LE YOU

# LEYOU TECHNOLOGIES HOLDINGS LIMITED

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

# 2018 INTERIM REPORT

# Contents


| | |
|---|---|
| Corporate Information | 2 |
| Financial Highlights | 3 |
| Management Discussion and Analysis | 4 |
| Other Information | 14 |
| Interim Condensed Consolidated Financial Statements | |
| Interim Condensed Consolidated Statement of Profit or Loss | 19 |
| Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 21 |
| Interim Condensed Consolidated Statement of Financial Position | 22 |
| Interim Condensed Consolidated Statement of Changes in Equity | 24 |
| Interim Condensed Consolidated Statement of Cash Flows | 25 |
| Notes to the Interim Condensed Consolidated Financial Statements | 26 |


# Corporate Information

## DIRECTORS

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

**Non-Executive Directors**
Mr. Eric Todd
Mr. Cheng Chi Ming Brian
Mr. Li Zhigang

**Independent Non-Executive Directors**
Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Chan Siu Tak

## AUTHORISED REPRESENTATIVES

Mr. Xu Yiran
Mr. Chan Siu Tak

## LEGAL ADVISORS AS TO HONG KONG LAW

MinterEllison
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

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2018** | 2017 | Change |
| | **US$'000** | US$'000 | % |
| | **(Unaudited)** | (Unaudited) | |
| | | (Restated) | |
| **STATEMENT OF PROFIT OR LOSS HIGHLIGHTS** | | | |
| **From continuing operations** | | | |
| Revenue | **107,880** | 60,972 | +77% |
| Gross profit | **73,765** | 38,505 | +92% |
| Gross profit margin (%) | **68.4%** | 63.2% | +5.2% |
| **From continuing and discontinued operations** | | | |
| Profit for the period attributable to the owners of the Company | **12,600** | 2,433 | +418% |
| EBITDA* | **33,936** | 16,794 | +102% |
| Basic earnings per share (US cents) | **0.41** | 0.08 | +413% |
| Diluted earnings per share (US cents) | **0.41** | 0.08 | +413% |
| Dividend per share (US$) | **Nil** | Nil | N/A |

| | **As at** | As at | |
|---|---|---|---|
| | **30 June 2018** | 31 December 2017 | Change |
| | **US$'000** | US$'000 | % |
| | **(Unaudited)** | (Audited) | |
| **STATEMENT OF FINANCIAL POSITION HIGHLIGHTS** | | | |
| Total assets | **331,272** | 313,431 | +6% |
| Total borrowings** | **25,419** | 568 | +4,375% |
| Net assets | **233,961** | 225,994 | +4% |
| Net assets per share (US$)*** | **0.08** | 0.07 | +14% |
| Current ratio | **1.71** | 3.99 | –57% |
| Gearing ratio**** | **7.7%** | 0.2% | +7.5% |

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

** Total borrowings = Debenture + Bank borrowing

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

**** Gearing ratio = Total borrowings/Total assets

# Management Discussion and Analysis

## MARKET OBSERVATION AND CORE STRATEGY

In recent years, the overall global games market has continued to outperform the forecast, and the industry has been surprised by the strong performance of some great new products. Newzoo, the leading provider of market intelligence, announced that actual games revenue in 2017 reached US$121.7 billion, 14.3% higher than that of 2016, and 4.9% higher than its earlier forecast. Newzoo also revised the Compound Annual Growth Rate ("CAGR") for the next five years from 8.2%, up to 10.3%.

The rapid growth of mobile games during the last ten years has generated an extremely large user base globally, which has in turn resulted in a substantial number of new gamers entering the market, looking for higher quality, and more immersive game experiences. In response, the games industry has begun to cater to gamers' switching preferences and PC/console games have therefore gained greater popularity with mass gaming audiences.

Although 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, free-to-play games have only penetrated a small share of the major regional markets across the world, except for certain parts of Asia, and this is especially true on consoles. 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, and have been learning from their Asian counterparts, though not always successfully.

Having foreseen this huge market potential for free-to-play PC/console video games years earlier, the core strategy of Leyou Technologies Holdings Limited (the "Company", together with its subsidiaries, the "Group") has been to develop and publish high quality PC/console video games targeting the global audience and adopt a GaaS operation model to continuously evolve gameplay and provide more premium game content to retain players over long periods of time.

This strategy has proven to be correct and most clearly apparent with the global sensation caused by the hottest game of the year in the market, *Fortnite: Battle Royale*, a phenomenal cross-platform free-to-play game. It was first launched at the end of September 2017, and has achieved total revenue of over US$1 billion in just nine months of operation. According to SuperData, *Fortnite* generated US$318 million in revenue in May 2018 alone, a seven percent hike compared to April 2018 with a majority of the growth being on PS4 and Xbox One, while revenue on iOS and PC remained "flat" in May 2018 versus April 2018. Console has become the major revenue source for this high-quality free-to-play game.

## BUSINESS OVERVIEW

Following the successful transformation and with the sound foundation built in 2017, the first half of 2018 has seen impressive growth. The total revenue from continuing operations of the Group for the six months ended 30 June 2018 (the "Reporting Period") reached US$108 million, representing a year-over-year growth of 77%. Such growth was mainly driven by the strong performance of the Group's ongoing GaaS game, *Warframe*. The net profit attributable to the owners of the Company and EBITDA for the Reporting Period were US$13 million and US$34 million, respectively, which were 418% and 102% higher than the same period last year, primarily due to the significant increase in revenue, improvement in gross profit margin and decrease in finance costs.

During the first half of 2018, the revenue from game development and publishing, work-for-hire, and others accounted for approximately 88.9%, 10.9% and 0.2%, respectively, of the total revenue of the Group.

### Game Development and Publishing

The game development and publishing business generates publishing revenue from internally developed games or games developed by contractors, with the intellectual property rights remaining with the Group. Being the major component of the Group's revenue, the Group published and operated several free-to-play online games worldwide as of 30 June 2018, including *Warframe* and *Dirty Bomb*, and had a number of new games in the pipeline.

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

| | **Six months ended 30 June** | | |
|---|---|---|---|
| | **2018** | 2017 | Change |
| | (in thousands, unless otherwise stated) | | |
| Total Registered Users | **47,258** | 36,453 | +30% |

***Warframe***

*Warframe* is a free-to-play science fiction-themed multiplayer third-person action game available on PC and consoles (both PlayStation 4 and Xbox One). The game is developed and published by one of the Group's subsidiaries, Digital Extremes Ltd. ("Digital Extremes"). It was first launched in March 2013 and just celebrated its fifth anniversary during the Reporting Period. Since its initial launch, the game has consistently been one of the most popular free-to-play games worldwide, and it keeps striking new highs each year. *Warframe* steadily sits amongst the top 5 games of all genres in terms of number of players and playtime on Steam, a digital distribution platform for video games, and has a positive review score of approximately 91% from players. The game is also a top 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, passionate gamer community and facilitates communication between gamers and the development team through online and offline interaction.

