LE YOU

LEYOU TECHNOLOGIES HOLDINGS LIMITED

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

Annual Report 2018

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

Mr. Li Yang *(Deputy Chairman)*
(Appointed on 23 November 2018)

Mr. Gu Zhenghao

Mr. Cao Bo

Non-executive Directors

Mr. Eric Todd

Mr. Cheng Chi Ming Brian

Mr. Li Zhigang *(Resigned on 15 November 2018)*

Independent non-executive Directors

Mr. Hu Chung Ming

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit

AUDIT COMMITTEE

Mr. Hu Chung Ming *(Chairman)*

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit

REMUNERATION COMMITTEE

Mr. Hu Chung Ming *(Chairman)*

Mr. Chan Chi Yuen

Mr. Xu Yiran

NOMINATION COMMITTEE

Mr. Xu Yiran *(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 LLP
Level 32, Wu Chung House,
213 Queen's Road East,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F, Gloucester Tower,
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Central, Hong Kong

STOCK CODE

1089

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

COMPANY WEBSITE

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Financial Highlights

	For the year ended 31 December		
	2018	2017	Change
	US$'000	US$'000	%
RESULTS HIGHLIGHTS			
From continuing operations			
Revenue	**227,720**	166,736	+36.6%
Gross profit	**141,487**	110,774	+27.7%
Gross profit margin (%)	**62.1%**	66.4%	-4.3%
From continuing and discontinued operations			
Profit for the year attributable to the owners of the Company	**20,413**	8,808	+131.8%
EBITDA*	**66,982**	48,084	+39.3%
Basic earnings per share (US cents)	**0.67**	0.30	+123.3%
Diluted earnings per share (US cents)	**0.66**	0.30	+120.0%
Dividend per share (US$)	**Nil**	Nil	N/A

	As at	As at	
	31 December	31 December	
	2018	2017	Change
	US$'000	US$'000	%
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS			
Total assets	**310,703**	313,431	-0.9%
Total borrowings**	**42,868**	568	+7,447.2%
Net assets	**230,742**	225,994	+2.1%
Net assets per share (US$)	**0.08**	0.07	+14.3%
Current ratio	**1.50**	3.99	-62.4%
Gearing ratio***	**13.8%**	0.2%	+13.6%

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

** Total borrowings = Banking borrowings + debenture

*** Gearing ratio = Total borrowings/total assets

Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Leyou Technologies Holdings Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group"), I am pleased to present the annual report for the year ended 31 December 2018.

Through complete implementation of the corporate objectives and development strategies established in 2017, the Group had successfully achieved a rapid business growth in 2018. Benefiting from the restructuring and optimising of the existing operations by the management, the Group's profitability gradually increased. During the reporting period, the Group recorded a total revenue of US$227,720,000, an increase of 36.6% over the previous year. Profit attributable to the owners of the Company and the Group's EBITDA were US$20,413,000 and US$66,982,000, respectively, representing an increase of 131.8% and 39.3%, respectively. Basic and diluted earnings per share was US0.67 cents and US0.66 cents respectively, an increase of 123.3% and 120.0% over the previous year. The Group has set a new record with its live games, made smooth progress in the development of new game products, and reinforced its product pipeline.

ADHERENCE TO THE "GAME AS A SERVICE" MODEL BRINGING NEW RECORD HIGH REVENUE AND OPERATING DATA

As one of the leading free-to-play online games in the global market, *Warframe* has been listening attentively to the opinions and suggestions from the player community and is committed to providing players with high-quality game content updates on a regular basis, while continuing to innovate. In the fourth quarter of 2017, we launched the first open world map, the *Plains of Eidolon*, which presented a combination of hard-core combat and casual social networking. In 2018, we announced an update that included new spacecraft control and battle expansion in *Codename: Railjack*, which is currently in the development and optimisation stage, causing a sensation in the player community.

During the reporting period, *Warframe* celebrated its fifth anniversary. The passage of time did not lead to the decline of the game's popularity. On the contrary, it has witnessed *Warframe* hitting a new record high in 2018. The annual gross revenue of *Warframe* reached US$194 million, an increase of 35% over the previous year; various operating data such as number of new users, active users, paying users, and concurrent users, continued to break records in the fifth consecutive year. These remarkable achievements are inseparable from the contributions of the *Warframe's* experienced team and the loyal support of the players. They also proved the Group's leading market position as a game developer and publisher in free-to-play online games.

