**19,450**	60,352	31,125
Financial assets at fair value through profit or loss	28	**1,900**	35,890	28,629
Prepaid lease payments	19	**–**	–	201
Tax recoverable		**2,221**	1,030	19,895
Pledged bank deposits		**–**	–	2,191
Cash and bank balances	29	**45,898**	13,139	20,042
		101,292	124,416	150,616
Current liabilities				
Trade payables	30	**1,977**	270	10,483
Accruals and other payables	31	**8,094**	7,659	15,471
Consideration payable	37(a)	**6,407**	–	–
Bank borrowings		**–**	–	41,871
Deferred revenue	32	**8,898**	3,406	2,833
Tax payable		**–**	–	20,188
Bond	33	**–**	20,955	–
		25,376	32,290	90,846
Net current assets		**75,916**	92,126	59,770
Total assets less current liabilities		**288,055**	187,234	241,962

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 US$'000	2016 US$'000 (Restated)	2015 US$'000 (Restated)
Equity				
Share capital	36	**39,597**	37,003	37,003
Reserves		**181,956**	109,107	140,592
Equity attributable to owners of the Company		**221,553**	146,110	177,595
Non-controlling interests		**4,441**	3,350	35,565
Total equity		**225,994**	149,460	213,160
Non-current liabilities				
Deferred tax liabilities	16	**13,495**	16,229	23,231
Deferred revenue	32	**1,640**	–	5,037
Consideration payable	37(a)	**46,358**	–	–
Bond	33	**–**	20,993	–
Debenture	34	**568**	552	534
Total non-current liabilities		**62,061**	37,774	28,802
Total equity and non-current liabilities		**288,055**	187,234	241,962

Approved by the board of directors on 16 March 2018 and signed on its behalf by:

Mr. Xu Yiran
Executive Director

Mr. Gu Zhenghao
Executive Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Equity attributable to owners of the Company										
	Share capital US$'000	Share premium* US$'000	Capital reserve* US$'000	Exchange reserve* US$'000 (Note (a))	Statutory reserve* US$'000 (Note (b))	Other reserve* US$'000	Share option reserve* US$'000 (Note (c))	Retained earnings* US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
As at 1 January 2016 (Restated)	37,003	133,559	2,216	(7,349)	7,373	5,815	3,697	(4,719)	177,595	35,565	213,160
Profit for the year	–	–	–	–	–	–	–	8,132	8,132	5,948	14,080
Other comprehensive (loss)/income for the year	–	–	–	(351)	–	–	–	–	(351)	2,916	2,565
Total comprehensive (loss)/income for the year	–	–	–	(351)	–	–	–	8,132	7,781	8,864	16,645
Reclassification adjustments relating to disposal of subsidiaries (Note 10(d))	–	–	(2,653)	–	(7,373)	(5,815)	–	15,841	–	(2,152)	(2,152)
Acquisition of additional interest in subsidiaries	–	–	–	6,718	–	(47,911)	–	–	(41,193)	(23,970)	(65,163)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	1,927	–	1,927	–	1,927
Lapse of share options	–	–	–	–	–	–	(917)	917	–	–	–
Dividend paid to non-controlling interests (Note 46)	–	–	–	–	–	–	–	–	–	(14,957)	(14,957)
As at 31 December 2016 (Restated) and 1 January 2017	37,003	133,559	(437)	(982)	–	(47,911)	4,707	20,171	146,110	3,350	149,460
Profit for the year	–	–	–	–	–	–	–	8,808	8,808	1,438	10,246
Other comprehensive income for the year	–	–	–	14,276	–	–	–	–	14,276	183	14,459
Total comprehensive income for the year	–	–	–	14,276	–	–	–	8,808	23,084	1,621	24,705
Acquisition of subsidiaries (Note 37(b))	–	–	–	–	–	–	–	–	–	592	592
Issue of shares by placing (Note 36(b))	1,872	29,948	–	–	–	–	–	–	31,820	–	31,820
Transaction costs on placement of shares (Note 36(b))	–	(649)	–	–	–	–	–	–	(649)	–	(649)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	12,528	–	12,528	–	12,528
Exercise of share options (Note 36(a))	722	9,971	–	–	–	–	(2,033)	–	8,660	–	8,660
Lapse of share options	–	–	–	–	–	–	(2,674)	2,674	–	–	–
Capital injection from non-controlling interests (Note 46)	–	–	–	–	–	–	–	–	–	2	2
Dividend paid to non-controlling interests (Note 46)	–	–	–	–	–	–	–	–	–	(1,124)	(1,124)
As at 31 December 2017	**39,597**	**172,829**	**(437)**	**13,294**	**-**	**(47,911)**	**12,528**	**31,653**	**221,553**	**4,441**	**225,994**

* These reserve accounts comprise the consolidated reserves of US$181,956,000 (31 December 2016: US$109,107,000 and 31 December 2015: US$140,592,000) in the consolidated statement of financial position.

Notes:

(a) Exchange reserve

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

(b) Statutory reserve

Subsidiaries of the Company established in the People's Republic of China (the "PRC") shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

(c) Share option reserve

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000 (Restated)
Operating activities			
Profit before taxation from continuing operations		**25,095**	19,099
(Loss)/profit before taxation from discontinued operations		**(1,017)**	4,785
Adjustments for:			
Interest income		**(240)**	(900)
Interest expenses	8	**3,371**	3,990
Loss/(gain) on disposal of subsidiaries	10(d)	**986**	(1,579)
Impairment loss on available-for-sale financial assets		**–**	1,164
Loss on disposal of available-for-sale financial assets		**2**	2,315
Net loss on financial assets at fair value through profit or loss	11	**5,955**	5,519
Net loss on disposal of property, plant and equipment		**6**	5
Depreciation and amortisation		**528**	4,461
Amortisation of intangible assets		**20,364**	17,144
Impairment loss of intangible assets		**4,872**	–
Equity-settled share-based payment expenses		**12,528**	1,927
Fair values of agricultural produce on initial recognition	10(a)	**–**	(16,582)
Reversal of fair values of agricultural produce due to hatch and disposals	10(a)	**–**	15,632
Change in fair values less costs to sell of biological assets	10(a)	**–**	(612)
Chang in fair value of contingent consideration payable	37(a)	**(2,716)**	–
Impairment loss on deposit paid, prepayments and other receivables		**954**	–
Operating cash flows before movements in working capital		**70,688**	56,368
Increase in biological assets		**–**	(138)
Increase in trade receivables		**(12,687)**	(1,835)
Decrease/(increase) in deposits paid, prepayments and other receivables		**30,845**	(70,569)
Decrease/(increase) in financial assets at fair value through profit or loss		**30,185**	(16,470)
Decrease in inventories		**6**	12,813
Increase/(decrease) in trade payables		**1,478**	(1,073)
(Decrease)/increase in accruals and other payables		**(10,178)**	42,766
Cash generated from operations		**110,337**	21,862
Interest paid		**(3,355)**	(1,692)
Income tax paid		**(20,184)**	(17,260)
Net cash generated from operating activities		**86,798**	2,910

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000 (Restated)
Investing activities			
Dividends paid		**(1,124)**	(14,957)
Interest received		**58**	61
Net cash outflow from acquisition of subsidiaries	37	**(45,404)**	–
Net cash inflow from disposal of subsidiaries	10(e)	**11,827**	29,230
Proceeds from disposal of property, plant and equipment		**227**	134
Purchase of property, plant and equipment	17	**(4,231)**	(1,399)
Increase in intangible assets	21	**(3,998)**	–
Increase in development cost capitalised	22	**(11,697)**	(634)
Prepayment of prepaid lease payment		**–**	52
Proceeds from disposal of available-for-sale financial assets		**4,421**	2,285
Purchase of available-for-sale financial assets		**(8,100)**	–
Purchase of financial assets at fair value through profit and loss		**(1,900)**	–
Decrease in pledged bank deposits		**–**	2,182
Increase in deferred revenue		**6,680**	272
Net cash (used in)/generated from investing activities		**(53,241)**	17,226
Financing activities			
Repayments of bank borrowings		**(5)**	(16,496)
Proceeds from bank borrowings		**–**	15,103
Issue of share	36(a)	**31,820**	–
Issue of bond		**–**	41,972
Repayment of bond		**(41,875)**	–
Proceed on acquisition of partial interest in a subsidiary		**–**	(65,163)
Capital contribution from non-controlling interest	46	**2**	–
Exercise of share option	36(a)	**8,660**	–
Payment for transaction costs attributable to issue of shares	36(b)	**(649)**	–
Net cash used in financing activities		**(2,047)**	(24,584)
Net increase/(decrease) in cash and cash equivalents		**31,510**	(4,448)
Cash and cash equivalents at beginning of the year		**13,139**	20,042
Effect of foreign exchange rate changes, net		**1,249**	(2,455)
Cash and cash equivalents at end of the year		**45,898**	13,139

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

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

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

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

In the current year, the Group has applied, for the first time, a number of the new and revised standards, amendments and interpretations ("new and revised HKFRSs") (which included all HKFRSs, Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2017. A summary of the new and revised HKFRSs are set out as below:

HKAS 7 (Amendments)	Disclosure Initiative
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 (Amendments)	As Part of the Annual Improvement to HKFRSs 2014-2016 Cycle

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

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective in the consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures[2]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instruments[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
HKFRS 16	Leases[3]
HKFRS 17	Insurance Contracts[6]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.
2 Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.
3 Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted provided HKFRS 15 Revenue from Contracts with Customers is also applied.
4 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.
6 Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" measurement category for certain simple debt instruments.

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

HKFRS 9 Financial Instruments (continued)

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Impairment

In general, the directors of the Company (the "Directors") also anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the Directors do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact to the opening accumulated losses at 1 January 2018.

Except for abovementioned, the Directors anticipate that the adoption of HKFRS 9 in the future will not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2017.

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

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

Based on the Directors' assessment on the adoption of HKFRS 15, the Group expects the effects of applying HKFRS 15 on the Group's consolidated financial statements to be insignificant.

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

HKFRS 16 Leases

HKFRS 16 was issued on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. HKFRS 16 replaces all existing lease accounting requirements and represents a significant change in the accounting and reporting of leases, with more assets and liabilities to be reported on the consolidated statement of financial position and a different recognition of lease costs.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.

Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments to these consolidated financial statement. As disclosed in Note 42 of this annual report, the Group's future minimum lease payments under non-cancellable operating leases for its leased premises amounted to US$25,301,000 as at 31 December 2017. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's result, but it is expected that certain portion of the lease commitments will be regarded to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

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

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

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

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

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

The Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the above new and revised HKFRSs, will have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, HKASs and Interpretations issued by the HKICPA, and accounting principles generally accepted in HK. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for biological assets and agricultural produce and certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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

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

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

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

Change in presentation currency

During the year ended 31 December 2017, the Company changed its presentation currency from Renminbi ("RMB") to US$. The Directors considered that the use of US$ is more meaningful in presenting the operating results and financial position of the Group given the operations of the Group and would result in a more appropriate presentation of the Group's transactions in these consolidated financial statements.

The change in presentation currency has been applied retrospectively. As a result, the comparative figures in these consolidated financial statements are translated from RMB to US$ using the applicable closing rates at the end of the relevant reporting periods for items in the consolidated statement of financial position, average rate for the relevant period for consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flow items and historical rates for the items in the consolidated statement of changes in equity.

The principal accounting policies are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Change in the Group's ownership interests in existing subsidiaries

Change in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

Business combinations

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

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

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

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generated units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss as follows:

(a) Game development and publishing

Game development and publishing represent on-line game revenue from current operations. The proceeds from the sale of virtual goods are initially recorded in deferred revenue. Revenue is recognised over the estimated usage pattern that paying players typically play the game. Future paying player usage patterns and behavior may differ from the historical usage patterns and therefore the estimated average playing periods may change in the future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(b) Work-for-hire

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

(c) Game-hosting and supporting

The Group holds the backbone server platform and provides game-hosting and supporting services for customers. When related service is delivered, revenue recognised at a monthly rate for a certain usage level, and at a predetermined rate when the actual usage is beyond that level when services have been delivered.