The phenomenal *Plains of Eidolon*, the open world update released in October 2017, has brought *Warframe* to new heights of success. The heat of *Plains of Eidolon*, lasting for more than seven months into 2018 and followed by another cinematic quest *The Sacrifice* this June, has tremendously driven the revenue of *Warframe* during the Reporting Period. The monthly active users ("MAU") and average concurrent users for the Reporting Period increased by 33.7% and 44.5%, respectively. Having earned Platinum Top Sellers and Most Simultaneous Players on Steam for the year 2017, *Warframe* is once again one of only two free-to-play games winning such accolades in Steam's The Best of 2018 (so far), with the other winner being Dota 2.

Having achieved an impressive performance during the Reporting Period, *Warframe* continues to evolve with big plans for the rest of the year and into the future. The third TennoCon, the annual Warframe-themed event that draws thousands of fans from across the globe to celebrate everything about *Warframe* (a day of interactive activities, content reveals and millions of gamers watching a livestream broadcast), was just held this July 2018 and turned out to be overwhelmingly successful. More than 2000 fans came to London, Ontario, Canada to join the event in person and nearly half a million live viewers watched the latest reveals for the game during the livestream, TennoLive on 7 July 2018, launching *Warframe* into the #1 most viewed game slot on Twitch that day. The viewership was an increase of twenty-five times over 2017.

The giant leap for *Warframe* revealed during TennoLive included the *Fortuna* update, the Venus open-world expansion that is four to five times larger than the landscape released in *Plains of Eidolon*, which contains many exciting new features and will be launched in 2018. Another stimulating update, *Codename: Railjack*, is an additional game-changing expansion revealed during TennoLive that adds brand-new gameplay such as space exploration, resources mining and tactical ship-to-ship combat. *Codename: Railjack* enables a seamless transition from *Fortuna* into space but has the potential to eventually connect interplanetary travel, exploration, and combat between many planets, too.

Players were equally as excited to learn that *Warframe* will launch on Nintendo Switch later this year and that Digital Extremes has tapped well-respected developer Panic Button to port the game to Nintendo's system. With these new plans close to materialising, the Company believes the game will deliver even better performance during the second half of 2018 and gain more momentum for further growth in future.

**Work-for-hire and Other Businesses**

As of 30 June 2018, the Group had a number of backlog orders for work-for-hire, such orders will continue to bring fixed milestone income, and certain orders contain profit-sharing provisions that may potentially deliver more revenue in the future. Among these orders, a turn-based tactics game developed for Microsoft in the Gears of War universe titled *Gears: Tactics*, and further co-development work on the Gears of War franchise with the highly anticipated GEARS 5, were revealed at the Electronic Entertainment Expo (E3) 2018.

Our other businesses mainly represented game hosting and support services and the sale of merchandise goods.

**Product Pipeline**

Concurrent with the continual premium updates and improvements to our live games, the Group also focuses on developing new titles, by either creating original IP or working with globally renowned ones. Through our high-caliber game design team who understands well both the fun elements brought by social interactions in video games and the healthy monetisation through GaaS, the Group works with and provides guidance to internal studios as well as third party developers and controls the development of new game products.

Some of the Group's new titles as of 30 June 2018 include:

– *Survived by*, a pixel-style free-to-play bullet hell massively multiplayer online ("MMO"), was in its final round of closed alpha stage as of 30 June 2018 and has just started closed beta in July for everyone;

– *Transformers Online*, an online game being developed by Certain Affinity, LLC ("Certain Affinity") with the license granted by Hasbro Inc. and Hasbro International Inc. (collectively, "Hasbro");

– *Civilization Online*, an MMO with an exclusive license granted by Take Two International GmbH ("Take Two"), in development at Guangzhou Radiance Software Technology Co. Ltd. ("Guangzhou Radiance"), who will be entitled to receive a developer royalty after the launch of the game.

Additionally, the Group has multiple unannounced new products in various development stages which are progressing well. Some of the new products are expected to be launched around the end of 2018 or the early of 2019.

With the product pipeline established and each product progressing well, the Company believes that the new games will lay a solid foundation for future revenue growth of the Group for the next few years.

**Publishing and Marketing**

With the international and integrated publishing and marketing network built earlier, the Group currently has teams in the United States of America ("US"), Canada, United Kingdom ("UK") and PRC. A new publishing brand, Athlon Games, Inc., has been established to manage the publishing/marketing of the Group's new products.

The Group's publishing infrastructure, including proprietary publishing platform, backend technology and data portal, was close to completion as of 30 June 2018 and is expected to provide strong support to the forthcoming new games and make them more cost effective.

Our marketing efforts and expertise in free-to-play online games have been recognised not only by the gamer community, but also the industry media professionals. During the Reporting Period, our Warframe marketing team won "Best Marketing Campaign of the Year" (by ProMaxBDA) for their impressive marketing efforts designed around Warframe's Plains of Eidolon expansion in 2017.

**Investment**

During the Reporting Period, the Group acquired a total number of 282,137,188 shares in Freeman Fintech Corporation Limited (Stock code: 279) from an independent third party at an aggregate consideration of approximately US$25,642,000 (equivalent to HK$200,000,000). The fair value of investment as at 30 June 2018 amounted to approximately US$3,162,000 (equivalent to HK$24,828,000), representing 1% of the total assets of the Group. During the Reporting Period, an unrealised loss on change in fair value of held-for-trading investments amounting to approximately US$22,317,000 (equivalent to HK$175,172,000) was recognised in profit or loss.

**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 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 approximately US$31,171,000 (equivalent to HK$243,000,000). The directors of the Company (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 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 report |
|---|---|---|---|---|
| 29 September 2017 and 24 October 2017 | Placing of 146,230,000 shares | approximately US$31,171,000 (equivalent to HK$243,000,000) | General working capital | (i) approximately US$10,000,000 (equivalent to 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)<br>(ii) approximately US$21,171,000 (equivalent to HK$165,000,000) had been used as general working capital |

Save as the above, the Company has not conducted any other equity fund raising activities during the Reporting Period.

### Event After the Reporting Period

***Memorandum of Understanding in Relation to A Cooperation Agreement***

On 11 July 2018, the Company entered into a Memorandum of Understanding (the "Cooperation MOU") with MEGA AMPLE HOLDINGS LIMITED, a limited liability company wholly-owned by Mr. Yuk Kwok Cheung, Charles, the controlling shareholder of the Company ("MEGA") in respect of the possible cooperation between the Company and MEGA in the development of certain new PC/console online video games (the "New Games").

Pursuant to the Cooperation MOU, it is proposed that MEGA shall provide capital to the Company for the purposes of developing and operating the New Games in return for a share of the revenue derived from the New Games upon their successful launch. If the revenue derived from any New Game reaches a certain agreed amount, the Company shall have the right to terminate its obligation to share any further revenue derived from such New Game by paying to MEGA an agreed lump sum based on the then fair market value of the relevant New Game, subject to a discount.

Further details of the said transaction were set out in the announcement of the Company dated 11 July 2018.