IMPLEMENTING IP PRODUCT STRATEGY TO SECURE ANOTHER WORLD-RENOWNED IP LICENSE

Since 2017, the Group has developed a short to medium-term product strategy to develop AAA game titles based on world-renowned intellectual properties ("IP"). Besides, the Group obtained in that same year the licenses of *Transformers* and *Civilization Online* to develop online games, both being blockbuster IP. Such product strategy will effectively maximise the success rate of new products and help raise the Group's profile and reputation in the industry.

During the reporting period, the Group continued this product strategy and successfully obtained the license of the literary works of *The Lord of the Rings* for the development and publishing a tie-in free-to-play massively multiplayer online ("MMO") video game. Set in the world of Middle-earth during the years leading to the events of *The Lord of the Rings*, the game will provide fans throughout the world with new, immersive game experience for epic exploration of the Tolkien universe. In light of the resurgence of interest in *The Lord of the Rings* IP, this strategic layout is expected to add new growth impetus to the Group.

FURTHER GROWTH IN TEAM SIZE AND STRENGTH WHILE ESTABLISHING COMPREHENSIVE SHARED SERVICE PLATFORM FOR ALL PROJECTS

After a series of acquisitions and investments in 2017, 2018 was a year of integration and internal expansion. During the reporting period, the Group attracted a large number of game talents worldwide with international vision, further enhancing our strength in game design, development, publishing, and operation. The total number of employees of the Group increased from 722 at the end of 2017 to 889 at the end of 2018. The Group has built a shared service platform to provide a full spectrum of services for internal studios or external developers in product design, technology, art, publishing, and operations.

SMOOTH DEVELOPMENT OF NEW PRODUCTS AND IMPROVED PRODUCT QUALITY

The Group currently has several new products under smooth development, including *Transformers*, *Civilization Online* and other projects. Meanwhile, the Group has set a high bar in product quality and increased its investment in product development. As stated in the announcement dated 7 January 2019, the development loan that the Group intended to provide to Certain Affinity, Inc., the developer of project *Transformers*, would be increased from US$15 million to US$33 million, to develop and produce richer content, such as in the form of more characters, levels, challenges or missions and a bigger game universe.

PUTTING TOGETHER A GLOBAL PUBLISHING TEAM FOR NEW OPPORTUNITIES

Gradually building a global publishing, marketing and operation team covering China, North America and Europe, the Group set up a subsidiary named Athlon Games in the Los Angeles area in 2018. The subsidiary will be responsible for global publishing business of the Group, and attracted a team of talents from world's leading game publishers. The Group's publishing arm has begun to take shape and has gained recognition by the industry. During the reporting period, attributable to the affirmation of the strength of the Group's publishing ability, Take-Two signed a game publishing agreement with the Group to grant the global publishing rights of *Civilization Online* (except mainland China) to the Group. Upon signing the agreement, the Group has secured both development and publishing of *Civilization Online*, which will best utilise the Group's expertise and unique advantages in free-to-play MMO games.

OUTLOOK FOR 2019

Looking ahead to 2019, the Group will continue to update its live games to provide players with more exciting game content and gameplay and is dedicated to launching more platforms to cater to a greater range of players, thereby building up the growth momentum and profitability of the live games. On the other hand, the Group will continue to fully propel the development of new products and to launch with AAA quality and established schedules. In addition, the Group intends to extend its existing game business to other pan-entertainment industries, while seeking new opportunities for content production and IP development, amongst others.

ACKNOWLEDGEMENT

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

Mr. Xu Yiran
Chairman

27 March 2019

Management Discussion and Analysis

Management Discussion and Analysis

BUSINESS OVERVIEW

In 2018, the Group's performance achieved considerable growth. Driven by the flagship product *Warframe*, the total revenue for the year reached US$227.7 million, representing a year-on-year increase of 36.6%. Gross profit margin slightly reduced from 66.4% in 2017 to 62.1% in 2018, and gross profit increased by US$30.7 million year-on-year to US$141.5 million; profit attributable to the owners of the Company and the Group's EBITDA were US$20.4 million and US$67.0 million, respectively, increasing by 131.8% and 39.3% over 2017. Such increases were mainly attributable to the growth in gross profit.