(d) Sales of merchandise goods

Revenue from sales of merchandise goods is recognised when the risk and rewards of the goods have been transferred to the customer, which is usually at the date when the goods are delivered to the customer, the customer has accepted the products and there is no unfulfilled obligations that could affect the customer's acceptance of the goods.

(e) Interest income

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Research and development costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

The Group as lessee

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

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

Foreign currencies

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

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

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

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

Borrowing costs

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

A defined contribution plan is a pension plan under which the Group's subsidiaries which operate in the United Kingdom ("UK") pay fixed contributions into a separate entity. The Group's subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group's subsidiaries have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements

Equity-settled share-based payments to employees and other providing similar services are measured at fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 35.

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

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

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Taxation

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

Current tax

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

Deferred tax

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax (continued)

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

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

Buildings	10 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles	5 – 10 years
Tools	3 – 5 years

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

Investment property

Investment property is a building component held for long-term rental yields and is not occupied by the Group.

The investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amount over the estimated useful lives of 30 years.

Intangible assets (other than goodwill)

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

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

Development expenditures

Development expenditure include payments made to independent software developers under development agreements. The Group enters into agreements with third party developers that require advance payments for game development and production services. In exchange for the advance payments, the Group receives the exclusive publishing and distribution rights to the finished game title. These agreements allow the Group to recover the payments from the developers earned on the subsequent retail sales of such software, net of any agreed upon costs. After the Group fully recover the development expenditures, the Group and the developer will share the revenue at an agreed rate. Subsequent to establishing technological feasibility of the product, the Group capitalises all development and production service payments to third party developers as development expenditures. Significant management judgements and estimates are utilised in the assessment of when technological feasibility is established.

Amortisation of development expenditures commences when the product is commercially released and will be recorded in cost of goods sold. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Group. If that pattern cannot be determined reliably, the straight-line method shall be used.

Inventories

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

Agricultural produce is included under inventories at its fair value less costs to sell at the point of lay, subsequently included under inventory and stated at the lower of cost and net realisable value.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Biological assets and agricultural produce

Biological assets are stated at fair value less costs to sell, with any resultant gain or loss recognised in the consolidated statement of profit or loss. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Agricultural produce, which comprises broiler eggs, is initially measured at its fair value less costs to sell at the point of lay. Any resultant gain or loss recognised in consolidated statement of profit or loss.

Prepaid lease payments

Prepaid lease payments represent the purchase costs of land use rights and are amortised on a straight-line basis over the period of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses.

Provisions

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

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

Cash and cash equivalents

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified into three of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near term; or

(b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(c) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "net loss on financial assets at fair value through profit or loss" line item. Fair value is determined in the manner described in Note 40(c).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits paid and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

(a) significant financial difficulty of the issuer or counterparty; or

(b) default or delinquency in interest or principal payments; or

(c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

(d) the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 71 – 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at FVTPL or other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL, when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain is included in the fair value change of consideration payable line item in profit or loss. Fair value is determined in the manner described in Note 40(c).

Other financial liabilities

Financial liabilities (including trade payables, accruals and other payables, bond, debenture, bank borrowings and consideration payable) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties transactions

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

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

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

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

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

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

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

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

Individually material operating segments are not aggregate for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment

The Group reviews its property, plant and equipment for indications of impairment at the end of each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(b) Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables and doubtful debt expenses in the reporting period in which such estimate has been changed. The carrying amounts of deposits paid, prepayments and other receivables at the end of the reporting period were US$19,450,000 (2016: US$60,352,000) and impairment loss of US$954,000 (2016: Nil) was recognised during the year ended 31 December 2017.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Income taxes

Determining income tax provisions involve judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of intangible assets at the end of the reporting period were US$57,913,000 (2016: US$60,409,000) and impairment loss of US$4,872,000 (2016: Nil) was recognised during the year ended 31 December 2017.

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of goodwill at the end of the reporting period were US$127,641,000 (2016: US$27,443,000) and no impairment loss was recognised during the year ended 31 December 2017 (2016: Nil).

(g) Revenue recognition on game development and publishing

The Group recognises revenue from durable and consumable virtual items in game publishing rateably over the estimated average playing period of paying players for the applicable game. The determination of the estimated average playing period is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimate is subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the estimated average playing period as a result of new information will be accounted for as a change in accounting estimate.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(h) Impairment of available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment as a result of loss events. The Group exercises judgement in determining whether there is objective evidence of occurrence of loss events, which result in a decrease in estimated future cash flows of the financial assets. The estimation of future cash flows also requires judgement. In the assessment of impairment of available-for-sale equity instruments, the Group also considers whether there has been a significant or prolonged decline in fair value below their cost. The determination of what is a significant or prolonged decline requires management judgement.

Management estimates and judgements may change from time to time based upon future events that may or may not occur and changes in these estimates and judgements could adversely affect the carrying amounts of available-for-sale financial assets. The carrying amounts of available-for-sale financial assets at the end of the reporting period were US$8,100,000 (2016: US$4,427,000) and no impairment loss was recognised during the year ended 31 December 2017 (2016: US$1,164,000).

(i) Fair value of contingent consideration payable

The fair value of contingent consideration payable was determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including the discount rates and estimation of future performance. Changes in assumptions used could materially affect the Group's financial condition and results of operations. As at 31 December 2017, the carrying amount of contingent consideration payable amounted to US$51,882,000 (2016: Nil) and a gain on change in fair value of contingent consideration payable of US$2,716,000 (2016: Nil) was recognised during the year ended 31 December 2017.

(j) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2017 was US$8,100,000 (2016: Nil). Further details are included in Note 24 to the consolidated financial statements.

5. SEGMENT INFORMATION

During the year ended 31 December 2017, the Group operated in one operating segment which was the business of on-line game operation and retail game development. The segment of chicken meat, chicken breeds and animal feeds was discontinued during the year ended 31 December 2016. A single management team reported to the Directors (being the chief operating decision-maker) who comprehensively managed the entire business. Accordingly, the Group has not presented separate segment information.

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from continuing operation from external customers during the year and the Group's non-current assets. The geographical locations of the customers are determined based on the locations of the principal operations of the subsidiaries.

5. SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

The Group's non-current assets included property, plant and equipment, goodwill, intangible assets, development expenditure and available-for-sale financial assets. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of goodwill, intangible assets, development expenditure and available-for-sale financial assets, they are based on the location of operations to which these assets are allocated.

Revenue from continuing operations from external customers

	2017 **US$'000**	2016 US$'000 (Restated)
Canada	**144,080**	111,802
UK	**22,656**	–
	166,736	111,802

Non-current assets

	2017 **US$'000**	2016 US$'000 (Restated)
Canada	**80,496**	89,525
UK	**115,080**	–
PRC	**115**	21
HK	**16,448**	5,562
	212,139	95,108

Other information

Revenue from major products

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

	2017 **US$'000**	2016 US$'000 (Restated)
Computer and video games	**166,736**	111,802

5. SEGMENT INFORMATION (CONTINUED)

Other information (continued)

Information about major customers

Three individual customers each contributed over 10% of the total revenue of the Group from continuing operations during the year ended 31 December 2017 (2016: four).

Revenue from each of the three (2016: four) major customers with whom transactions amounted to 10% or more of the Group's revenue from continuing operations is set out below:

	2017	2016
	US$'000	US$'000
		(Restated)
Customer A[1]	**47,840**	36,539
Customer B[1]	**30,562**	25,551
Customer C[1]	**28,101**	23,611
Customer D[1,2]	**–**	11,649

1 Revenue from game development and publishing

2 No information on revenue for current year is disclosed for this customer since it did not contribute over 10% of the Group's revenue for the year ended 31 December 2017.

6. REVENUE

Continuing operations

	2017	2016
	US$'000	US$'000
		(Restated)
Game development and publishing	**146,162**	111,551
Work-for-hire	**19,470**	–
Game-hosting and support service	**787**	–
Sale of merchandise goods	**317**	251
	166,736	111,802

7. OTHER REVENUE AND GAINS

Continuing operations

	2017 US$'000	2016 US$'000 (Restated)
Interest income on:		
Bank deposits	**58**	56
Other receivables	**182**	839
Total interest income	**240**	895
Net exchange gain	**–**	171
Sundry income	**371**	–
	611	1,066

8. FINANCE COSTS

Continuing operations

	2017 US$'000	2016 US$'000 (Restated)
Interest on:		
Bank borrowings	**–**	190
Bond	**3,319**	3,750
Debenture	**52**	50
	3,371	3,990

9. TAXATION

Continuing operations

	2017 US$'000	2016 US$'000 (Restated)
Canada corporate income tax		
– current year	**20,605**	15,969
UK corporate income tax		
– current year	**(1,096)**	–
Deferred tax (Note 16)		
– current year	**(5,686)**	(6,420)
Income tax expense	**13,823**	9,549

	2017 US$'000	2016 US$'000 (Restated)
Profit before taxation	**25,095**	19,099
Notional tax on profit before taxation calculated at rates applicable to profits in the countries concerned	**9,881**	7,348
Tax effect of the expense not deductible for tax purpose	**5,410**	646
Tax effect of income not taxable for tax purpose	**(550)**	(88)
Tax effect of unrecognised temporary difference	**(5,686)**	(6,420)
Special tax relief	**(5)**	–
Tax effect of tax loss not recognised	**4,773**	8,063
	13,823	9,549

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group was not subject to any income tax in the Cayman Islands and BVI during the reporting period (2016: Nil).

(b) No provision for HK profits tax has been made as the Group did not have assessable profits subject to HK profits tax during the reporting period (2016: Nil).

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Enterprise Income Tax ("EIT") at a tax rate of 25% for the year ended 31 December 2017 and 2016.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada were liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the years ended 31 December 2017 and 2016.

9. TAXATION (CONTINUED)

Continuing operations (continued)

Notes: (continued)

(e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK were liable to UK CIT at a tax rate of 19% for the nine months ended 31 December 2017. The Group took advantage of Video Games Tax Relief which was tax relief of 25% of qualifying expenditure on qualifying video games as certified by the British Film Institute. Qualifying expenditure is 80% of development costs incurred within the European Economic Area.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2017 would not be distributed in the foreseeable future (2016: Nil).

10. DISCONTINUED OPERATIONS

On 20 September 2017, the Company disposed of its entire interest in Leyou World Limited and its subsidiary (collectively referred to as the "Leyou World Group") at a consideration of approximately US$11,836,000 (equivalent to HK$92,400,000). The operations of the Leyou World Group represented the PRC segments of the Group and the disposal of the business was treated as discontinued operations in these consolidated financial statements in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

On 30 September 2016, the Company disposed of its entire interest in Sumpo International Holdings Limited and its subsidiaries (collectively referred to as the "Sumpo Group"). The operations of the Sumpo Group represented the business segments of chicken meats, chicken breeds and animal feeds of the Group and the disposal of the business was treated as discontinued operations in these consolidated financial statements in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The comparative consolidated statement of profit or loss, profit/(loss) before taxation stated in these consolidated financial statements and the relevant disclosure notes for profit or loss items are re-presented for discontinued operations in the current year.