**Outlook**

As an increasing number of traditional video game publishers begin to appreciate the advantages of the GaaS model and join the market, we have noted not only had competition been heating up, but also the total market size had expanded, attributable to the healthy competition that provide gamers with better products which are of higher quality and deliver a more immersive game experience. With the Group's positioning as a game changer in the global video games 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 GaaS model, which together form the Group's most valuable intangible assets and unique "economic moat", we are confident about the prospects of the Group's game products in the market.

In the second half of 2018, the Group will continue to strive to provide gamers with the most compelling content updates for its live games to thank them for their passionate support, and to deliver better performance and return for the Company's shareholders. Additionally, the Group will make continuous efforts to enhance resource utilisation and integration and explore merger and acquisition opportunities to further strengthen the overall competitive advantage of the Group. With the huge potential of the Group's new games, plus the stable and increasing revenue from its live games, the Company is confident that we are heading towards the goal of becoming a leading video game company worldwide and the Company will continue to create more values for its shareholders.

## FINANCIAL REVIEW

**Continuing Operations – Computer and Video Gaming Business**

***Revenue***

Our total revenue increased significantly by 77%, from US$61 million for the six months ended 30 June 2017 to US$108 million for the six months ended 30 June 2018, 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.

***Gross Profit***

Our total gross profit increased by 92%, from US$39 million for the six months ended 30 June 2017 to US$74 million for the six months ended 30 June 2018, primarily due to the steady growth of the gaming business.

The gross profit margin significantly increased from 63.2% for the six months ended 30 June 2017 to 68.4% for the six months ended 30 June 2018, primarily due to the economies of scale upon the steady growth of the gaming business.

***Other Revenue and Gains***

Other revenue and gains increased slightly by 3%, from US$3.4 million for the six months ended 30 June 2017 to US$3.5 million for the six months ended 30 June 2018, primarily due to the increase in net exchange gain by US$3 million and offset by the decrease in interest income on other receivables by US$3 million.

***Selling and Marketing Expenses***

Selling and marketing expenses remained steady at US$4 million for the six months ended 30 June 2018 (2017: US$4 million).

***Administrative Expenses***

Administrative expenses increased by 15%, from US$12 million for the six months ended 30 June 2017 to US$14 million for the six months ended 30 June 2018. Administrative expenses primarily consist of rental expenses, staff costs and other professional fees. The increase was in line with the steady growth of the gaming business during the Reporting Period.

***Amortisation of Intangible Assets***

Amortisation of intangible assets remained steady at US$10 million for the six months ended 30 June 2018 (2017: US$10 million).

***Finance Costs***

Finance costs decreased significantly by 97%, from US$3 million for the six months ended 30 June 2017 to US$0.1 million for the six months ended 30 June 2018, primarily as a result of the full repayment of the fixed coupon redeemable bond during the year ended 31 December 2017.

***Equity-settled Share-based Payment Expenses***

Equity-settled share-based payment expenses amounted to US$2 million for the six months ended 30 June 2018 (2017: Nil), primarily due to the Company granting 277,844,600 share options under the share option scheme adopted on 25 August 2017 (the “Share Option Scheme”).

***Taxation***

Taxation increased by 130%, from a tax expense of US$5 million for the six months ended 30 June 2017 to US$11 million for the six months ended 30 June 2018, which was in line with the steady growth of the gaming business.

## LIQUIDITY AND FINANCIAL RESOURCES

**Financial Resources**

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

As at 30 June 2018, cash and bank balances amounted to US$47 million (31 December 2017: US$46 million), which were denominated in Renminbi (“RMB”), Hong Kong dollars (“HK$”), United States Dollars (“US$”), Canadian Dollars (“CAD”) and British Pound (“GBP”). The slight increase in cash and bank balances was mainly due to the generation of free cash flow and proceeds from bank-borrowing, partly offset by the increase in development expenditure.

**Interest-bearing Borrowings and Gearing Ratio**

As at 30 June 2018, the total amount of interest-bearing borrowings was US$25 million (31 December 2017: US$0.6 million). The significant increase was mainly attributable to a drawdown of a bank borrowing in the principal amount of US$25 million in June 2018 which was used as working capital of the Group.

As at 30 June 2018, the gearing ratio of the Group was 7.7% (31 December 2017: 0.2%). This was calculated by dividing total interest-bearing borrowings by total assets of the Group.

## OTHER INFORMATION

**Human Resources**

As at 30 June 2018, the Group had 825 employees (31 December 2017: 722).

***Staff Costs***

Total staff costs from continuing operations, including directors' emoluments, amounted to US$14 million for the six months ended 30 June 2018 (2017: US$10 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 their payroll costs to the central pension scheme. The contributions are charged to profit or 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***

The Share Option Scheme was adopted for a period of 10 years on, and commenced from, 25 August 2017. Details of the rules of the Share Option Scheme were set out in the circular of the Company dated 8 August 2017.

As at the date of this report, the total number of options granted under the Share Option Scheme was 277,844,600 share options.

**Material Risk Factors**

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

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

**Contractual and Capital Commitments**

As at 30 June 2018, the Group had operating lease commitments of US$25 million (31 December 2017: US$25 million).

As at 30 June 2018, the Group had capital commitments of US$23 million (31 December 2017: US$25 million).

# Other Information

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

As at 30 June 2018, 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (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 30 June 2018, 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 30 June 2018, 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 interest | 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Save as disclosed above, as at 30 June 2018, and so far as the Directors are aware of, as at 30 June 2018, no person (other than the Directors or chief executive of the Company) had any interest or short position 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.

## INCREASE IN AUTHORISED SHARE CAPITAL

Pursuant to an ordinary resolution passed at the annual general meeting on 25 May 2018, the authorised share capital of the Company was increased from HK$400,000,000 divided into 4,000,000,000 ordinary shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares by the creation of an additional 6,000,000,000 unissued ordinary shares.

## SHARE OPTIONS

The Share Option Scheme was adopted for a period of 10 years on, and commenced from, 25 August 2017. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of any participant which includes any full-time or part-time employee of the Group (including any executive or 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.

## SHARE OPTIONS (CONTINUED)

Details of the movement in the share options granted under the Share Option Scheme during the six months ended 30 June 2018 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 2018 | Granted during the period | Exercised during the period | Lapsed during the period | Outstanding as at 30 June 2018 |
|---|---|---|---|---|---|---|---|---|
| *Executive Directors* | | | | | | | | |
| Mr. Xu Yiran | 24 October 2017 | 24 October 2017 to 24 October 2022 (Note (a)) | HK$1.91 | 29,246,800 | – | – | – | 29,246,800 |
| Mr. Gu Zhenghao | 24 October 2017 | 24 October 2017 to 24 October 2022 (Note (a)) | HK$1.91 | 29,246,800 | – | – | – | 29,246,800 |
| Sub-total | | | | 58,493,600 | – | – | – | 58,493,600 |
| *Employees* | 24 October 2017 | 24 October 2017 to 24 October 2022 (Note (a)) | HK$1.91 | 43,870,200 | – | – | – | 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 |

## SHARE OPTIONS (CONTINUED)

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.