During the reporting period, game development and publishing, work-for-hire and other businesses contributed 88.7%, 11.2% and 0.1% of revenue to the Group respectively.

Market Observation and Core Strategy

According to Newzoo's latest report, the global game market value in 2018 was about US$134.9 billion, a year-on-year growth of 10.9%; PC and console games accounted for 53% of total revenue of the industry (25% and 28%, respectively), with a market size of US$71.7 billion; while mobile games accounted for 47%, with market size of about US$63.2 billion.

The most popular game in 2018 was *Fortnite*, a phenomenal free-to-play battle royale game. According to a report recently released by Superdata, *Fortnite* achieved annual revenue of US$2.4 billion in 2018, earning the highest annual revenue ever in history. As a free-to-play game, *Fortnite* also adopts the "Game as a Service" ("GaaS") model, earning revenue through continuous operations, selling season passes and accessories via micro-transactions.

The report of Superdata also revealed that free-to-play has become the world's leading business model in the gaming industry. Asian mobile games helped the region earn 62% of global free-to-play revenue. However, premium games still performed well in Western markets. North America and Europe generate 80% of the world's premium games revenue.

Hence, the free-to-play model has been proven superior and universal. However, with regards to the big screen video games sector, especially on consoles, the penetration of free-to-play games is still low across the world except in Asia. Game developers and publishers in North America and Europe are increasingly aware of the effectiveness of GaaS model via maintaining live interactions with gamers and continuously providing game content over the traditional premium sales model, and have been learning from their Asian counterparts to enhance their gaming products.

With a forward-looking vision of the free-to-play video games market for PCs and consoles, the Group established its core strategy in 2017 to develop and publish high-quality PC and console free-to-play video games for the players around the world, adopting a GaaS operating model to continuously evolve gameplay and provide well-made game content. In the past year, the global gaming industry, especially the largest developers and publishers in North America and Europe, stepped up efforts in their attempts to enhance their GaaS model. Although the entry of competitors will intensify competition, an increased number of high quality products can boost the number of users in this blue ocean market, attracting new players from the traditional premium game model to embrace free-to-play.

Game Development and Publishing

The Game development and publishing business is currently the Group's main source of revenue. As of 31 December 2018, this segment covers several free-to-play online games distributed globally, as well as a series of new products in development. In terms of financial results, the revenue and profit of this segment were mainly contributed by *Warframe*, a flagship product of the Group.

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

	Year ended 31 December		
	2018	2017 (Restated) (Note)	Change
	(in thousands, unless otherwise stated)		
Total number of registered users	**48,094**	37,229	+29.2%

Note: 2017 figures disclosed in 2017 annual report included both *Warframe* and *Dirty Bomb*.

Warframe

Warframe is a free-to-play science fiction-themed multiplayer third-person action game available on PC and consoles (including PlayStation 4, Xbox One and Switch). 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 celebrated its fifth anniversary during the reporting period. Since its initial launch, the game has been one of the most popular free-to-play games worldwide, and has been striking new highs each year. *Warframe* steadily sits amongst the top 10 games of all genres in terms of the number of players and playtime on Steam, and has a 91% positive review score 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 strong development and publishing capabilities of the Group for free-to-play games. The Group provides regular updates of premium game content for all platforms across the world, offers efficient and timely customer service, helps build a cohesive, passionates gamer community and facilitates communications between gamers and the development team through online and offline interactions.

The rapid growth of revenue from *Warframe* during the reporting period was mainly driven by multiple popular content updates. *Plains of Eidolon*, the open world downloadable content ("DLC") launched in October 2017 created a sensation among players, bringing *Warframe* to a height of success. This upsurge lasted until 2018 and drove up the revenue for the first half of the year. Meanwhile, due to the successful launches of *The Sacrifice*, another update released in June 2018, and Fortuna, the second open world map released in November 2018, these updates has tremendously driven the revenue of *Warframe* in 2018. The monthly active users and average concurrent users of the game increased by 24.9% and 28.1% respectively during the reporting period, as compared to the previous year. Having won the 2017 Steam Platinum Best Selling Game (12 games with the highest total revenue in the year) and the highest simultaneous online game (6 games with the highest numbers of concurrent online users), *Warframe* once again won the two best games awards in 2018 on Steam, making *Warframe* the only free-to-play game which was not developed by Valve (creator of Steam) winning such achievements.