(Loss)/profit from the discontinued operations were as follows:

	2017 **US$'000**	2016 US$'000 (Restated)
(Loss)/profit for the year (Note 10(a))	**(40)**	2,951
(Loss)/gain on disposal of subsidiaries (Note 10(d))	**(986)**	1,579
(Loss)/profit from discontinued operations	**(1,026)**	4,530

10. DISCONTINUED OPERATIONS (CONTINUED)

(a) Analysis of the results of discontinued operations is as follows:

	2017 Trading business US$'000
Revenue	**4,767**
Cost of sales	**(4,549)**
Gross profit	**218**
Administrative expenses	**(249)**
Loss before taxation	**(31)**
Taxation	**(9)**
Loss for the year	**(40)**
Loss attributable to owners of the Company	**(40)**
Basic	
Loss per share from discontinued operations (US cents per share)	**(0.04)**
Diluted	
Loss per share from discontinued operations (US cents per share)	**(0.04)**

10. DISCONTINUED OPERATIONS (CONTINUED)

(a) Analysis of the results of discontinued operations is as follows: (continued)

	Poultry business US$'000	Trading business US$'000	2016 Total US$'000 (Restated)
Revenue	142,610	16,777	159,387
Cost of sales	(127,489)	(15,650)	(143,139)
Gross profit	15,121	1,127	16,248
Other revenue and gains	1,485	30	1,515
Net loss on financial assets at fair value through profit or loss	(1,655)	–	(1,655)
Fair value of agricultural produce on initial recognition	16,582	–	16,582
Reversal of fair value of agricultural produce due to hatch and disposals	(15,632)	–	(15,632)
Change in fair value less costs to sell of biological assets	612	–	612
Selling and marketing expenses	(4,337)	–	(4,337)
Administrative expenses	(5,133)	(706)	(5,839)
Finance cost	(1,632)	–	(1,632)
Other operating expenses	(2,656)	–	(2,656)
Profit before taxation	2,755	451	3,206
Taxation	(251)	(4)	(255)
Profit for the year	2,504	447	2,951
Profit attributable to:			
Owners of the Company	2,325	447	2,772
Non-controlling interests	179	–	179
	2,504	447	2,951
Basic			
Earnings per share from discontinued operations (US cents per share)			0.15
Diluted			
Earnings per share from discontinued operations (US cents per share)			0.15

10. DISCONTINUED OPERATIONS (CONTINUED)

(b) (Loss)/profit before taxation from discontinued operations has been arrived at after (crediting)/ charging the following:

	2017 Trading business US$'000
Staff cost	**114**
Operating lease rental expenses	**54**
Depreciation of property, plant and equipment (Note 17)	**8**

	Poultry business US$'000	Trading business US$'000	2016 Total US$'000 (Restated)
(Gain)/loss on disposal of property, plant and equipment	(1)	6	5
Staff cost	2,576	205	2,781
Depreciation of investment property (Note 18)	4	–	4
Amortisation of prepaid lease payment (Note 19)	150	–	150
Depreciation of property, plant and equipment (Note 17)	3,074	12	3,086
Operating lease rental expenses	128	127	255
Research and development costs	714	–	714

10. DISCONTINUED OPERATIONS (CONTINUED)

(c) Analysis of the cash flows of discontinued operations is as follows:

	2017 Trading business US$'000
Net cash outflow from operating activities and net decrease in cash and bank balances	**(71)**

	Poultry business US$'000	Trading business US$'000	2016 Total US$'000 (Restated)
Net cash inflow/(outflow) from operating activities	251	(3,343)	(3,092)
Net cash inflow/(outflow) from investing activities	643	(11)	632
Net cash outflow from financing activities	(1,393)	(596)	(1,989)
Net decrease in cash and bank balances	(499)	(3,950)	(4,449)

10. DISCONTINUED OPERATIONS (CONTINUED)

(d) Disposal of subsidiaries

Analysis of assets and liabilities over which control was lost:

	2017 US$'000	2016 US$'000 (Restated)
Net (liabilities)/assets disposed of		
Property, plant and equipment (Note 17)	**13**	51,890
Investment property (Note 18)	**–**	129
Prepaid leases payments (Note 19)	**–**	7,301
Prepayment for prepaid lease payment	**–**	3,743
Biological assets (Note 23)	**–**	3,888
Deferred tax assets (Note 16)	**–**	500
Inventories	**–**	16,159
Trade receivables	**–**	5,724
Prepayment and other receivables	**12,156**	41,214
Financial assets at fair value through profit or loss	**–**	3,749
Pledged bank deposits (Note 10(e))	**–**	850
Cash and cash equivalents (Note 10(e))	**9**	2,145
Trade payables	**–**	(9,009)
Accruals and other payables	**(25)**	(13,951)
Bank borrowings	**–**	(39,810)
Amount due to the Group	**(12,979)**	(36,315)
Deferred revenue	**–**	(4,742)
Tax payable	**–**	(63)
	(826)	33,402
(Loss)/gain on disposal of subsidiaries		
Net liabilities/(assets) disposed of	**826**	(33,402)
Consideration	**11,836**	32,225
Cumulative exchange gain/(loss) in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	**(669)**	604
Waiver of amount due to the Group	**(12,979)**	–
Derecognition of non-controlling interest	**–**	2,152
	(986)	1,579

10. DISCONTINUED OPERATIONS (CONTINUED)

(e) Net cash inflow on disposal of subsidiaries

	2017 US$'000	2016 US$'000 (Restated)
Analysis of net cash flow in respect of the disposal of subsidiaries is as follows:		
Cash consideration received	**11,836**	32,225
Pledged bank deposits (Note 10(d))	**–**	(850)
Cash and cash equivalents disposed of (Note 10(d))	**(9)**	(2,145)
Net cash inflow from disposal of subsidiaries	**11,827**	29,230

11. PROFIT BEFORE TAXATION

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

Continuing operations

	2017 US$'000	2016 US$'000 (Restated)
Staff costs including Directors' remuneration (Note 12)	**17,156**	18,442
Equity-settled share-based payment expenses	**12,528**	1,927
Retirement schemes benefits	**940**	467
Total staff costs	**30,624**	20,836
Depreciation of property, plant and equipment (Note 17)	**520**	784
Amortisation of intangible assets (Note 21)	**20,364**	17,144
Amortisation of development expenditure (Note 22)	**–**	437
Total depreciation and amortisation (including intangible assets)	**20,884**	18,365
Auditors' remuneration		
– Audit service	**218**	232
– Other service	**45**	77
Operating lease rental expenses	**2,737**	1,390
Loss on disposal of property, plant and equipment	**6**	–
Impairment of deposits paid, prepayments and other receivables	**954**	–

11. PROFIT BEFORE TAXATION (CONTINUED)

Net loss on financial assets at fair value through profit or loss:

Continuing operations

	2017 **US$'000**	2016 US$'000 (Restated)
Proceeds on sales	**8,414**	5,928
Less: Cost of sales	**(12,249)**	(8,945)
Net realised loss on financial assets at fair value through profit or loss	**(3,835)**	(3,017)
Unrealised loss on financial assets at fair value through profit or loss	**(2,120)**	(847)
Net loss on financial assets at fair value through profit and loss	**(5,955)**	(3,864)

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' emoluments for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c), and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 **US$'000**	2016 US$'000 (Restated)
Directors' fees	**97**	77
Other emoluments:		
Salaries, allowances and benefits in kind	**882**	981
Discretionary bonus	**229**	120
Retirement schemes contributions	**5**	9
Equity-settled share-based payment expenses	**3,662**	267
	4,778	1,377
	4,875	1,454

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Details for the emoluments of each director of the Company during the reporting period are as follows:

For the year ended 31 December 2017

	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonus US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment expenses US$'000	Total US$'000
Executive directors:						
Mr. Xu Yiran *(Chairman and CEO)* (Note (a))	–	310	154	–	1,831	2,295
Mr. Gu Zhenghao (Note (b))	–	49	–	–	1,831	1,880
Mr. Cao Bo (Note (c))	–	21	–	–	–	21
Mr. Lin Qinglin (Note (d))	–	105	–	2	–	107
Mr. Wu Shiming (Note (e))	–	84	–	2	–	86
Mr. Law Kin Fat (Note (f))	–	244	64	1	–	309
Mr. Hsiao Shih-Jin (Note (g))	–	32	–	–	–	32
Mr. Wong Ka Fai Paul (Note (h))	–	37	11	–	–	48
	–	882	229	5	3,662	4,778
Non-executive directors:						
Mr. Eric Todd	15	–	–	–	–	15
Mr. Li Zhigang (Note (i))	14	–	–	–	–	14
Mr. Cheng Chi Ming Brian (Note (j))	14	–	–	–	–	14
	43	–	–	–	–	43
Independent non-executive directors:						
Mr. Hu Chung Ming	15	–	–	–	–	15
Mr. Chan Chi Yuen	15	–	–	–	–	15
Mr. Kwan Ngai Kit (Note (k))	8	–	–	–	–	8
Mr. Yang Chia Hung (Note (l))	16	–	–	–	–	16
	54	–	–	–	–	54
	97	882	229	5	3,662	4,875

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

For the year ended 31 December 2016

	Directors' fees US$'000 (Restated)	Salaries, allowances and benefits in kind US$'000 (Restated)	Discretionary bonus US$'000 (Restated)	Retirement scheme contributions US$'000 (Restated)	Equity-settled share-based payment expenses US$'000 (Restated)	Total US$'000 (Restated)
Executive directors:						
Mr. Lin Qinglin *(former Chairman)* (Note (d))	–	155	–	2	–	157
Mr. Wu Shiming (Note (e))	–	124	–	2	–	126
Mr. Law Kin Fat *(former Vice Chairman)* (Note (f))	–	473	120	2	187	782
Mr. Hsiao Shih-Jin (Note (g))	–	50	–	–	–	50
Mr. Wong Ka Fai Paul (Note (h))	–	122	–	2	–	124
Mr. He Zhigang (Note (m))	–	57	–	1	80	138
	–	981	120	9	267	1,377
Non-executive director:						
Mr. Eric Todd	16	–	–	–	–	16
Independent non-executive directors:						
Mr. Hu Chung Ming	16	–	–	–	–	16
Mr. Chan Chi Yuen	16	–	–	–	–	16
Mr. Chau On Ta Yuen (Note (n))	5	–	–	–	–	5
Mr. Yang Chia Hung (Note (l))	24	–	–	–	–	24
	61	–	–	–	–	61
	77	981	120	9	267	1,454

The chairman and chief executive officer's emoluments shown were mainly for his services in connection with the management of the affairs of the Group.

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Group.

The non-executive director's emoluments shown were mainly for his services as director of the Company.

The independent non-executive directors' emoluments shown were mainly for their service as directors of the Company.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Notes:

(a) Mr. Xu Yiran has been appointed as an executive director of the board and chief executive officer dated on 30 June 2017 and retired on 25 August 2017. He has been re-appointed as an executive director and chairman of the board dated on 5 September 2017.

(b) Mr. Gu Zhenghao has been appointed as an executive director of the board dated on 14 March 2017.

(c) Mr. Cao Bo has been appointed as an executive director of the board dated on 5 September 2017.

(d) Mr. Lin Qinglin has been resigned as an executive director and chairman of the board dated on 5 September 2017.

(e) Mr. Wu Shiming has been resigned as an executive director of the board dated on 5 September 2017.

(f) Mr. Law Kin Fat has been resigned as an executive director and vice chairman of the board dated on 30 June 2017.

(g) Mr. Hsiao Shih-Jin has been resigned as an executive director of the board dated on and 5 July 2017.

(h) Mr. Wong Ka Fai Paul has been resigned as an executive director of the board dated on 14 March 2017.

(i) Mr. Li Zhigang has been appointed as a non-executive director of the board dated on 5 September 2017.

(j) Mr. Cheng Chi Ming Brian has been appointed as a non-executive director of the board dated on 5 September 2017.

(k) Mr. Kwan Ngai Kit has been appointed as an independent non-executive director of the board dated on 5 July 2017 and retired on 25 August 2017. He has been re-appointed as an independent non-executive director of the board dated on 5 September 2017.

(l) Mr. Yang Chia Hung has been resigned as an independent non-executive director of the board dated on 5 July 2017.

(m) Mr. He Zhigang has been resigned as an executive director of the board of the Company dated on 4 May 2016.

(n) Mr. Chau On Ta Yuen has been resigned as an independent non-executive director of the board of the Company dated on 4 May 2016.