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

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

## CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the relevant code provisions (the "Code Provision(s)") set out in the Corporate Governance Code (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. Hu Chung Ming when he was re-elected after his previous term expired in 2016. In view of the deviation from Code Provision A.4.1, the Company issued a letter of appointment of independent non-executive director dated 21 March 2018 to Mr. Hu Chung Ming under which Mr. Hu Chung Ming was appointed for a specific term. The commencement date of the appointment was 23 June 2017 and the letter of appointment carries a fixed term of three years unless terminated by either party in accordance with the terms thereof.

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 in relation to their appointment. As disclosed above, the Company did not have formal letters of appointment for Mr. Hu Chung Ming until 21 March 2018 and the letter of appointment has set out the key terms and conditions of his appointment.

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 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 period ended 30 June 2018.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard set out in the Model Code. The Company has made specific enquiries to all the Directors and all the Directors confirmed that they have complied with the Model Code and the required standards of its code of conduct regarding securities transactions by Directors during the period under review.

## CHANGES IN DIRECTOR'S INFORMATION

In February 2018, Mr. Cheng Chi Ming Brian, a non-executive Director, resigned as a non-executive director of Beijing Capital International Airport Company Limited (Sock code: 694).

## AUDIT COMMITTEE

The unaudited interim condensed consolidated results for the six months ended 30 June 2018 has been reviewed by the audit committee of the Company (the "Audit Committee") which comprises Mr. Hu Chung Ming (Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, all being independent non-executive Directors.

## INTERIM DIVIDEND

The Board has resolved not to declare payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

Hong Kong, 28 August 2018

# Interim Results

The board (the "Board") of directors (the "Directors") of Leyou Technologies Holdings Limited (the "Company") is pleased to present the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018. These interim condensed consolidated financial statements have not been audited but have been reviewed by the Audit Committee which comprises Mr. Hu Chung Ming (Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

| | Notes | Six months ended 30 June<br>**2018**<br>**US$'000**<br>**(Unaudited)** | <br>2017<br>US$'000<br>(Unaudited)<br>(Restated) |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Revenue** | 4 | **107,880** | 60,972 |
| Cost of sales | | **(34,115)** | (22,467) |
| **Gross profit** | | **73,765** | 38,505 |
| Other revenue and gains | 5 | **3,517** | 3,407 |
| Net loss on financial assets at fair value through profit or loss | 9 | **(21,817)** | (5,964) |
| Selling and marketing expenses | | **(3,942)** | (4,019) |
| Administrative expenses | | **(13,632)** | (11,845) |
| Amortisation of intangible assets | | **(9,535)** | (9,640) |
| Fair value change of contingent consideration payable | | **(1,704)** | – |
| Finance costs | 6 | **(95)** | (2,757) |
| Other operating expenses | | **(581)** | (260) |
| Equity-settled share-based payment expenses | | **(2,383)** | – |
| **Profit before taxation** | 9 | **23,593** | 7,427 |
| Taxation | 7 | **(10,674)** | (4,639) |
| **Profit for the period from continuing operations** | | **12,919** | 2,788 |
| ***Discontinued operation*** | | | |
| **Profit for the period from discontinued operation** | 8 | **–** | 52 |
| **Profit for the period** | | **12,919** | 2,840 |
| **Profit for the period attributable to:** | | | |
| Owners of the Company | | | |
| – from continuing operations | | **12,600** | 2,381 |
| – from discontinued operation | | **–** | 52 |
| Non-controlling interests | | | |
| – from continuing operations | | **319** | 407 |
| | | **12,919** | 2,840 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the six months ended 30 June 2018

| | Notes | Six months ended 30 June 2018 US$'000 (Unaudited) | 2017 US$'000 (Unaudited) (Restated) |
|---|---|---|---|
| **Earnings per share** | | | |
| *From continuing and discontinued operations* | | | |
| Basic (US cents per share) | 10 | **0.41** | 0.08 |
| Diluted (US cents per share) | 10 | **0.41** | 0.08 |
| *From continuing operations* | | | |
| Basic (US cents per share) | 10 | **0.41** | 0.08 |
| Diluted (US cents per share) | 10 | **0.41** | 0.08 |

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

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

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| **Profit for the period** | **12,919** | 2,840 |
| **Other comprehensive income/(loss) for the period, net of income tax:** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Changes in the fair value of equity investments at fair value through other comprehensive income | **400** | – |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translating foreign operation | **(7,126)** | 6,933 |
| **Total comprehensive income for the period** | **6,193** | 9,773 |
| **Total comprehensive income for the period attributable to:** | | |
| Owners of the Company | **5,964** | 9,329 |
| Non-controlling interests | **229** | 444 |
| | **6,193** | 9,773 |

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | Notes | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **6,562** | 6,121 |
| Goodwill | 13 | **124,207** | 127,641 |
| Intangible assets | 14 | **48,800** | 57,913 |
| Development expenditure | 15 | **33,512** | 12,364 |
| Available-for-sale financial assets | | **–** | 8,100 |
| Financial assets at fair value through other comprehensive income | | **8,500** | – |
| | | **221,581** | 212,139 |
| **Current assets** | | | |
| Inventories | | **244** | 285 |
| Trade receivables | 16 | **35,101** | 31,538 |
| Deposits paid, prepayments and other receivables | | **17,753** | 19,450 |
| Financial assets at fair value through profit or loss | 17 | **5,562** | 1,900 |
| Tax recoverable | | **4,359** | 2,221 |
| Cash and bank balances | | **46,672** | 45,898 |
| | | **109,691** | 101,292 |
| **Current liabilities** | | | |
| Trade payables | 18 | **1,875** | 1,977 |
| Accruals and other payables | | **10,357** | 8,094 |
| Bank borrowing | 19 | **24,843** | – |
| Consideration payable | 22 | **17,694** | 6,407 |
| Deferred revenue | | **9,242** | 8,898 |
| | | **64,011** | 25,376 |
| **Net current assets** | | **45,680** | 75,916 |
| **Total assets less current liabilities** | | **267,261** | 288,055 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

| | Notes | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|---|
| **Equity** | | | |
| Share capital | | **39,597** | 39,597 |
| Reserves | | **190,303** | 181,956 |
| **Equity attributable to owners of the Company** | | **229,900** | 221,553 |
| **Non-controlling interests** | | **4,061** | 4,441 |
| **Total equity** | | **233,961** | 225,994 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **10,014** | 13,495 |
| Deferred revenue | | **1,427** | 1,640 |
| Consideration payable | 22 | **21,283** | 46,358 |
| Debenture | 20 | **576** | 568 |
| **Total non-current liabilities** | | **33,300** | 62,061 |
| **Total equity and non-current liabilities** | | **267,261** | 288,055 |