During the third TennoCon, annual *Warframe*-themed online and offline interactive event held in July 2018, the Group announced a number of updates and development plans of *Warframe*. In addition to the recent *Fortuna* update, the Group also announced a new update *Railjack* and a cinematic quest *The New War*, both of which are expected to be released in 2019. *Railjack* marks a new milestone of *Warframe* with its revolutionary new gameplay. It provides new features such as space exploration, resources mining and tactical ship-to-ship combat, whilst enabling a seamless transition from *Fortuna* into space, with the potential to eventually connect interplanetary travel, exploration, and combat between planets.

Besides game content updates, the Group also explores more platforms for launching *Warframe* to cater to more players. *Warframe* was launched on Nintendo Switch in November 2018, and on Tencent Wegame platform in early March 2019.

Dirty Bomb

Dirty Bomb is an original own intellectual property ("IP") free-to-play multiplayer shooter game, which is developed and published by one of the Group's subsidiary in the United Kingdom ("UK"), Splash Damage Limited ("Splash Damage"). During the reporting period, the Group ceased active development on *Dirty Bomb*, and turned the game to be entirely free with all monetisation removed. This is to show our gratitude to all the players for supporting the game over the years, after achieving over 9.5 million downloads and remaining a successful fan-favourite title.

Work-for-hire and Other Businesses

During the reporting period, the Group's work-for-hire business, being mainly Splash Damage, recorded total revenue of US$25.5 million, with an increase of 30.9% compared to 2017. Such increase was mainly due to the repositioning of business of the Splash Damage Group shifted from developing both own IP games and work-for-hire business into focusing on standalone work-for-hire business. Accordingly, new management team of Splash Damage has been appointed to cope with the changes, and has been bringing new orders to achieve steady revenue growth of the work-for-hire business. As of 31 December 2018, the Group had a number of work-for-hire orders on hand, which will bring stable cash income to the Group.

Other businesses mainly include the sale of merchandise goods, game hosting and provision fo support services, which generated revenue of US$0.3 million (2017: US$1.1 million) during the reporting period.

New Product Line

Concurrent with the continual quality updates and improvements to our live games, the Group also attaches great importance to the development of new products, by either creating original IP or working with globally renowned ones. Through its 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, as well as the shared service platform comprised of numerous experienced professionals, the Group works with and provides guidance to internal studios as well as third-party developers in all aspects of design, production and technology, propelling the development of new game products.

The Group continues to explore opportunities to collaborate with mainstream IP in the world to develop game products with market appeal and further enrich its new product line. Subsequent to the cooperation with Hasbro Inc. and Hasbro Interantional Inc. (collectively, "Hasbro") and Take-Two for the IP license in 2017, the Group secured another IP license from the owner of certain IP rights in *The Lord of the Rings* literary works during the reporting period, to develop a free-to-play MMO game based on the grand worldview of *The Lord of the Rings*. Combining the organic huge traffic of popular IPs with the Group's leading game production and publishing capabilities, the Group is able to maximise the success rate of new product becoming a hit.

As of 31 December 2018, *Transformers*, *Civilization Online* and other multiple unannounced projects are under smooth development.

Publishing and Marketing

The Group has a well-established international and integrated publishing and marketing network, spanning across the United States of America ("US"), Canada, UK and the People's Republic of China ("PRC"). During the reporting period, a new publishing brand, Athlon Games, Inc., was established to manage the global publishing and marketing of the Group's new products.

In addition, the Group had built a series of game publishing infrastructure, including proprietary publishing platform, data portal and backend technology, which is expected to provide strong support to the forthcoming new games and enhance cost-effectiveness.

Impairment Of Goodwill and The Writing-Back Of Consideration Payable For The Splash Damage Group

On 1 July 2016, Radius Maxima Limited ("Radius Maxima"), an indirect 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 the 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, the 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 comprised advance payment and deferred payment in a total amount of US$45,000,000, adjustment payment of US$9,502,000 and earn-out consideration of US$54,598,000. The earn-out consideration consisted of the payments during the years ended 2017 and 2018 and the year ending 2019, and would not exceed US$105,000,000. A total of US$53,619,000 was paid as purchase consideration during the year ended 31 December 2017.

Allocation of Goodwill to Cash-generating Units ("CGUs")

Goodwill has been allocated for impairment testing purposes to the Splash Damage Group, mainly involved in computer and video games CGU business in the UK.