The remuneration shown above represents remuneration received and receivable from the Group by these Directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the years ended 31 December 2017 and 2016 respectively. None of the Directors agreed to waive or waived any emoluments during the year (2016: Nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

13. EMPLOYEES EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year included one director (2016: one) with their emolument stated in Note 12 with the remaining four (2016: four) highest paid individuals whose emoluments are reflected in the analysis below:

	2017	2016
	US$'000	US$'000
		(Restated)
Salaries, allowances and benefits in kind	**3,416**	1,776
Equity-settled share-based payment expenses	**2,433**	187
Retirement schemes contributions	**13**	9
	5,862	1,972

The number of these non-directors, highest paid employees whose remuneration fell within the following band is as follows:

	For the year ended 31 December	
	2017	2016
HK$2,000,001 to HK$2,500,000	**–**	2
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	–
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,001,000 to HK$8,500,000	**1**	–

During the reporting period, no emoluments were paid by the Group to the Directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil). None of the chief executive and Directors waived or agreed to waive any emoluments during the reporting period (2016: Nil).

14. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

15. EARNINGS PER SHARE

Continuing and discontinued operations

	2017 US$'000	2016 US$'000 (Restated)
Earnings		
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	**8,808**	8,132

Continuing operations

	2017 US$'000	2016 US$'000 (Restated)
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	**8,808**	8,132
Add/(less): Loss/(profit) for the year from discontinued operations	**1,026**	(4,351)
Profit for the purpose of basic earnings per share from continuing operations	**9,834**	3,781

For the year ended 31 December 2016, the effects of the Company's outstanding share options were anti-dilutive and therefore the diluted earnings per share are the same as the basic earnings per share.

Discontinued operations

For the year ended 31 December 2017, basic and diluted loss per share for discontinued operations attributable to the owners of the Company is US0.04 cents per share (2016: basic and diluted earnings per share of US0.15 cents per share), based on loss for the year of US$1,026,000 (2016: profit of US$4,351,000).

For the year ended 31 December 2016, the effects of the Company's outstanding share options were anti-dilutive and therefore the diluted earnings per share are the same as the basic earnings per share.

15. EARNINGS PER SHARE (CONTINUED)

During the years ended 31 December 2017 and 2016, the weighted average number of ordinary shares used as denominator in calculating earnings/(loss) per share was as follows:

	2017	2016
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,932,229**	2,868,480
Effect of dilutive potential ordinary shares:		
– Share options (Note)	**274**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,932,503**	2,868,480

Note:

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercised price lower than the average market price during the year ended 31 December 2017 and with the adjustment for the share options lapsed or exercised.

16. DEFERRED TAXATION

The followings are the major deferred tax balances recognised and movements thereon during the reporting period:

Deferred tax assets

	Deferred revenue
	US$'000
At 1 January 2016 (restated)	512
Derecognised on disposal of subsidiaries (Note 10(d))	(500)
Charge to profit or loss	(4)
Exchange realignment	(8)
As at 31 December 2016 (restated), 1 January 2017 and 31 December 2017	**–**

16. DEFERRED TAXATION (CONTINUED)

Deferred tax liabilities

	Property, plant and equipment US$'000	Intangible assets US$'000	Total US$'000
As at 1 January 2016 (restated)	156	23,075	23,231
Credited to profit or loss (Note 9)	61	(6,481)	(6,420)
Exchange alignment	4	(586)	(582)
As at 31 December 2016 (restated) and 1 January 2017	221	16,008	16,229
Fair value adjustment from acquisition of subsidiaries (Note 37(a))	–	1,836	1,836
Credited to profit or loss (Note 9)	503	(6,189)	(5,686)
Exchange alignment	31	1,085	1,116
At 31 December 2017	**755**	**12,740**	**13,495**

Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of US$46,521,000 (2016: US$19,171,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Machinery and equipment US$'000	Motor vehicles US$'000	Tools US$'000	Construction in progress US$'000	Total US$'000
Cost						
As at 1 January 2016 (restated)	46,340	34,350	1,892	975	2,632	86,189
Additions	53	831	237	11	267	1,399
Disposals	(86)	(72)	(242)	(9)	–	(409)
Derecognised on disposal of subsidiaries (Note 10(d))	(45,548)	(29,386)	(1,762)	(963)	(2,853)	(80,512)
Exchange alignment	(759)	(421)	(29)	(14)	(46)	(1,269)
As at 31 December 2016 (restated) and 1 January 2017	–	5,302	96	–	–	5,398
Additions	–	4,231	–	–	–	4,231
Disposals	–	(573)	(96)	–	–	(669)
Acquired through business combination (Note 37)	–	1,228	–	–	–	1,228
Derecognised on disposal of subsidiaries (Note 10(d))	–	(51)	–	–	–	(51)
Exchange alignment	–	549	–	–	–	549
As at 31 December 2017	**–**	**10,686**	**–**	**–**	**–**	**10,686**
Accumulated depreciation						
As at 1 January 2016 (restated)	9,881	16,969	1,075	762	–	28,687
Provided for the year	1,216	2,536	70	48	–	3,870
Eliminated on disposal	–	(55)	(211)	(4)	–	(270)
Eliminated on disposal of subsidiaries (Note 10(d))	(10,920)	(16,085)	(823)	(794)	–	(28,622)
Exchange alignment	(177)	(268)	(15)	(12)	–	(472)
As at 31 December 2016 (restated) and 1 January 2017	–	3,097	96	–	–	3,193
Provided for the year	–	528	–	–	–	528
Eliminated on disposal	–	(340)	(96)	–	–	(436)
Acquired through business combination (Note 37)	–	1,025	–	–	–	1,025
Eliminated on disposal of subsidiaries (Note 10(d))	–	(38)	–	–	–	(38)
Exchange alignment	–	293	–	–	–	293
As at 31 December 2017	**–**	**4,565**	**–**	**–**	**–**	**4,565**
Net carrying amount						
As at 31 December 2017	**–**	**6,121**	**–**	**–**	**–**	**6,121**
As at 31 December 2016 (restated)	–	2,205	–	–	–	2,205

Note:

As at 31 December 2017, no property, plant and equipment are pledged as collaterals for the Group's bank borrowings (2016: Nil).

18. INVESTMENT PROPERTY

	2017	2016
	US$'000	US$'000
		(Restated)
Cost		
At the beginning of the year	**–**	181
Derecognised on disposal of subsidiaries (Note 10(d))	**–**	(178)
Exchange realignment	**–**	(3)
At the end of the year	**–**	–
Accumulated depreciation		
At the beginning of the year	**–**	46
Charge for the year (Note 10(b))	**–**	4
Eliminated on disposal of subsidiaries (Note 10(d))	**–**	(49)
Exchange realignment	**–**	(1)
At the end of the year	**–**	–
Net carrying amount	**–**	–

The investment property was located in PRC, on land with land use right of 30 years.

19. PREPAID LEASE PAYMENTS

	2017 US$'000	2016 US$'000 (Restated)
Cost		
At the beginning of the year	–	8,896
Derecognised on disposal of subsidiaries (Note 10(d))	–	(8,751)
Exchange realignment	–	(145)
At the end of the year	–	–
Accumulated amortisation		
At the beginning of the year	–	1,323
Charge for the year (Note 10(b))	–	150
Eliminated on disposal of subsidiaries (Note 10(d))	–	(1,450)
Exchange realignment	–	(23)
At the end of the year	–	–
Net carrying amount	–	–

Prepaid lease payments represented the cost of land use rights in respect of certain leasehold land located in the PRC, which was held under long term leases.

20. GOODWILL

	2017 US$'000	2016 US$'000 (Restated)
Cost		
At the beginning of the year	**27,443**	26,566
Additional amount recognised from business combination occurring during the year (Note 37)	**91,699**	–
Exchange alignments	**8,499**	877
At the end of the year	**127,641**	27,443
Accumulated impairment loss		
At the beginning of the year	**–**	–
Impairment loss recognised during the year	**–**	–
At the end of the year	**–**	–
Net carrying amount at the end of year	**127,641**	27,443

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Digital Extremes Inc. ("Digital Extremes"): Computer and video games CGU business in Canada.
- Splash Damage Group: Computer and video games CGU business in UK.
- Guangzhou Radiance: Computer and video games CGU business in PRC.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2017 US$'000	2016 US$'000 (Restated)
Digital Extreme (Note (a))	**29,352**	27,443
Splash Damage Group (Note (b))	**97,924**	–
Guangzhou Radiance (Note (c))	**365**	–
	127,641	27,443

20. GOODWILL (CONTINUED)

Allocation of goodwill to cash-generating units (continued)

Notes:

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% (2016: 3%) of market share per year. The values assigned to the assumption reflect past experience and are consistent with the Directors' plans for focusing operations in these markets. The Directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margin achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

(a) The recoverable amount of the CGU in Canada is determined by reference to the value in use calculation, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the pre-tax discount rate if approximately 23% (2016: 22%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using 3% (2016: 3%) growth rate per annum. The Directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

(b) The recoverable amount of the CGU in UK is determined by reference to the value in use calculation, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the pre-tax discount rate if approximately 20% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using 3% growth rate per annum. The Directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

(c) The recoverable amount of the CGU in PRC is determined by reference to the value in use calculation, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the pre-tax discount rate if approximately 27% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using 3% growth rate per annum. The Directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

21. INTANGIBLE ASSETS

	2017 US$'000	2016 US$'000 (Restated)
Cost		
At the beginning of the year	**84,292**	81,598
Acquisition through business combinations (Note 37(a))	**15,615**	–
Additions	**3,998**	–
Exchange alignment	**6,917**	2,694
At the end of the year	**110,822**	84,292
Accumulated amortisation and impairment		
At the beginning of the year	**23,883**	6,800
Acquisition through business combinations (Note 37(a))	**1,489**	–
Charge for the year (Note 11)	**20,364**	17,144
Impairment during the year (Note)	**4,872**	–
Exchange alignment	**2,301**	(61)
At the end of the year	**52,909**	23,883
Net carrying amount	**57,913**	60,409

Note:

As a result of the under-performance of a developed game, the Directors determine the recoverable amount of the developed game was minimal, an impairment loss of intangible assets of US$4,872,000 was recognised during the year ended 31 December 2017 (2016: Nil).

21. INTANGIBLE ASSETS (CONTINUED)

The economic useful life of recognised intangible assets are as follows:

Intangible assets	**Useful economic life**
Brand name	10 years
Completed game	3 – 5 years
Game engine	3 – 5 years
Game under development	3 – 5 years
Trademark	10 years

Cost of intangible assets:

	2017 **US$'000**	2016 US$'000 (Restated)
Brand name	**10,207**	–
Completed game	**68,031**	63,607
Game engine	**10,658**	11,592
Game under development	**12,398**	9,093
Trademark	**98**	–
Total	**101,392**	84,292

22. DEVELOPMENT EXPENDITURE

Development expenditure represents payment to independent video game developers under development agreements. The Group entered into written agreements to provide the independent video game developer with advance payments for development of video games on both PC and console platforms in exchange of exclusive publishing rights to the game.

The movements of development expenditures during the years are as follows:

	2017 **US$'000**	2016 US$'000 (Restated)
At the beginning of the year	**624**	416
Additions	**11,697**	634
Amortisation and impairment (Note 11)	**–**	(437)
Exchange alignment	**43**	11
At the end of the year	**12,364**	624

23. BIOLOGICAL ASSETS

Movements of the biological assets are summarised as follows:

	Parent Stock Day-Old Chicks and immature breeders US$'000	Mature breeders US$'000	Chicken breeds US$'000	Total US$'000
As at 1 January 2016 (Restated)	600	239	2,360	3,199
Increase due to purchases	233	–	–	233
Increase due to raising (feeding cost and others)	1,208	–	7,695	8,903
Transfer	(2,156)	2,156	–	–
Decrease due to retirement and deaths	–	(1,198)	–	(1,198)
Decrease due to sales	–	–	(7,800)	(7,800)
Change in fair value less costs to sell	741	445	(574)	612
Derecognised upon disposal of subsidiaries (Note 10(d))	(615)	(1,622)	(1,651)	(3,888)
Exchange realignment	(11)	(20)	(30)	(61)
As at 31 December 2016 (Restated), 1 January 2017 and 31 December 2017	**–**	**–**	**–**	**–**

Principal assumptions for valuation of biological assets

The following principal assumptions have been adopted by the valuer:

(a) there will be no major change in the existing political, legal and economic conditions in the PRC;

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

(c) the interest rates and exchange rates will not differ materially from those presently prevailing;

(d) the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

(e) the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;

23. BIOLOGICAL ASSETS (CONTINUED)

Principal assumptions for valuation of biological assets (continued)

(f) the availability of finance will not be a constraint on the breeding of the breeders;

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

(i) the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

(j) the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

(k) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the breeders.