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | Share capital US$'000 | Share premium* US$'000 | Capital reserve* US$'000 | Exchange reserve* US$'000 (Note (a)) | Available-for-sale financial assets reserve* US$'000 | Other reserve* US$'000 | Share option reserve* US$'000 (Note (b)) | Retained earnings* US$'000 | Equity attributable to owners of the Company US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2017 (audited) (Restated) | 37,003 | 133,559 | (437) | (982) | – | (47,911) | 4,707 | 20,171 | 146,110 | 3,350 | 149,460 |
| Profit for the period | – | – | – | – | – | – | – | 2,433 | 2,433 | 407 | 2,840 |
| Exchange differences on translating foreign operations and other comprehensive income for the period | – | – | – | 6,896 | – | – | – | – | 6,896 | 37 | 6,933 |
| Total comprehensive income for the period | – | – | – | 6,896 | – | – | – | 2,433 | 9,329 | 444 | 9,773 |
| Exercise of share option | 722 | 9,971 | – | – | – | – | (2,033) | – | 8,660 | – | 8,660 |
| Lapse of share option | – | – | – | – | – | – | (2,674) | 2,674 | – | – | – |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | – | – | (802) | (802) |
| As at 30 June 2017 (unaudited) | 37,725 | 143,530 | (437) | 5,914 | – | (47,911) | – | 25,278 | 164,099 | 2,992 | 167,091 |
| As at 1 January 2018 (audited) | 39,597 | 172,829 | (437) | 13,294 | – | (47,911) | 12,528 | 31,653 | 221,553 | 4,441 | 225,994 |
| Profit for the period | – | – | – | – | – | – | – | 12,600 | 12,600 | 319 | 12,919 |
| Exchange differences on translating foreign operations and other comprehensive income for the period | – | – | – | (7,036) | 400 | – | – | – | (6,636) | (90) | (6,726) |
| Total comprehensive (loss)/income for the period | – | – | – | (7,036) | 400 | – | – | 12,600 | 5,964 | 229 | 6,193 |
| Recognition of equity settled share-based payment expenses | – | – | – | – | – | – | 2,383 | – | 2,383 | – | 2,383 |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | – | – | (609) | (609) |
| **As at 30 June 2018 (unaudited)** | 39,597 | 172,829 | (437) | 6,258 | 400 | (47,911) | 14,911 | 44,253 | 229,900 | 4,061 | 233,961 |

* These reserve accounts comprise the consolidated reserve of US$190,303,000 (31 December 2017: US$181,956,000) in the interim condensed 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) 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 interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| **Operating activities** | | |
| Cash from operation | **59,264** | 71,767 |
| Interest paid | **(35)** | (2,721) |
| Tax paid | **(14,379)** | (6,941) |
| **Net cash generated from operating activities** | **44,850** | 62,105 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(1,803)** | (987) |
| Purchase of intangible assets | **(2,537)** | (1,597) |
| Settlement of consideration payable in relation to acquisition of subsidiaries | **(15,492)** | – |
| Net cash outflow from acquisition of subsidiaries | **–** | (45,610) |
| Dividend paid | **(609)** | (802) |
| Other cash flows arising from investing activities | **(46,406)** | 5,038 |
| **Net cash used in investing activities** | **(66,847)** | (43,958) |
| **Financing activities** | | |
| Exercise of share option | **–** | 8,660 |
| Repayment of bonds | **–** | (36,869) |
| Proceeds from bank borrowing | **25,000** | – |
| **Net cash generated from/(used in) financing activities** | **25,000** | (28,209) |
| **Net increase/(decrease) in cash and bank balances** | **3,003** | (10,062) |
| **Cash and bank balances at the beginning of the period** | **45,898** | 13,139 |
| **Effect of foreign exchange rate changes, net** | **(2,229)** | 3,230 |
| **Cash and bank balances at the end of the period** | **46,672** | 6,307 |
| **Analysis of cash and cash balances** | | |
| **Cash and bank balances** | **46,672** | 6,268 |
| **Cash and bank balances included in disposal groups classified as held for sale** | **–** | 39 |
| | **46,672** | 6,307 |

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The interim condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017 as contained in the Company's Annual Report 2017 (the "Annual Report 2017").

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the Annual Report 2017, except for the impact of the adoption of the new and revised HKASs, Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations described below.

**New and amended standards adopted by the Group**

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The impact of the adoption of HKFRS 9 Financial Instruments on the Group's interim condensed consolidated financial statements were stated below.

The other newly adopted standards did not have material impact on the Group's policies and did not require retrospective adjustments.

*HKFRS 9 Financial Instruments – Impact of adoption*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New and amended standards adopted by the Group (Continued)**

*Classification and measurement*

On 1 January 2018 (the date of the initial application of HKFRS 9), the management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

| | **HKAS 39 carrying amount as at 31 December 2017** | **Reclassification** | **HKFRS 9 carrying amount as at 1 January 2018** |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| Available-for-sale financial assets (Note) | 8,100 | (8,100) | – |
| Financial assets at fair value through other comprehensive income (Note) | – | 8,100 | 8,100 |

Note:

Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as financial assets at fair value through other comprehensive income under HKFRS 9. At 1 January 2018, the Group designated its investment in Certain Affinity at fair value through other comprehensive income, as the investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

*Impairment of financial assets*

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables; and
- Other financial assets at amortised cost.

The Group is required to revised its impairment methodology under HKFRS 9 for each of these classes of assets. The provision for impairment loss for these financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New and amended standards adopted by the Group (Continued)**

*Impairment of financial assets (Continued)*

While cash and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(i) Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group assessed the expected credit losses of trade receivables as at 1 January 2018. There was no significant change in the loss allowance as at 1 January 2018.

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and amounts due from directors of subsidiaries. Applying the expected credit risk model resulted in immaterial impact on the expected credit loss allowance for these financial assets.

## 3. SEGMENT INFORMATION

During the period ended 30 June 2018, the Group operated in one operating segment which was the business of on-line game operation and retail game development. The segment of trading of electronic products was discontinued during the prior period and the disposal was completed on 20 September 2017. 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 operations from external customers during the period and the Group's non-current assets. The geographical locations of the customers are determined based on the locations of the principal operations of the subsidiaries.

The Group's non-current assets included property, plant and equipment, goodwill, intangible assets, development expenditure, available-for-sale financial assets and financial assets at fair value through other comprehensive income. 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, available-for-sale financial assets and financial assets at fair value through other comprehensive income, they are based on the location of operations to which these assets are allocated.

## 3. SEGMENT INFORMATION (CONTINUED)

### Geographical information (Continued)

*Revenue from continuing operations from external customers*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Canada | **87,056** | 54,472 |
| UK | **20,824** | 6,500 |
| | **107,880** | 60,972 |

### Non-current assets

| | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Audited) |
| Canada | **73,745** | 80,496 |
| UK | **113,611** | 115,080 |
| PRC | **3,284** | 115 |
| HK | **30,941** | 16,448 |
| | **221,581** | 212,139 |

### Other information

*Revenue from major products*

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Computer and video games | **107,880** | 60,972 |

## 4. REVENUE

**Continuing operations**

| | Six months ended 30 June 2018 US$'000 (Unaudited) | 2017 US$'000 (Unaudited) (Restated) |
|---|---|---|
| Game development and publishing | 95,934 | 54,672 |
| Work-for-hire | 11,738 | 6,073 |
| Game-hosting and support service | 83 | 174 |
| Sale of merchandise goods | 125 | 53 |
| | 107,880 | 60,972 |