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

As at 31 December 2018, before recognition of impairment losses, the carrying amount of goodwill of the Splash Damage Group amounted to US$91,952,000 (2017: US$97,924,000).

As mentioned in the earlier sections "*Dirty Bomb*" and "Work-for-hire and other businesses", the repositioning of business of the Splash Damage Group shifted from developing both own IP games and work-for-hire business to focusing on standalone work-for-hire business. Accordingly, the management's expectation of future business and prospects of the Splash Damage Group has been lowered, when compared with last year's. Accordingly, impairment of goodwill of the Splash Damage Group of US$42,944,000 was recognised in profit or loss during the year ended 31 December 2018 (2017: Nil).

The recoverable amounts of the CGUs were determined on the basis of value in use calculation which requires significant estimates concerning future cash flows, and associated discount rates and growth rates assumptions, which are based on the management's expectation of future business performance and prospects. The Group engaged Royson Valuation Advisory Limited, independent valuer, to perform the valuations of the CGUs of the Splash Damage Group as at 31 December 2018 and 2017 respectively.

Set out below is information on the valuation method, details of the value of inputs used in the valuation and the key assumptions, adopted by the valuer for performing the impairment assessment of the CGUs as at 31 December 2018 and 2017:

Splash Damage Group		**2018**	2017
Major parameters on valuation			
(a)	Expected compound annual growth rate in sales	**15%**	20%
(b)	Expected annual net profit margin	**Ranged from 12% to 20%**	Ranged from 19% to 29%
(c)	Corporate tax rate	**19%**	19%
(d)	Weighted average cost of capital (pre-tax)	**22%**	20%
(e)	Terminal growth rate	**3%**	3%

The valuation methodology and assumptions were consistently adopted and applied in the valuations conducted by the valuer. The board of directors and audit committee of the Group considered that the basis and assumptions used for preparing the cash flow projection and the valuation methodology, basis and assumptions used for preparing the valuation report were reasonable and appropriate.

Writing-back of Consideration Payable

As mentioned in the earlier sections, as the management's expectation of future business and prospects of the Splash Damage Group has been lowered, a gain on change in fair value of contingent consideration payable amounting to US$37,424,000 was recognised in profit or loss for the year ended 31 December 2018 (2017: US$2,716,000).

Consideration payable as at 31 December 2018 amounted to Nil (2017: US$52,765,000), of which Nil (2017: US$883,000) was initial consideration payable, Nil (2017: US$51,882,000) was the earn-out. At 31 December 2018, among earn-out consideration payable, Nil (2017: US$5,524,000) and Nil (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 the Splash Damage Group achieves the respective base year profit targets, calculated on a predetermined basis, during the designated periods of time.

Critical Accounting Estimates and Judgements

The results of the Group reflect the choice of accounting policies, assumptions and estimates that underlie the preparation of the consolidated financial statements. The significant accounting policies, including the policies which include critical accounting estimates and judgements, are described in Note 4 to the consolidated financial statements. The accounting policies listed below are highlighted as they involve a high degree of uncertainty and have a material impact on the consolidated financial statements:

- Valuation of financial instruments: In determining the fair value of financial instruments a variety of valuation techniques are used, some of which feature significant unobservable inputs and are subject to substantial uncertainty. See Note 40(c).

- Goodwill impairment: A high degree of uncertainty is involved in estimating the future cash flows of the CGUs and the rates used to discount these cash flows. See Note 18.

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 31 December 2018 amounted to approximately US$1,333,000 (equivalent to HK$10,439,000), 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$24,207,000 (equivalent to HK$189,561,000) was recognised in profit or loss.

Environmental, Social and Governance

For the year ended 31 December 2018, the Group has made continuous efforts and investment in minimising risks associated with environmental, social and governance ("ESG") factors, improving employee well-being and contributing back to the community. No non-compliance in relation to ESG aspects was recorded. Engagement with internal and external stakeholders has resulted in raised concerns on material issues, which included: employment, occupational health and safety, labour standards, intellectual property and customer privacy. These aspects had been strictly managed by the Group. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing its ESG management.

Recognitions in the Capital Market and the Inclusion of the Company in the List of Shenzhen – Hong Kong Stock Connect

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

Events after the Reporting Period

Further details of the events after the reporting period are set out in Note 49 of this annual report.