The qualification of the valuer

The Group's biological assets were independently valued by the valuer. The valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. Please refer to Note 25 for details.

Physical count of biological assets

The Group formerly has three breeder farms and five broiler breeding farms on which various sheds are erected. Parent Stock Day Old Chicks and chicken breeds are moved into a shed at the same time such that all chickens within a shed would be in the same stage of life cycle. For administration purposes, the housekeeper of the shed would keep proper records on the number of chickens moved into the shed and also the number of chicken remaining alive inside the shed every day throughout the breeding period. After the breeding period, the shed would be vacated by moving out all the chickens for sale or for slaughtering. Cages of prescribed dimensions that can contain a certain number of mature breeders or broilers are used for carrying the chickens from the sheds to the prescribed destinations.

23. BIOLOGICAL ASSETS (CONTINUED)

Physical count of biological assets (continued)

The following steps have been taken for undertaking the physical counting by the valuer:

- to confirm with the management the time when the chickens are mature enough for moving out from the sheds for sale or for slaughtering;
- to obtain the housekeeper records in relation to the number of chickens in the sheds by the time when they are moved out from the sheds;
- to obtain the housekeeper records in relation to the daily reduction on the number of chickens within the sheds between the relevant reporting date and the date when they are moved out;
- to count the number of cages containing the chickens at the entrance of the sheds when they are moved out from the sheds; and
- to work out the number of chicken breeds/broilers or breeders as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 **US$'000**	2016 US$'000 (Restated)
Listed equity securities in HK	**–**	4,427
Unlisted equity securities outside HK	**8,100**	–
	8,100	4,427
Analysis for reporting purposes as:		
Non-current assets	**8,100**	4,427

The following is a list of available-for-sale financial assets as at 31 December 2017 and 2016:

	Proportion share capital owned as at 31 December			**Fair value as at 31 December**	Fair value as at 31 December
Name of equity	**2017** **%**	2016 %	**Cost of investment** US$'000	**2017** **US$'000**	2016 US$'000 (Restated)
Unlisted equity securities outside HK: – Certain Affinity, LLC ("Certain Affinity") (Note (a))	**20**	–	8,100	**8,100**	–
Listed equity securities issued by: – Yue Xiu Great China Fixed Income Fund VI LP ("Yue Xiu") (Note (b))	**–**	33.2	6,450	**–**	4,427

Notes:

(a) Certain Affinity is a limited liability company organised under the laws of the State of Texas, the United States of America and principally engaged in the development of licensed games (including associated computer software product and add-ons).

On 15 October 2017, the Company and Certain Affinity have entered into (i) the sale and purchase agreement pursuant to which the Company has agreed to purchase series A preferred stock representing 20% of the issued share capital of Certain Affinity at a total consideration of US$10 million ("Sale and purchase agreement in Certain Affinity"); and (ii) the game development agreement pursuant to which Certain Affinity shall, under the direction of, and with input and cooperation from the Company, develop and produce for the Company the game based on certain intellectual property. The transaction was completed on 30 October 2017. At 31 December 2017, the consideration comprising of available-for-sale financial assets and financial assets at fair value through profit or loss amounted to US$8,100,000 and US$1,900,000, respectively. Further details of the transaction were set out in the announcement of the Company dated 16 October 2017.

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Notes: (continued)

(a) (continued)

The fair value of investment in Certain Affinity at 31 December 2017 was determined by the Directors by reference to the valuation carried out by an external independent valuer by using the discounted cash flow method which is based on the cash flow projections prepared by management of Certain Affinity derived from the most recent approved financial budgets for the next 5 years. The pre-tax discount rate used is 18% and cash flows beyond 5 year period are extrapolated using a growth rate of 3%.

The Group is unable to exercise significant influence over Certain Affinity as the Group do not have the power to appoint any of its director and do not participate in its policy-making processes. The investment in Certain Affinity is not accounted for as associates of the Group.

(b) Yue Xiu is an unlisted fund registered in the Cayman Islands and managed by Yue Xiu Investment Management Limited, which is an indirectly wholly-owned subsidiary of Yue Xiu Securities Holdings Limited, which is in turn an indirect wholly-owned subsidiary of Guangzhou Yuexiu Holdings Limited, a state-owned enterprise in the PRC.

On 9 August 2017, the Company has entered into a partnership interest agreement with an independent third party and agreed to sell Yue Xiu at a consideration of approximately US$4,421,000 (equivalent to HK$34,316,000).

25. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2017	2016
	US$'000	US$'000
		(Restated)
Merchandise goods	**285**	272

The analysis of the amount of inventories recognised as an expense is as follows:

	2017	2016
	US$'000	US$'000
Carrying amount of inventories sold	**–**	158,679
Fair value of agricultural produce on initial recognition	**–**	(16,582)
Reversal of fair value of agricultural produce due to hatch and disposals	**–**	15,632
	–	157,729

The Group is exposed to a number of risks related to biological assets and agricultural produce. The Group is exposed to the following operation risks:

(a) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

25. INVENTORIES (CONTINUED)

(b) Climate, disease and other natural risks

The Group's biological assets and agricultural produce are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including but not limited to regular inspections, disease controls, surveys and insurance.

Principal assumptions for valuation of agricultural produce

The following principal assumptions have been adopted by the valuer:

(a) there will be no major change in the existing political, legal and economic conditions in the PRC;

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

(c) the interest rates and exchange rates will not differ materially from those presently prevailing;

(d) the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

(e) the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;

(f) the availability of finance will not be a constraint on the breeding of the breeders;

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

(i) the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

(j) the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

(k) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the breeders.

25. INVENTORIES (CONTINUED)

The qualification of the valuer

The Group's agricultural produce were independently valued by the valuer. The valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. The professional valuers of the valuer participated in this valuation include professional member of the Royal Institution of Chartered Surveyors (the "MRICS"), professional member of the Hong Kong Institute of Surveyors (the "MHKIS"), professional member of the China Institute of Real Estate Appraisal (the "CIREA"), charterholder of the Chartered Financial Analyst Institute (the "CFA") and member of the Global Association of Risk Professional (the "FRM") and have appraisal experiences in different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets in the PRC, Hong Kong, Singapore and Thailand. They have previously participated in the valuation of biological assets and agricultural produce such as hogs, chickens, sophora alopecuroides crops, sunflower seeds and tapioca chips.

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors are member organisations of the International Valuation Standards Council (the "IVSC") which encourages their respective members to adopt and use the International Valuation Standards (including relevant standards on Biological Asset Valuation) laid down by the IVSC.

Based on the above qualification and various experiences of the valuer and/or its members in providing biological asset valuation services to various companies listed on the Stock Exchange and other stock exchanges in the United States, which engage in the business of husbandry and agriculture industry, the Directors are of the view that the valuer is competent to determine the fair value of the Group's biological assets.

Physical count of agricultural produce

The Group formerly has two hatching facilities. After the mature breeders grown from parent stock day-old chicks lay the broiler eggs, the Group collect and deliver the same to the hatching facilities. The Group select those broiler eggs that can satisfy the quality requirements. Broiler eggs are incubated in machines and the Group carefully monitor and maintain the optimum temperature and humidity throughout the entire hatching process. It generally takes approximately 21 days for broiler eggs to be hatched. Hatched chicken breeds are inspected, selected, vaccinated and then delivered to either the Group's broiler breeding farms or the contract farmers.

The following steps have been taken for undertaking the physical counting by the valuer:

- to obtain the housekeeper records in relation to the number of broiler eggs in the hatching facilities as at the relevant reporting date and the counting date;
- to obtain the housekeeper records in relation to the daily movement on the number of broiler eggs in the hatching facilities between the relevant reporting date and the counting date;
- to count the number of broiler eggs in the hatching facilities; and
- to work out the number of broiler eggs as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

26. TRADE RECEIVABLES

	2017 US$'000	2016 US$'000 (Restated)
Trade receivables	**31,538**	13,733
Less: Impairment loss recognised	**–**	–
	31,538	13,733

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

	2017 US$'000	2016 US$'000 (Restated)
Within 30 days	**29,786**	12,180
31 days to 60 days	**374**	1,501
61 days to 180 days	**110**	32
Over 180 days	**1,268**	20
	31,538	13,733

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 US$'000	2016 US$'000 (Restated)
Overdue by:		
1 day to 120 days	**110**	32
Over 120 days	**1,268**	20
	1,378	52

At the end of the reporting period, no trade receivables was impaired and had been fully provided for (2016: Nil).

26. TRADE RECEIVABLES (CONTINUED)

Movements of impairment loss recognised on trade receivables:

	2017 US$'000	2016 US$'000 (Restated)
At the beginning of the year	–	62
Derecognised on disposal of subsidiaries	–	(61)
Exchange realignment	–	(1)
At the end of the year	–	–

The creation and release of provision for impairment of trade receivables have been included in administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in US$, CAD and GBP.

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

27. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	2017 US$'000	2016 US$'000 (Restated)
Deposits paid and prepayments	2,498	5,302
Amounts due from directors of subsidiaries (Note 41(b))	333	–
Other receivables (Note)	16,619	55,050
	19,450	60,352

Note:

As at 31 December 2016, the amount was mainly related to amount due from the Sumpo Group of US$35,569,000. The Group was entitled to an interest of 10% per annum on the outstanding amount. During the year ended 31 December 2017, Sumpo Group has repaid US$34,615,000 to the Group and the remaining balance of US$954,000 was impaired and charged to the profit or loss.

27. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Movements of impairment loss recognised on deposits paid, prepayments and other receivables are as follows:

	2017	2016
	US$'000	US$'000
		(Restated)
At the beginning of the year	**–**	473
Derecognised on disposal of subsidiaries	**–**	(465)
Impairment loss recognised	**954**	–
Amounts written off during the year as uncollectible	**(954)**	–
Exchange realignment	**–**	(8)
At the end of the year	**–**	–

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	US$'000	US$'000
		(Restated)
Held for trading:		
– Listed equity securities in HK (Note (a))	**–**	35,890
Derivative financial instruments, at fair value (Note (b))	**1,900**	–
	1,900	35,890

Notes:

(a) Held for trading – Listed equity securities in HK

Fair value was determined with reference to quoted market bid prices.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Notes: (continued)

(b) Derivative financial instruments, at fair value

Pursuant to Sale and purchase agreement in Certain Affinity, the Group was granted with a call option ("Call Option"), whereby the Group has the discretion to acquire the remaining equity interest in Certain Affinity at a consideration of US$1, which is exercisable within 3 months following the receipt of Certain Affinity's audited financial statements for the year ending 31 December 2020. As at 30 October 2017 and 31 December 2017, the fair values of the Call Option were US$1,900,000 and US$1,900,000, respectively, which were determined by an independent valuer based on binomial option pricing model. The key inputs into the model for the value of the option are as follows:

	31 December 2017	30 October 2017
80% of equity value (US$'000)	**36,195**	36,195
Maturity	**3.5 years**	3.7 years
Risk free rate	**2.03%**	2.03%
Volatility	**21%**	21%

29. CASH AND BANK BALANCES

	2017 US$'000	2016 US$'000 (Restated)
Cash and bank balances	**45,898**	13,139

Cash and bank balances comprise cash held by the Group during the year. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of US$1,525,000 (2016: US$73,000) which are not freely convertible into other currencies.