## 5. OTHER REVENUE AND GAINS

**Continuing operations**

| | Six months ended 30 June 2018 US$'000 (Unaudited) | 2017 US$'000 (Unaudited) (Restated) |
|---|---|---|
| Interest income on: | | |
| Bank deposits | 129 | 14 |
| Other receivables | – | 3,391 |
| Total interest income | 129 | 3,405 |
| Net exchange gain | 3,266 | – |
| Sundry income | 122 | 2 |
| | 3,517 | 3,407 |

## 6. FINANCE COSTS

**Continuing operations**

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Interest on: | | |
| – Bank borrowing | **66** | 35 |
| – Bond | **–** | 2,695 |
| – Debenture | **26** | 27 |
| – Shareholder's loan | **3** | – |
| | **95** | 2,757 |

## 7. TAXATION

**Continuing operations**

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Canadian Corporate Income Tax | | |
| – current period | **14,945** | 7,555 |
| United Kingdom Corporate Income Tax | | |
| – current period | **(1,391)** | (126) |
| Deferred tax | | |
| – current period | **(2,880)** | (2,790) |
| Income tax expense | **10,674** | 4,639 |

## 7. TAXATION (CONTINUED)

**Continuing operations (Continued)**

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group was not subject to any income tax in the Cayman Islands and BVI during the reporting period (2017: Nil).

(b) No provision for Hong Kong profits tax has been made as the Group did not have assessable profits subject to Hong Kong profits tax during the reporting period (2017: Nil).

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in PRC are liable to PRC Enterprise Income Tax at a tax rate of 25% for the periods ended 30 June 2018 and 2017.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada are liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the periods ended 30 June 2018 and 2017.

(e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK are liable to United Kingdom CIT at a tax rate of 19% for the period ended 30 June 2018 and three months ended 30 June 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 Firm 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 30 June 2018 would not be distributed in the foreseeable future (31 December 2017: Nil).

## 8. DISCONTINUED OPERATION

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 operation in these interim condensed consolidated financial statements in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The comparative condensed consolidated statement of profit or loss, profit before taxation stated in these interim condensed consolidated financial statements and the relevant disclosure notes for profit or loss items are re-presented for discontinued operation in the prior period.

## 8. DISCONTINUED OPERATION (CONTINUED)

### (a) Profit from the discontinued operation were as follows:

| | Six months ended 30 June 2017 US$'000 (Unaudited) (Restated) |
|---|---|
| Revenue | 6,769 |
| Cost of sales | (6,460) |
| Gross profit | 309 |
| Administrative expenses | (257) |
| Profit before taxation | 52 |
| Taxation | – |
| Profit for the period | 52 |
| **Basic** | |
| Earnings per share from discontinued operation (US cents per share) | 0.002 |
| **Diluted** | |
| Earnings per share from discontinued operation (US cents per share) | 0.002 |

### (b) Profit before taxation from discontinued operation has been arrived at after charging:

| | Six months ended 30 June 2017 US$'000 (Unaudited) (Restated) |
|---|---|
| Staff cost | 67 |
| Depreciation of property, plant and equipment | 2 |
| Operating lease rental expenses | 28 |

## 8. DISCONTINUED OPERATION (CONTINUED)

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

| | Six months ended 30 June 2017 US$'000 (Unaudited) (Restated) |
|---|---|
| Net cash outflow from operating activities and net decrease in cash and bank balances | (40) |

## 9. PROFIT BEFORE TAXATION

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

**Continuing operations**

| | Notes | Six months ended 30 June **2018** **US$'000** **(Unaudited)** | 2017 US$'000 (Unaudited) (Restated) |
|---|---|---|---|
| Staff costs including directors' remuneration | | **10,873** | 9,957 |
| Equity-settled share-based payment expenses | | **2,383** | – |
| Contributions to retirement schemes | | **623** | 37 |
| Total staff costs | | **13,879** | 9,994 |
| Depreciation of property, plant and equipment | 12 | **712** | 321 |
| Amortisation of intangible assets | 14 | **9,535** | 9,640 |
| Amortisation of development expenditure | 15 | **130** | – |
| Total depreciation and amortisation | | **10,377** | 9,961 |
| Net realised loss on financial assets at fair value through profit or loss | | **–** | 5,964 |
| Net unrealised loss on financial assets at fair value through profit or loss | | **21,817** | – |
| Net loss on financial assets at fair value through profit or loss | | **21,817** | 5,964 |
| Operating lease rental expenses | | **1,500** | 1,129 |
| Exchange (gain)/loss, net* | | **(3,266)** | 260 |
| Net loss on disposal of property, plant and equipment | | **419** | – |

* Included in "other revenue and gains" and "other operating expenses" in the interim condensed consolidated statement of profit or loss.

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

**Continuing and discontinued operations**

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Earnings | | |
| Profit attributable to owners of the Company for the purpose of calculating basic earnings per share | **12,600** | 2,433 |

**Continuing operations**

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **US$'000** | US$'000 |
| | **(Unaudited)** | (Unaudited) |
| | | (Restated) |
| Profit attributable to owners of the Company for the purpose of calculating basic earnings per share | **12,600** | 2,433 |
| Less: Profit for the period from discontinued operation | **–** | (52) |
| Profit for the purpose of basic earnings per share from continuing operations | **12,600** | 2,381 |

For the period ended 30 June 2017, 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 operation**

For the period ended 30 June 2017, basic and diluted earnings per share for discontinued operation attributable to the owners of the Company is US0.002 cents per share, based on profit for the period of US$52,000.

For the period ended 30 June 2017, 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.

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (CONTINUED)

**Weighted average number of shares**

During the periods ended 30 June 2018 and 2017, the weighted average number of ordinary shares used as denominator in calculating earnings per share was as follows:

| | 2018<br>'000 | 2017<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share | 3,070,910 | 2,886,585 |
| Effect of dilutive potential ordinary shares: | | |
| – Share options (Note) | 4,152 | – |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | 3,075,062 | 2,886,585 |

Note:

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the period ended 30 June 2018 and with the adjustment for the share options lapsed or exercised.

## 11. DIVIDENDS

No dividends were declared during the period ended 30 June 2018 (2017: Nil).

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Machinery and equipment US$'000 | Motor vehicles US$'000 | Total US$'000 |
|---|---|---|---|
| **Cost** | | | |
| As at 1 January 2018 | 10,686 | – | 10,686 |
| Additions | 1,710 | 93 | 1,803 |
| Disposals | (468) | – | (468) |
| Exchange alignment | (406) | – | (406) |
| **As at 30 June 2018** | 11,522 | 93 | 11,615 |
| **Accumulated depreciation** | | | |
| As at 1 January 2018 | 4,565 | – | 4,565 |
| Charge for the period (Note 9) | 703 | 9 | 712 |
| Written back on disposals | (50) | – | (50) |
| Exchange alignment | (174) | – | (174) |
| **As at 30 June 2018** | 5,044 | 9 | 5,053 |
| **Net carrying amount** | | | |
| **As at 30 June 2018 (unaudited)** | 6,478 | 84 | 6,562 |
| As at 31 December 2017 (audited) | 6,121 | – | 6,121 |

Note:

As at 30 June 2018, no property, plant and equipment are pledged as collaterals for the Group's bank borrowing (31 December 2017: Nil).