Outlook

As a game changer in the global video game market, the Group is committed to providing more compelling games to a diverse users base while at the same time increasing the revenue growth momentum of the games. The Group will strive to increase the players' engagement and loyalty of existing major games and launch more game content with higher average revenue per user. The comprehensive product line will lay a solid foundation for the Group's profit growth in the next few years and bring better returns to its shareholders.

Looking forward, amidst the intensifying market competition, the Group will step up its efforts in global market segments and further expand its market base for the products. The Group will continue to improve its resource utilisation and identify opportunities of mergers or acquisitions, with a view to consolidating the Group's competitive advantages and maintaining rapid growth in the market.

FINANCIAL REVIEW

Continuing Operations – Computer and Video Gaming Business

Revenue

Our total revenue increased significantly by 36.6%, from US$166.7 million for the year ended 31 December 2017 to US$227.7 million for year ended 31 December 2018, primarily due to the continuing growth of the Group's flagship product *Warframe* and the contribution from Splash Damage, another world-class video gaming studio in the UK which was acquired by the Group on 31 March 2017.

Revenue by Nature of Business

The following table sets out the breakdown of the Group's revenue by nature of business for the years ended 31 December 2018 and 2017, respectively:

	2018	2017
	US$'000	US$'000
Game development and publishing	**201,909**	146,162
Work-for-hire	**25,488**	19,470
Sale of merchandise goods	**323**	317
Game-hosting and support service	**–**	787
	227,720	166,736

Revenue by Geographical Market

The following table sets forth a breakdown of the Group's revenue by geographical market based on the locations of the principal operations of the subsidiaries for the years ended 31 December 2018 and 2017, respectively:

	2018 **US$'000**	2017 US$'000
Canada	**194,481**	144,080
UK	**33,103**	22,656
PRC	**136**	–
	227,720	166,736

Gross Profit

Our total gross profit increased by 27.7%, from US$110.8 million for the year ended 31 December 2017 to US$141.5 million for the year ended 31 December 2018, primarily due to the steady growth of the gaming business.

The gross profit margin decreased from 66.4% for the year ended 31 December 2017 to 62.1% for the year ended 31 December 2018, primarily due to the increase in labour costs for game development.

Other Revenue and Gains

Other revenue and gains increased by 13 times, from US$0.6 million for the year ended 31 December 2017 to US$8.2 million for the year ended 31 December 2018, primarily due to the increase in net exchange gain by US$6.3 million (2017: Nil).

Selling and Marketing Expenses

Selling and marketing expenses increased by 12.6%, from US$12.0 million for the year ended 31 December 2017 to US$13.5 million for the year ended 31 December 2018, which was mainly driven by the increased marketing activities to further promote the brand awareness of *Warframe* and *Dirty Bomb*. The increase in selling and marketing expenses was in line with the steady revenue growth of our gaming business during the year.

Administrative Expenses

Administrative expenses increased by 19.5%, from US$28.9 million for the year ended 31 December 2017 to US$34.6 million for the year ended 31 December 2018. Administrative expenses primarily consist of rental expense, staff costs and other professional fees. The increase was in line with the steady growth of our gaming business during the year.

Amortisation of Intangible Assets

Amortisation of intangible assets decreased by 9.3%, from US$20.4 million for the year ended 31 December 2017 to US$18.5 million for the year ended 31 December 2018, primarily as a result of impairment of intangible assets of US$4.9 million during the year ended 31 December 2017.

Impairment of Intangible Assets

Impairment of intangible assets for the year ended 31 December 2018 amounted to US$4.9 million (2017: US$4.9 million), which was mainly due to the underperformance of a developed game.

Finance Costs

Finance costs decreased by 76.6%, from US$3.4 million for the year ended 31 December 2017 to US$0.8 million for the year ended 31 December 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 decreased by 65.1%, from US$12.5 million for the year ended 31 December 2017 to US$4.4 million for the year ended 31 December 2018, primarily as certain options were vested immediately at the date of grant, the fair value of the share options granted was expensed immediately to profit or loss during the year ended 31 December 2017.

Taxation

Taxation increased by 69.9%, from US$13.8 million for the year ended 31 December 2017 to US$23.5 million for the year ended 31 December 2018. It was in line with the steady growth of the gaming business during the year.

Discontinued Operation – Trading Business

Revenue, gross profit and net loss from trading business for the year ended 31 December 2017 were US$4.8 million, US$0.2 million and US$0.04 million, respectively. The disposal of trading business was completed on 20 September 2017.