30. TRADE PAYABLES

	2017 US$'000	2016 US$'000 (Restated)
Trade payables	**1,977**	270

The ageing analysis of trade payables is as follows:

	2017 US$'000	2016 US$'000 (Restated)
Within 30 days	**1,591**	198
31 days to 90 days	**286**	71
91 days to 180 days	**100**	–
Over 180 days	**–**	1
	1,977	270

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

31. ACCRUALS AND OTHER PAYABLES

	2017 US$'000	2016 US$'000 (Restated)
Accruals and other payables	**8,094**	7,659

32. DEFERRED REVENUE

	2017 US$'000	2016 US$'000 (Restated)
Arising from sale of virtual currency (Note)	**10,011**	3,406
Arising from license fee received	**527**	–
	10,538	3,406

32. DEFERRED REVENUE (CONTINUED)

Analysed for reporting purposes as:

	2017 US$'000	2016 US$'000 (Restated)
Non-current liabilities	**1,640**	–
Current liabilities	**8,898**	3,406
	10,538	3,406

Note:

As at 31 December 2017 and 2016, deferred revenue comprised receipt from sale of virtual currency through their online game that is being recognised through profit and loss over the average estimated paying player life.

33. BOND

	2017 US$'000	2016 US$'000 (Restated)
Unlisted corporate bond	**–**	41,948
Carrying amount repayable:		
On demand or within one year	**–**	20,955
More than one year, but not exceeding two years	**–**	20,993
	–	41,948
Less: Amounts due within one year shown under current liabilities	**–**	(20,955)
Amounts due exceeding one year shown under non-current liabilities	**–**	20,993

On 6 May 2016, the Company had issued a fixed coupon redeemable bond at principal amount of US$42,000,000 which was guaranteed by Multi Dynamic Games Group Inc., an indirectly wholly-owned subsidiary of the Company, and was secured by 97% shares of Digital Extremes. The bond bears an interest rate of 7.0% per annum and an additional interest rate of 6.5% per annum. The effective interest rate of the bond is approximately 13.7%. The bond was fully repaid during the year.

34. DEBENTURE

	2017 US$'000	2016 US$'000 (Restated)
Unsecured debenture at 5%	**568**	552

On 20 January 2014, the Group had issued debenture amount of US$645,000 (equivalent to HK$5,000,000) to an independent third party.

The debenture bears an interest of 5% per annum, unsecured and repayable on 19 January 2021. The effective interest rate of the debenture is approximately 9.4% (2016: 9.4%).

35. SHARE OPTION SCHEME

During the year, the share option which was adopted by the Company on 17 December 2010 ("2010 Share Option Scheme") was terminated and a new share option scheme ("2017 Share Option Scheme") was adopted by the Company. Summaries of the 2017 Share Option Scheme and 2010 Share Option Scheme are set out below:

2017 Share Option Scheme

The Company adopted the 2017 Share Option Scheme on 25 August 2017.

The purpose of the 2017 Share Option Scheme is to recognise and motivate the contribution of the participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

The participants of the 2017 Share Option Scheme to whom options may be granted by the board shall include any employee, consultant, advisor, agent, contractor, client or supplier who in the sole discretion of the board has contributed or is expected to contribute to the Group.

During the period commencing one month immediately preceding the earlier of (a) the date of the board meeting for approval of the Company's interim or annual results or (b) the failure of the Company to publish its interim or the annual results announcement under the Listing Rules and ending on the date of the results announcement, no option should be granted.

35. SHARE OPTION SCHEME (CONTINUED)

2017 Share Option Scheme (continued)

The subscription price per share shall be rounded upwards to the nearest whole cent. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The subscription price for the shares under the 2017 Share Option Scheme will be a price determined by the board in its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the higher of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (2) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; or (3) the nominal value of HK$0.10 of each share.

The total number of the shares which may be issued upon exercise of all options which may be granted under the 2017 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the 2017 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. No offer may be made under the 2017 Share Option Scheme if this will result in the aforementioned limit being exceeded.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carrying neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

35. SHARE OPTION SCHEME (CONTINUED)

2017 Share Option Scheme (continued)

The following share-based payment arrangements were in existence during the year:

Category of grantee	Exercise price per share option	Date of grant	Exercisable period	Number of share options: As at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2017
Executive Directors								
Mr. Xu Yiran	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	–	29,246,800	–	–	29,246,800
Mr. Gu Zhenghao	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	–	29,246,800	–	–	29,246,800
Sub-total				–	58,493,600	–	–	58,493,600
Employees	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	–	43,870,200	–	–	43,870,200
	HK$1.91	24 October 2017	24 October 2018 to 24 October 2022	–	29,246,791	–	–	29,246,791
	HK$1.91	24 October 2017	24 October 2019 to 24 October 2022	–	29,246,791	–	–	29,246,791
	HK$1.91	24 October 2017	24 October 2020 to 24 October 2022	–	29,246,818	–	–	29,246,818
Sub-total				–	131,610,600	–	–	131,610,600
Consultants	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	–	87,740,400	–	–	87,740,400
Total				–	277,844,600	–	–	277,844,600

35. SHARE OPTION SCHEME (CONTINUED)

2017 Share Option Scheme (continued)

Notes:

(a) The share options were vested upon granted.

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

(c) The closing price of shares immediately prior to the date of grant is HK$1.88.

During the year ended 31 December 2017, the Company granted 277,844,600 share options under the 2017 Share Option Scheme on 24 October 2017. The fair value of the options determined at the date of grant using the binomial option pricing model was US$19,995,000.

Fair value of share options granted during the year ended 31 December 2017

The weighted average of fair value of the share options granted during the financial year ended 31 December 2017 is US$0.072. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	Start from 24 October 2020	Start from 24 October 2019	Start from 24 October 2018	Start from 24 October 2017
Grant date share price (HK$)	1.88	1.88	1.88	1.88
Exercise price (HK$)	1.91	1.91	1.91	1.91
Expected volatility	58.30%	58.30%	58.30%	58.30%
Option life	5 years	5 years	5 years	5 years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	1.90%	1.90%	1.90%	1.90%

2010 Share Option Scheme

The Company adopted the 2010 Share Option Scheme on 17 December 2010.

The purpose of the 2010 Share Option Scheme is to recognise and motivate the contribution of the participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

35. SHARE OPTION SCHEME (CONTINUED)

2010 Share Option Scheme (continued)

The participants of the 2010 Share Option Scheme to whom options may be granted by the Board shall include any employee, consultant, advisor, agent, contractor, client or supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group.

During the period commencing one month immediately preceding the earlier of (a) the date of the board meeting for approval of the Company's interim or annual results or (b) the failure of the Company to publish its interim or the annual results announcement under the Listing Rules and ending on the date of the results announcement, no option should be granted.

The subscription price per share shall be rounded upwards to the nearest whole cent. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The subscription price for the shares under the 2010 Share Option Scheme will be a price determined by the Board in its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the higher of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; or (2) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant.

The total number of the shares which may be issued upon exercise of all options which may be granted under the 2010 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the 2010 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carrying neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

35. SHARE OPTION SCHEME (CONTINUED)

2010 Share Option Scheme (continued)

The following share-based payment arrangements were in existence during the year:

				Number of share options				
Category of grantee	**Exercise price per share option**	**Date of grant**	**Exercisable period**	**As at 1 January 2017**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2017**
Executive Director	HK$1.20	25 July 2015	25 January 2016 to 25 July 2025	14,400,000	–	(14,400,000)	–	–
Mr. Law Kin Fat (Note (a))								
Chief Executive Officer	HK$1.20	25 July 2015	25 January 2016 to 25 July 2025	14,400,000	–	(14,400,000)	–	–
Mr. Wong Haitong (Note (b))								
Consultants	HK$1.20	25 July 2015	25 January 2016 to 25 July 2025	100,800,000	–	(27,400,000)	(73,400,000)	–
Total				129,600,000	–	(56,200,000)	(73,400,000)	–

Notes:

(a) Mr. Law Kin Fat resigned as an executive Director and vice chairman of the Company with effect from 30 June 2017.

(b) Mr. Wong Haitong resigned as a chief executive officer of the Company with effect from 30 June 2017.

(c) The 2010 Share Option Scheme was terminated on 25 August 2017.

(d) The weighted average closing price of shares immediately before the dates on which the options were exercised is HK$1.62.

During the year, the Company did not grant any share options under the 2010 Share Option Scheme (2016: Nil). The fair value of the options determined at the date of grant using the binomial option pricing model was US$10,439,000.

35. SHARE OPTION SCHEME (CONTINUED)

2010 Share Option Scheme (continued)

Fair value of share options granted during the year ended 31 December 2016

The weighted average of fair value of the share options granted during the financial year ended 31 December 2015 is US$0.078. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	Start from 25 January 2016	Start from 25 July 2015
Grant date share price (HK$)	1.07	1.07
Exercise price (HK$)	1.20	1.20
Expected volatility	63.79%	63.79%
Option life	10 years	10 years
Dividend yield	0.00%	0.00%
Risk-free interest rate	2.16%	2.16%

Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2017		2016	
	Number of options '000	**Weighted average exercise price HK$**	Number of options '000	Weighted average exercise price HK$
At the beginning of year	**129,600**	**1.20**	158,400	1.20
Granted during the year	**277,845**	**1.91**	–	–
Exercise during the year	**(56,200)**	**1.20**	–	–
Lapsed during the year	**(73,400)**	**1.20**	(28,800)	1.20
At the end of year	**277,845**	**1.91**	129,600	1.20

Share options outstanding at the end of the year

190,104,200 outstanding share options are exercisable at the end of the respective reporting period (2016: All outstanding share options are exercisable).

The share options outstanding at the end of the year had a weighted average exercise price of HK$1.91, and a weighted average remaining contractual life of 4.82 years.

36. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares HK$'000	US$'000
Authorised:			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 ordinary shares of HK$0.1 each	4,000,000,000	400,000	51,600
Issued and fully paid:			
As at 1 January 2016, 31 December 2016 and 1 January 2017 ordinary shares of HK$0.1 each (Restated)	2,868,480,000	286,848	37,003
Issue of shares on exercise of share options (Note (a))	56,200,000	5,620	722
Issue of shares by placing (Note (b))	146,230,000	14,623	1,872
Balance as at 31 December 2017	**3,070,910,000**	**307,091**	**39,597**

Notes:

(a) During the year ended 31 December 2017, the Company issued 56,200,000 (2016: Nil) shares of the Company for proceeds of US$8,660,000 (2016: Nil), as a result of exercise of share options with the weighted average exercise price of US$0.15 (equivalent to HK$1.20) per share. Among the proceeds of US$8,660,000 (2016: Nil), US$722,000 (2016: Nil) were credited to the share capital account and the balance of US$7,938,000 (2016: Nil) were credited to the share premium account during the year.

(b) On 24 October 2017, the Company placed and issued 146,230,000 new ordinary shares under placing and at the placing price of US$0.22 (equivalent to HK$1.70) per share. Among the gross proceeds of US$31,820,000, US$1,872,000 and US$29,948,000 were credited to the share capital account and share premium account, respectively, while the transaction costs arose from the issue of shares by placing of US$649,000 were charged to the share premium account. The net proceeds of US$31,171,000 (equivalent to HK$243,000,000) was utilised by the Group as its general working capital.

37. ACQUISITION OF SUBSIDIARIES

(a) Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group")

On 1 July 2016, Radius Maxima Limited ("Radius Maxima"), an indirectly wholly-owned subsidiary of the Company, entered into an equity transfer agreement and a supplemental agreement in relation to the acquisition of the entire equity interest of Splash Damage Group from Paul Wedgwood. Further details of the said transaction were set out in the announcements of the Company dated 3 July 2016 and 26 September 2016, respectively, and the circular of the Company dated 22 February 2017. The said acquisition was duly approved by the shareholders of the Company in an extraordinary general meeting on 9 March 2017. This transaction was completed on 31 March 2017, and accordingly, Splash Damage Group had since then become wholly-owned subsidiaries of Radius Maxima. Further details of the said transaction were set out in the announcement of the Company dated 31 March 2017.

The purchase consideration of US$109,100,000, which comprised advance payment and deferred payment in a total amount of US$45,000,000, adjustment payment of US$9,502,000 and earn-out consideration of US$54,598,000. The earn-out consideration consisted of the payments during the years ending 2017, 2018 and 2019, and shall not exceed US$105,000,000. A total of US$53,619,000 has been paid as purchase consideration during the year ended 31 December 2017.

37. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(a) Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group") (continued)

The net assets acquired in the transaction and the goodwill arising therefrom, are as follow:

	Fair value recognised on acquisition US$'000
Net assets acquired:	
Property, plant and equipment (Note 17)	**126**
Intangible assets (Note 21)	**14,126**
Trade receivables	**3,555**
Deposits paid, prepayments and other receivables	**1,307**
Amount due from a related party	**1**
Tax recoverable	**2,352**
Cash and bank balances	**8,009**
Trade payables	**(146)**
Accruals and other payables	**(9,432)**
Tax payable	**(273)**
Bank borrowings	**(5)**
Deferred tax liabilities (Note 16)	**(1,836)**
	17,784
Goodwill arising on acquisition (Note 20)	**91,316**
Total consideration	**109,100**
Satisfied by:	
Cash	**53,619**
Consideration payable (Note)	**883**
Contingent consideration payable (Note)	**54,598**
	109,100
Net cash outflow arising on acquisition:	
Consideration paid in cash	**(53,619)**
Less: Cash and bank balances acquired	**8,009**
	(45,610)

Acquisition-related costs of US$3,468,000 have been charged to administrative expenses in the consolidated statement of profit or loss during the year ended 31 December 2017.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

37. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(a) Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group") (continued)

Impact of acquisition on the results of the Group

Since the acquisition, Splash Damage Group contributed US$22,656,000 to the Group's revenue and profit of US$6,598,000 to the consolidated profits for the year ended 31 December 2017.

Had the acquisition of Splash Damage Group taken place at 1 January 2017, the Group's revenue for the year ended 31 December 2017 would have been US$28,126,000 and the consolidated profit for the year would have been US$9,202,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2017, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Splash Damage Group had been acquired at the beginning of the year, the Directors have calculated depreciation of property, plant and equipment and amortisation of intangible assets on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

Note:

Consideration payable are unsecured and interest-free.

Consideration payable as at 31 December 2017 amounted to US$52,765,000 (31 March 2017: US$55,481,000), of which US$883,000 (31 March 2017: US$883,000) was initial consideration payable, US$51,882,000 (31 March 2017: US$54,598,000) was the earn-out. At 31 December 2017, among earn-out consideration payable, US$5,524,000 and US$46,358,000 were classified as current and non-current liabilities, respectively. During the year ended 31 December 2017, a gain on change in fair value of contingent consideration payable amounting to US$2,716,000 was recognised in profit or loss. The earn-out is contingent consideration that would be payable if Splash Damage Group achieve the respective base year profit target, calculated on a predetermined basis, during the designated periods of time.

The fair value of contingent consideration payable as at the acquisition date and as at 31 December 2017 are based on the valuation performed by an independent professional valuer not connected with the Group.

(b) Guangzhou Radiance Software Technology Co. Ltd（廣州榮端軟件科技有限公司）("Guangzhou Radiance")*

On 31 July 2017, the Company entered into an investment agreement with Guangzhou Radiance and the sole shareholder of Guangzhou Radiance, pursuant to which the Company conditionally agreed to designate a wholly-owned foreign enterprise to be established in the PRC by the Company (the "PRC Subsidiary") to invest an amount of RMB equivalent to US$1 million for the equity interest in Guangzhou Radiance. Further details of the said transactions were set out in the announcement of the Company dated 31 July 2017. The transaction was completed on 31 October 2017, and accordingly, the PRC Subsidiary held 51% of the issued share capital of Guangzhou Radiance as enlarged by the transaction and Guangzhou Radiance had become an indirect non-wholly-owned subsidiary of the Company.

37. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) Guangzhou Radiance Software Technology Co. Ltd（廣州榮端軟件科技有限公司）("Guangzhou Radiance")* (continued)

The net assets acquired in the transaction and the goodwill arising therefrom, are as follow:

	Fair value recognised on acquisition US$'000
Net assets acquired:	
Property, plant and equipment (Note 17)	77
Deposits paid, prepayments and other receivables	82
Amount due from a related party	3
Cash and bank balances	1,206
Accruals and other payables	(147)
Tax payable	(12)
	1,209
Non-controlling interests	(592)
Goodwill arising on acquisition (Note 20)	383
Total consideration	1,000
Satisfied by:	
Cash	1,000
Net cash inflow arising on acquisition:	
Consideration paid in cash	(1,000)
Less: Cash and bank balances acquired	1,206
	206

Acquisition-related costs of US$23,000 have been charged to administrative expenses in the consolidated statement of profit or loss during the year ended 31 December 2017.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

37. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) Guangzhou Radiance Software Technology Co. Ltd（廣州榮端軟件科技有限公司）("Guangzhou Radiance")* (continued)

Impact of acquisition on the results of the Group

Since the acquisition, Guangzhou Radiance contributed US$396,000 to the Group's revenue and loss of US$366,000 to the consolidated profit for the year ended 31 December 2017.

Had the acquisition of Guangzhou Radiance taken place at 1 January 2017, the Group's revenue for the year ended 31 December 2017 would have been US$1,824,000 and the consolidated profit for the year would have been US$101,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2017, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Guangzhou Radiance had been acquired at the beginning of the year, the Directors have calculated depreciation of property, plant and equipment on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

* For identification purpose only

38. RETIREMENT BENEFIT PLANS

The Group operates a MPF Scheme for all qualifying employees in HK. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, this contribution is matched by employees.

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefits schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligations of the Group with respect to the retirement benefits schemes are to make the specified contributions.

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

A defined contribution plan is a pension plan under which the Group's subsidiaries which operate in UK pay fixed contributions into a separate entity. The Group's subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group's subsidiaries have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

38. RETIREMENT BENEFIT PLANS (CONTINUED)

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss in related to the continuing operation of approximately US$940,000 (2016: US$467,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of bank borrowings, debenture, bond and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained earnings).

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of bank borrowings.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings (comprised of debenture and bond) with total assets. The Group's overall strategy remains unchanged during the reporting period. The gearing ratio at the end of each reporting periods were as follows:

	2017 **US$'000**	2016 US$'000 (Restated)
Total borrowings	**568**	42,500
Total assets	**313,431**	219,524
Gearing ratio (%)	**0.2%**	19.4%

40. FINANCIAL INSTRUMENTS AND FAIR VALUES

(a) Categories of financial instruments

	2017 US$'000	2016 US$'000 (Restated)
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**–**	35,890
– Derivative financial instruments	**1,900**	–
Available-for-sale financial assets	**8,100**	4,427
Loans and receivables (including cash and bank balances)		
– Trade receivables	**31,538**	13,733
– Financial assets included in deposits paid, prepayments and other receivables	**16,370**	55,044
– Cash and bank balances	**45,898**	13,139
	103,806	122,233
Financial liabilities		
Amortised cost		
– Trade payables	**1,977**	270
– Financial liabilities included in accruals and other payables	**8,094**	7,659
– Debenture	**568**	552
– Bond	**–**	41,948
– Consideration payable	**883**	–
Financial liabilities at fair value through profit or loss		
– Contingent consideration payable	**51,882**	–
	63,404	50,429

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies

The Directors monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's major financial instruments include financial assets at fair value through profit or loss, available-for-sale financial assets, trade receivables, deposits paid, prepayments and other receivables, cash and bank balances, trade payables, accruals and other payables, debenture, bond, consideration payable and financial liabilities at fair value through profit or loss. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

The Group has customers in various countries of the world and is expected to foreign exchange risk arising from various currency exposures, primarily with respect to US$. The Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limited as much as possible the amount of its foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

In addition, the Group's foreign exchange position is monitored on an ongoing basis in order to minimise the impact from the fluctuation of foreign currency rate. The Group currently does not maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets, mainly the interest bearing bank balances. The Group monitors the interest rate exposure on a continuous basis and adjusts the portfolio of bank saving balances and borrowings where necessary.

Credit risk

Credit risk is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The Group diversified business base ensures that there are no significant concentrations of credit risk for a particular customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

The Group is exposed to minimal liquid risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate %	On demand or within one year US$'000	More than one year but less than two years US$'000	More than two years but less than five years US$'000	More than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2017							
Non-derivative financial liabilities							
Trade payables	–	1,977	–	–	–	1,977	1,977
Accruals and other payables	–	8,094	–	–	–	8,094	8,094
Debenture	9.4	32	32	679	–	743	568
Consideration payable	–	6,407	20,305	30,416	–	57,128	52,765
		16,510	20,337	31,095	–	67,942	63,404

	Weighted average interest rate %	On demand or within one year US$'000 (Restated)	More than one year but less than two years US$'000 (Restated)	More than two years but less than five years US$'000 (Restated)	More than five years US$'000 (Restated)	Total undiscounted cash flows US$'000 (Restated)	Carrying amount US$'000 (Restated)
As at 31 December 2016							
Non-derivative financial liabilities							
Trade payables	–	270	–	–	–	270	270
Accruals and other payables	–	7,659	–	–	–	7,659	7,659
Debenture	9.4	32	32	711	–	775	552
Bond	13.7	28,683	22,977	–	–	51,660	41,948
		36,644	23,009	711	–	60,364	50,429

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value

Fair value hierarchy

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2017

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets				
Financial assets at fair value through profit or loss	**–**	**–**	**1,900**	**1,900**
Available-for-sale financial assets	**–**	**–**	**8,100**	**8,100**
	–	**–**	**10,000**	**10,000**
Financial liability				
Contingent consideration payable	**–**	**–**	**51,882**	**51,882**

As at 31 December 2016 (Restated)

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets				
Financial assets at fair value through profit or loss	35,890	–	–	35,890
Available-for-sale financial assets	4,427	–	–	4,427
	40,317	–	–	40,317

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	2017 **US$'000**	2016 US$'000 (Restated)
As at 1 January	**–**	5,473
Additions	**10,000**	–
Derecognised on disposal of subsidiaries	**–**	(3,749)
Fair value gain in profit or loss	**–**	(1,655)
Exchange realignment	**–**	(69)
As at 31 December	**10,000**	–

The above fair value gain included in the consolidated statement of profit or loss for the current year related to investment in financial assets at fair value through profit or loss held at the end of the reporting period.

Reconciliation of Level 3 fair value measurements of financial liability

	2017 **US$'000**	2016 US$'000 (Restated)
As at 1 January	**–**	–
Addition	**54,598**	–
Fair value gain in profit or loss	**(2,716)**	–
Exchange realignment	**–**	–
As at 31 December	**51,882**	–

The financial liability subsequently measured at fair value on Level 3 fair value measurement represents contingent consideration relating to the acquisition of Splash Damage Group (see Note 37(a)). A gain on fair value of US$2,716,000 for the year ended 31 December 2017 relating to this contingent consideration has been recognised in profit or loss.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial assets			
Financial assets at fair value through profit or loss – Derivative financial instruments 2017: US$1,900,000 2016: Nil	Level 3	Binomial option pricing model	• Risk-free rate (2.03%): 1% increase/(decrease) in risk-free rate would have no material impact on the fair value • Volatility (21%): 1% increase/(decrease) in volatility would have no material impact on the fair value • Equity value of Certain Affinity: A significant increase/(decrease) in the equity value of Certain Affinity would result in the significant increase/(decrease) in the fair value of derivative financial instruments
– Listed equity securities in HK 2017: Nil 2016: US$35,890,000	Level 1	Quoted price in active market	• NA
Available-for-sale financial assets – Unlisted equity securities outside HK 2017: US$8,100,000 2016: Nil	Level 3	Discounted cash flow method	• Discount for credit risk (15.5%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US$865,000)/US$1,119,000 • Discount rate of lack of marketability (30%): 1% increase/(decrease) in discount rate of lack of marketability would result in (decrease)/increase in fair value by US$1,000,000 • Estimated net profit of Certain Affinity: A significant increase/(decrease) in estimated net profit of Certain Affinity would result in the significant increase/(decrease) in the fair value of derivative financial instruments
– Listed equity securities in HK 2017: Nil 2016: US$4,427,000	Level 1	Quoted price in active market	• NA
Financial liability			
Financial liability at fair value through profit or loss – Contingent consideration payable 2017: US$51,882,000 2016: Nil	Level 3	Expected cash flow method	• Discount for credit risk (5%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US$800,000)/US$823,000 • Estimated profit before tax of Splash Damage Group: A significant increase/(decrease) in estimated profit before tax of Splash Damage Group would result in the significant increase/(decrease) in the fair value of contingent consideration payable

41. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions

Particulars of significant party transactions during the reporting period are as follows:

Name of company	Nature of transaction	Relationship	2017 US$'000	2016 US$'000 (Restated)
Fujian Ronghecheng Food Corporation ("Ronghecheng Food Corporation")	Rental income	Common director in a related company (Note (a))	–	40
Ronghecheng Food Corporation	Sales of side products	Common director in a related company (Note (a))	–	178
Xiamen Sumpo Food Trading Limited ("Xiamen Sumpo Food")	Rental paid	Common director in a related company (Note (a))	–	6
Perfect Online Holding Limited ("Perfect Online")	Royalties income	Non-controlling shareholder of a subsidiary (Note (b))	–	46
Cindic Holdings Limited ("Cindic Holdings")	Rental paid	Common shareholder in a related company (Note (c))	**185**	–

Notes:

(a) Mr. Lin Qinglin was the director of Xiamen Sumpo Food, Ronghecheng Food Corporation and the Company.