## 13. GOODWILL

| | As at 30 June 2018 US$'000 (Unaudited) | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| **Cost** | | |
| At the beginning of the period/year | 127,641 | 27,443 |
| Additional amount recognised from business combination occurring during the period/year | – | 91,699 |
| Exchange alignments | (3,434) | 8,499 |
| At the end of the period/year | 124,207 | 127,641 |
| **Accumulated impairment loss** | | |
| At the beginning of the period/year | – | – |
| Impairment loss recognised during the period/year | – | – |
| At the end of the period/year | – | – |
| **Net carrying amount at the end of period/year** | 124,207 | 127,641 |

## 14. INTANGIBLE ASSETS

| | As at 30 June 2018 US$'000 (Unaudited) | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| **Cost** | | |
| At the beginning of the period/year | 110,822 | 84,292 |
| Acquisition through business combinations (Note 22) | – | 15,615 |
| Additions | 2,537 | 3,998 |
| Exchange alignment | (4,099) | 6,917 |
| At the end of the period/year | 109,260 | 110,822 |
| **Accumulated amortisation** | | |
| At the beginning of the period/year | 52,909 | 23,883 |
| Acquisition through business combinations (Note 22) | – | 1,489 |
| Charge for the period/year (Note 9) | 9,535 | 20,364 |
| Impairment during the period/year | – | 4,872 |
| Exchange alignment | (1,984) | 2,301 |
| At the end of the period/year | 60,460 | 52,909 |
| **Net carrying amount at the end of period/year** | 48,800 | 57,913 |

## 14. 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:

| | As at 30 June 2018 US$'000 (Unaudited) | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Brand name | 9,980 | 10,207 |
| Completed game | 65,068 | 68,031 |
| Game engine | 11,858 | 10,658 |
| Game under development | 22,248 | 21,828 |
| Trademark | 106 | 98 |
| | 109,260 | 110,822 |

## 15. 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 expenditure during the period/year are as follows:

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| At the beginning of the period/year | **12,364** | 624 |
| Additions | **21,472** | 11,697 |
| Amortisation recognised during the period/year (Note 9) | **(130)** | – |
| Exchange alignment | **(194)** | 43 |
| At the end of the period/year | **33,512** | 12,364 |

## 16. TRADE RECEIVABLES

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Trade receivables | **35,101** | 31,538 |

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

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Within 30 days | **32,004** | 29,786 |
| 31 days to 60 days | **982** | 374 |
| 61 days to 180 days | **889** | 110 |
| Over 180 days | **1,226** | 1,268 |
| | **35,101** | 31,538 |

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Held for trading: | | |
| – Listed equity securities in the HK (Note (a)) | **3,162** | – |
| Derivative financial instruments, at fair value (Note (b)) | **2,400** | 1,900 |
| | **5,562** | 1,900 |

Note:

(a) Held for trading – Listed equity securities in HK

Fair value was determined with reference to quoted market bid prices.

(b) Derivative financial instruments, 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 June 2018 and 31 December 2017, the fair values of the Call Option were US$2,400,000 and US$1,900,000, respectively, which was determined by an independent valuer based on binomial option pricing model. The key inputs into the model for the value of the Call Option are as follows:

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| 80% of equity value (US$'000) | **37,959** | 36,195 |
| Maturity | **3.0 years** | 3.5 years |
| Risk free rate | **2.62%** | 2.03% |
| Volatility | **22%** | 21% |

## 18. TRADE PAYABLES

| | As at 30 June 2018 US$'000 (Unaudited) | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Trade payables | **1,875** | 1,977 |

The ageing analysis of trade payables is as follows:

| | As at 30 June 2018 US$'000 (Unaudited) | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Within 30 days | **1,512** | 1,591 |
| 31 days to 90 days | **248** | 286 |
| 91 days to 180 days | **21** | 100 |
| Over 180 days | **94** | – |
| | **1,875** | 1,977 |

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

## 19. BANK BORROWING

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| **Current** | | |
| Bank borrowing – secured (Note) | | |
| Repayable within one year | **8,281** | – |
| Repayable after one year from the end of reporting period but contain a repayable on demand clause | **16,562** | – |
| | **24,843** | – |

Note:

The Group's bank borrowing as at 30 June 2018 are scheduled for repayment in June 2021. In addition, the related loan agreements contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretions. Accordingly, the bank borrowing is classified as current liability in the interim condensed consolidated statement of financial position. The bank borrowing carries interest at Hong Kong Interbank Offer Rate ("HIBOR") plus 3.9% and is denominated in US$. The effective interest rate as at 30 June 2018 is 5.4% per annum. The bank borrowing was secured by a corporate guarantee given by a subsidiary of the Company for an amount up to US$25,000,000.

The banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial ratio, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2018, none of the covenants relating to draw down facilities had been breached (31 December 2017: not applicable).

The carrying amount of bank borrowing approximates to its fair value.

## 20. DEBENTURE

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Unsecured debenture of 5% | **576** | 568 |

On 20 January 2014, the Group had issued debenture amount of approximately US$645,000 (equivalent to HK$5,000,000) to an independent third party.

The debenture bears an interest of 5% (31 December 2017: 5%) per annum, unsecured and repayable on 19 January 2021. The effective interest rate of the debenture is approximately 9.4% (31 December 2017: 9.4%).

## 21. SHARE CAPITAL AND SHARE PREMIUM

| | Number of shares | Nominal value of ordinary shares | | Share premium |
|---|---|---|---|---|
| | | HK$'000 | US$'000 | US$'000 |
| | | (Unaudited) | (Unaudited) | (Unaudited) |
| **Authorised:** | | | | |
| As at 1 January 2017, 31 December 2017 and 1 January 2018 ordinary shares of HK$0.1 each | 4,000,000,000 | 400,000 | 51,600 | – |
| Increase in authorised share capital (Note (a)) | 6,000,000,000 | 600,000 | 77,400 | – |
| **As at 30 June 2018** | **10,000,000,000** | **1,000,000** | **129,000** | **–** |
| **Issued and fully paid:** | | | | |
| As at 1 January 2017 ordinary shares of HK$0.1 each | 2,868,480,000 | 286,848 | 37,003 | 133,559 |
| Issue of shares on exercise of share option (Note (b)) | 56,200,000 | 5,620 | 722 | 9,971 |
| Issue of shares by placing (Note (c)) | 146,230,000 | 14,623 | 1,872 | 29,948 |
| Transaction costs on placement of shares (Note (c)) | – | – | – | (649) |
| **As at 31 December 2017, 1 January 2018 and 30 June 2018** | **3,070,910,000** | **307,091** | **39,597** | **172,829** |

Notes:

(a) Pursuant to an ordinary resolution passed at the annual general meeting on 25 May 2018, the authorised share capital of the Company was increased from HK$400,000,000 divided into 4,000,000,000 ordinary shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares by the creation of an additional 6,000,000,000 unissued ordinary shares.

(b) During the year ended 31 December 2017, the Company issued 56,200,000 shares of the Company for proceeds of US$8,660,000, 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, US$722,000 were credited to the share capital account and the balance of US$7,938,000 were credited to the share premium account during the year.