(b) Perfect Online own 3% equity interest of Digital Extremes as at 31 December 2017 (2016: 3% equity interest).

(c) The ultimate beneficial owner of Cindic Holdings is Ms. Wu Laam Anne, who is the wife of Mr. Yuk Kwok Cheung, Charles, the substantial shareholder of the Company.

41. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) The outstanding balances with related parties at the end of the reporting period are as follows:

	2017 US$'000	2016 US$'000 (Restated)
Amounts due from the directors of subsidiaries (Note)	**333**	–

Note:

The amounts due from the directors of subsidiaries are unsecured, interest-free and has no fixed terms of repayment.

(c) Key management personnel remuneration

	2017 US$'000	2016 US$'000 (Restated)
Short term employee benefits	**1,048**	983
Retirement schemes contributions	**9**	11
	1,057	994

(d) For the connected transaction under Chapter 14A of the Listing Rules, please refer to the section headed "Connected Transactions and Related Party Transactions" under the "Report of the Directors" of this annual report.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2017 **US$'000**	2016 US$'000 (Restated)
Within one year	**4,548**	2,412
In the second to fifth years, inclusive	**12,724**	7,000
After the fifth years	**7,759**	3,729
	25,031	13,141

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease in respect of office premises are negotiated for a term of one to twelve years with fixed rentals.

43. COMMITMENTS

	2017 **US$'000**	2016 US$'000 (Restated)
Commitments for:		
– acquisition of property, plant and equipment	**74**	–
– development expenditure	**24,638**	2,278
	24,712	2,278

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2017 US$'000	2016 US$'000 (Restated)
Non-current assets			
Property, plant and equipment		**18**	258
Development expenditure		**7,965**	–
Available-for-sale financial assets		**8,100**	4,427
Investment in subsidiaries		**7**	–
		16,090	4,685
Current assets			
Deposits paid, prepayments and other receivables		**15,782**	49,656
Amounts due from subsidiaries		**122,813**	125,561
Financial assets at fair value through profit or loss		**1,900**	35,890
Cash and bank balances		**20,730**	1,500
		161,225	212,607
Current liabilities			
Accruals and other payables		**1,473**	2,869
Amount due to a subsidiary		**–**	8,825
Bond		**–**	20,955
		1,473	32,649
Net current assets		**159,752**	179,958
Total assets less current liabilities		**175,842**	184,643
Equity			
Share capital		**39,597**	37,003
Reserves	45	**135,677**	126,095
Total equity		**175,274**	163,098
Non-current liabilities			
Debenture		**568**	552
Bond		**–**	20,993
		568	21,545
Total equity and non-current liabilities		**175,842**	184,643

Approved by the board of directors on 16 March 2018 and signed on its behalf by:

Mr. Xu Yiran
Executive Director

Mr. Gu Zhenghao
Executive Director

45. RESERVES OF THE COMPANY

	Share premium US$'000	Exchange reserve US$'000	Share option reserve US$'000	Accumulated losses US$'000	Total US$'000
As at 1 January 2016 (Restated)	133,559	–	3,697	(22,436)	114,820
Profit for the year	–	–	–	9,358	9,358
Other comprehensive loss for the year	–	(10)	–	–	(10)
Total comprehensive (loss)/income for the year	–	(10)	–	9,358	9,348
Recognition of equity-settled share-based payment expenses	–	–	1,927	–	1,927
Lapse of share options	–	–	(917)	917	–
As at 31 December 2016 (Restated) and 1 January 2017	133,559	(10)	4,707	(12,161)	126,095
Loss for the year	–	–	–	(38,953)	(38,953)
Other comprehensive loss for the year	–	(1,230)	–	–	(1,230)
Total comprehensive loss for the year	–	(1,230)	–	(38,953)	(40,183)
Issue of shares by placing (Note 36(b))	29,948	–	–	–	29,948
Transaction cost on placement of shares (Note 36(b))	(649)	–	–	–	(649)
Recognition of equity-settled share-based payment expenses	–	–	12,528	–	12,528
Exercise of share options (Note 36(a))	9,971	–	(2,033)	–	7,938
Lapse of share options	–	–	(2,674)	2,674	–
As at 31 December 2017	**172,829**	**(1,240)**	**12,528**	**(48,440)**	**135,677**

As at 31 December 2017, the Company's reserves available for distributions to owners of the Company comprising share premium account less accumulated losses amounted to US$124,389,000 (2016: US$121,398,000).

46. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation	Paid up capital	Percentage of equity interest and voting power attributable to the Company Direct %	Indirect %	Principal activities
Dream Beyond Holdings Limited	BVI	US$1	100	–	Investment holdings
Leyou International Limited	HK	HK$1	–	100	Investment holdings
Multi Dynamic Games Group Inc.	Canada	US$1	–	100	Investment holdings
Digital Extremes	Canada	CAD 1	–	97	Development of video games
Digital Extremes US, Inc.	US	US$100	–	97	Marketing support activities
Radius Maxima Limited	UK	US$50,000	–	100	Investment holdings
Splash Damage Limited	UK	GBP113	–	100	Development of video games
Fireteam Limited	UK	GBP1	–	100	Provision of online services, consultancy and back-end technologies
Warchest Limited	UK	GBP1	–	100	Publishing and operating competitive multiplayer games
Brilliant China International Holdings Limited	HK	HK$1	–	100	Investment holdings
King Maker (Beijing) Technology Co., Ltd	PRC	HK$30,000,000	–	100	Development, operation and management of online games
Guangzhou Radiance	PRC	RMB2,048,000	–	51	Development of computer software and online game
Leyou SNK Corporation (Note)	Japan	JPY1,000,000	81	–	Development of computer software and online game

Note:

During the year ended 31 December 2017, the non-controlling interest paid the capital contribution of US$2,000 into Leyou SNK Corporation. After the capital contribution, an amount of US$2,000 was credited to non-controlling interests (2016: Nil).

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place and date of incorporation	Proportion of ownership interests and voting power held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017**	2016	**2017**	2016
		%	%	**US$'000**	US$'000 (Restated)	**US$'000**	US$'000 (Restated)
Digital Extremes	Canada, 17 September 2013	**3**	3	**1,259**	5,769	**3,710**	3,350

46. PRINCIPAL SUBSIDIARIES (CONTINUED)

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2017	2016
	US$'000	US$'000
		(Restated)
Non-current assets	**9,588**	2,550
Current assets	**70,213**	40,599
Current liabilities	**(36,123)**	(23,190)
Non-current liabilities	**(2,395)**	(220)
Total equity	**41,283**	19,739

	2017	2016
	US$'000	US$'000
		(Restated)
Revenue	**144,080**	111,802
Cost of sales and expenses	**(85,681)**	(67,352)
Profit for the year	**58,399**	44,450
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**58,399**	44,450

	2017	2016
	US$'000	US$'000
		(Restated)
Net cash inflow from operating activities	**37,126**	45,962
Net cash outflow from investing activities	**(1,314)**	(188)
Net cash outflow from financing activities	**(37,455)**	(47,164)
Net decrease in cash and bank balances	**(1,643)**	(1,390)
Dividend paid to non-controlling interest	**1,124**	14,957

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

47. LIABILITIES FROM FINANCING ACTIVITIES

	Liabilities from financing activities			
	Bond US$'000	**Debenture** US$'000	**Bank borrowing** US$'000	**Total** US$'000
As at 1 January 2017	(41,948)	(552)	–	(42,500)
Cash flows	41,875	–	5	41,880
Acquisition of subsidiaries (Note 37(a))	–	–	(5)	(5)
Interest expense	–	(16)	–	(16)
Exchange alignment	73	–	–	73
As at 31 December 2017	**–**	**(568)**	**–**	**(568)**

48. COMPARATIVES

The comparative consolidated statement of profit or loss has been re-presented as the PRC segments were discontinued during the current year. Certain comparative amounts have been reclassified to conform to the current year's presentation. In the opinion of the Directors, such reclassification provides a more appropriate presentation of the Group's business segments.

As further explained in Note 3, due to the voluntary change in presentation currency during the reporting period, certain adjustments of prior year have been made, and certain comparative amounts have been restated to conform with the current year's presentation and disclosures and accounting treatment, and a third consolidated statement of financial position as at 31 December 2015 has been presented.

49. EVENT AFTER THE REPORTING PERIOD

Acquisition of listed securities

On 18 January 2018, the Company and an independent third party (the "Vendor") entered into a sale and purchase agreement pursuant to which the Company acquired from the Vendor 188,679,245 shares in Freeman Fintech Corporation Limited ("Freeman Fintech") (Stock Code: 279) for an aggregate consideration of approximately US$12,821,000 (equivalent to HK$100,000,000) (excluding stamp duty and related expenses).

On 2 February 2018, the Company and the Vendor entered into a further sale and purchase agreement pursuant to which the Company acquired from the Vendor a further 93,457,943 shares in Freeman Fintech for an aggregate consideration of approximately US$12,821,000 (equivalent to HK$100,000,000) (excluding stamp duty and related expenses).

Further details of the acquisition of listed securities were set out in the announcement of the Company dated 2 February 2018.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 16 March 2018.

FIVE YEARS FINANCIAL SUMMARY

For the year ended 31 December 2017

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements in this annual report, is set out below:

	Year ended 31 December				
	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Continuing operations					
Revenue	**166,736**	111,802	51,503	–	–
Profit/(loss) before taxation from continuing operations	**25,095**	19,099	5,625	(3,525)	(2,535)
Taxation	**(13,823)**	(9,549)	(6,103)	–	–
Profit/(loss) for the year from continuing operations	**11,272**	9,550	(478)	(3,525)	(2,535)
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**(1,026)**	4,530	(9,408)	1,938	715
Profit/(loss) for the year	**10,246**	14,080	(9,886)	(1,587)	(1,820)
Attributable to:					
Owners of the Company	**8,808**	8,132	(13,505)	(1,624)	(2,021)
Non-controlling interests	**1,438**	5,948	3,619	37	201
	10,246	14,080	(9,886)	(1,587)	(1,820)

	As at 31 December				
	2017	2016	2015	2014	2013
	US$'000	US$'000	US$'000	US$'000	US$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Assets and liabilities					
Total assets	**313,431**	219,524	332,808	137,861	115,505
Total liabilities	**(87,437)**	(70,064)	(119,648)	(60,535)	(44,307)
	225,994	149,460	213,160	77,326	71,198
Total equity attributable to owners of the Company	**221,553**	146,110	177,595	75,083	68,990
Non-controlling interests	**4,441**	3,350	35,565	2,243	2,208
	225,994	149,460	213,160	77,326	71,198