(c) 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.

## 22. ACQUISITION OF SUBSIDIARIES

**Splash Damage Limited, Fireteam Limited and Warchest Limited (namely "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 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.

## 22. ACQUISITION OF SUBSIDIARIES (CONTINUED)

**Splash Damage Limited, Fireteam Limited and Warchest Limited (namely "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 | 126 |
| Intangible assets (Note 14) | 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 | (1,836) |
| | 17,784 |
| Goodwill arising on acquisition | 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$2,922,000 have been charged to administrative expenses in the interim condensed consolidated statement of profit or loss during the period ended 30 June 2017.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

## 22. ACQUISITION OF SUBSIDIARIES (CONTINUED)

**Splash Damage Limited, Fireteam Limited and Warchest Limited (namely "Splash Damage Group") (Continued)**

Note:

Consideration payable are unsecured and interest-free.

Consideration payable as at 30 June 2018 amounted to US$38,977,000 (31 December 2017: US$52,765,000), of which Nil (31 December 2017: US$883,000) was initial consideration payable, US$38,977,000 (31 December 2017: US$51,882,000) was the earn-out. During the period ended 30 June 2018, the contingent consideration payable of US$14,609,000 was paid and a loss on change in fair value of contingent consideration payable amounting to US$1,704,000 was recognised in profit or loss. At 30 June 2018, among earn-out consideration payable, US$17,694,000 (31 December 2017: US$5,524,000) and US$21,283,000 (31 December 2017: US$46,358,000) were classified as current and non-current liabilities, respectively. 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 values of contingent consideration payable as at 30 June 2018 and 31 December 2017 are based on the valuation performed by an independent professional valuer not connected with the Group.

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

**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).

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

**Fair value hierarchy (Continued)**

**As at 30 June 2018 (Unaudited)**

| | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | 3,162 | – | 2,400 | 5,562 |
| Financial assets at fair value through other comprehensive income | – | – | 8,500 | 8,500 |
| | 3,162 | – | 10,900 | 14,062 |
| **Financial liability** | | | | |
| Contingent consideration payable | – | – | 38,977 | 38,977 |

As at 31 December 2017 (Audited)

| | Level 1<br>US$'000 | Level 2<br>US$'000 | Level 3<br>US$'000 | Total<br>US$'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 |

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

**Reconciliation of Level 3 fair value measurements of financial assets**

| | **For the six months ended 30 June 2018 US$'000 (Unaudited)** | For the year end 31 December 2017 US$'000 (Audited) |
|---|---|---|
| At the beginning of the period/year | **10,000** | – |
| Additions | **–** | 10,000 |
| Fair value gain in profit or loss | **500** | – |
| Fair value gain in other comprehensive income | **400** | – |
| At the end of the period/year | **10,900** | 10,000 |

**Reconciliation of Level 3 fair value measurements of financial liability**

| | **For the six months ended 30 June 2018 US$'000 (Unaudited)** | For the year end 31 December 2017 US$'000 (Audited) |
|---|---|---|
| At the beginning of the period/year | **51,882** | – |
| Settlement during the period/year | **(14,609)** | – |
| Addition | **–** | 54,598 |
| Fair value loss/(gain) in profit or loss | **1,704** | (2,716) |
| At the end of the period/year | **38,977** | 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 22). A loss on fair value of US$1,704,000 for the period ended 30 June 2018 relating to this contingent consideration has been recognised in profit or loss.

## 24. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim condensed consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of the 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:

| Name of company/party | Nature of transactions | Relationship | Six months ended 30 June 2018 US$'000 (Unaudited) | 2017 US$'000 (Unaudited) (Restated) |
|---|---|---|---|---|
| Cindic Holdings Limited ("Cindic Holdings") | Rental paid | Common shareholder in a related company (Note (a)) | 183 | – |
| Mr. Yuk Kwok Cheung Charles ("Mr. Yuk") | Interest expense | Controlling shareholder of the Company (Note (b)) | 3 | – |

Notes:

(a) The ultimate beneficial owner of Cindic Holdings is Ms. Wu Laam Anne, who is the wife of Mr. Yuk, the substantial shareholder of the Company.

(b) On 18 March 2018, Mr. Yuk provided a HK$200 million revolving loan facility to the Company which is unsecured and charged with interest at 3% per annum. The final repayment date of the loan and all other sums owing to Mr. Yuk was 18 March 2019. The Company had repaid all outstanding amount owed to Mr. Yuk under the facility during the Reporting Period.

In the opinion of the Directors, the borrowing of the said loan from Mr. Yuk was for the benefits of the Company and on normal commercial terms where no security over the assets of the Company was pledged.

### (b) The outstanding balances with related parties at the end of the reporting period are as follows:

| | As at 30 June 2018 US$'000 (Unaudited) | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Amounts due from the directors of the subsidiaries (Note) | 139 | 333 |

Note:

The amounts due from the directors of the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 25. OPERATING LEASE ARRANGEMENTS

**The Group as lessee:**

At the end of each reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Within one year | **5,190** | 4,548 |
| In the second to fifth years, inclusive | **13,575** | 12,724 |
| After the fifth year | **6,011** | 7,759 |
| | **24,776** | 25,031 |

Operating lease payments represent rentals payable by the Group for certain of its office premises and office equipment. Lease are negotiated for a term of one to twelve years with fixed rentals.

## 26. COMMITMENTS

| | **As at 30 June 2018 US$'000 (Unaudited)** | As at 31 December 2017 US$'000 (Audited) |
|---|---|---|
| Commitments for: | | |
| – acquisition of property, plant and equipment and advertisement | **–** | 74 |
| – development expenditure | **23,448** | 24,638 |
| | **23,448** | 24,712 |

## 27. SEASONALITY

The gaming industry is subject to seasonal fluctuations, with peak demand during the festive seasons in the second half of the year. As such, the revenues and results of the Group in the first half of the year are generally lower than those in the second half of the year.

## 28. COMPARATIVES

Due to the voluntary change in presentation currency from RMB to US$ during year ended 31 December 2017, the change in presentation currency has been applied retrospectively, certain adjustments of prior period have been made, and certain comparative amounts have been restated to conform with the current period's presentation and disclosures and accounting treatment.

## 29. EVENT AFTER THE REPORTING PERIOD

**Memorandum of understanding in relation to a cooperation agreement**

On 11 July 2018, the Company entered into the Cooperation MOU with MEGA in respect of the possible cooperation between the Company and MEGA in the development of the New Games.

Pursuant to the Cooperation MOU, it is proposed that MEGA shall provide capital to the Company for the purposes of developing and operating the New Games in return for a share of the revenue derived from the New Games upon their successful launch. If the revenue derived from any New Game reaches a certain agreed amount, the Company shall have the right to terminate its obligation to share any further revenue derived from such New Game by paying to MEGA an agreed lump sum based on the then fair market value of the relevant New Game, subject to a discount.

Further details of the said transaction were set out in the announcement of the Company dated 11 July 2018.

## 30. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of Directors on 28 August 2018.