Financial Positions

Property, Plant and Equipment

Property, plant and equipment comprise mainly the Group's leasehold land and buildings, office equipment and motor vehicles. As at 31 December 2018, property, plant and equipment amounted to US$39.9 million (2017: US$6.1 million). The significant increase was mainly attributable to the acquisition of properties during the year.

Goodwill

Goodwill was allocated to CGUs in Canada, UK and PRC. As at 31 December 2018, goodwill amounted to US$76.4 million (2017: US$127.6 million). The significant decrease was mainly attributable to the impairment of goodwill of the Splash Damage Group of US$42,944,000 recognised during the year.

Intangible Assets

Intangible assets comprise brand name, completed game, game engine, game under development and trademark. As at 31 December 2018, intangible assets amounted to US$31.5 million (2017: US$57.9 million). The significant decrease was mainly attributable to amortisation of intangible assets and the impairment of intangible assets amounted to US$18.5 million and US$4.9 million, respectively, during the year.

Development Expenditure

Development expenditure represents payment to independent video game developers under development agreements. As at 31 December 2018, development expenditure amounted to US$48.3 million (2017: US$12.4 million). The significant increase was mainly due to the involvement of several new projects during the year.

Available-for-sale Financial Assets/Financial Assets at Fair Value Through Other Comprehensive Income/Financial Assets at Fair Value Through Profit or Loss

Upon the adoption of the new financial reporting standard that became effective at the beginning of the year, available-for-sale financial assets have been reclassified to financial assets at fair value through other comprehensive income. As at 31 December 2018, financial assets at fair value through other comprehensive income amounted to US$9.1 million (2017: available-for-sale financial assets amounted to US$8.1 million). The significant increase was mainly due to the change in fair value of financial assets at fair value through other comprehensive income during the year.

As at 31 December 2018, financial assets at fair value through profit or loss amounted to US$8.5 million (2017: US$1.9 million). Increment in financial asset at fair value through profit or loss during the year is mainly attributable to fair value gain and additional investments.

Trade receivables

As at 31 December 2018, trade receivables amounted to US$44.3 million (2017: US$31.5 million). The increase was in line with increase in revenue during the fourth quarter of the year.

Bank borrowings

At 31 December 2018, the Group had bank borrowings of US$42.3 million (2017: Nil). The bank borrowings were secured by leasehold land and buildings included in property, plant and equipment with carrying amount of US$33,996,000 (2017: Nil) and a corporate guarantee given by a subsidiary of the Group for an amount up to US$25,000,000 (2017: not applicable).

Deferred tax liabilities

Deferred tax liabilities comprise withholding tax on tax liabilities on upward valuation of intangibles arising from business combination and accelerated tax depreciation.

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 31 December 2018, cash and bank balances amounted to US$32.7 million (2017: US$45.9 million), which were denominated in US$, Canadian Dollars ("CAD"), British Pound ("GBP"), Japanese Yen ("JPY"), Renminbi ("RMB") and Hong Kong dollars ("HK$"). The decrease in cash and bank balances was mainly due to the acquisition of properties and the increase in development expenditure during the year.

Interest-bearing Borrowings

As at 31 December 2018, the total amount of interest-bearing borrowings was US$42.9 million (2017: US$0.6 million). The significant increase in interest-bearing borrowings was mainly due to the drawdown of bank borrowings during the year which was used for the acquisition of properties and as working capital of the Group.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group was 13.8% (2017: 0.2%). The gearing ratio was calculated by dividing total borrowings by total assets of the Group as at 31 December 2018.

PROSPECT

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

OTHER INFORMATION

Human Resources

As at 31 December 2018, the Group had 889 employees (2017: 722).

Staff Costs

Staff costs from continuing operations, including directors' emoluments, amounted to US$29.8 million for the year ended 31 December 2018 (2017: US$30.6 million). All of the Group members are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered.

Retirement Costs Benefits

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

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

The employees of the Group's subsidiaries which operate in Canada may make voluntary contributions to a Registered Retirement Savings Plan. 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.

The Group's subsidiary in the US participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, the Group's subsidiary matches voluntary employee's contribution at a rate of 100% for the first 6% of the employee's eligible compensation. Employee contributions are voluntary.

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

Share Option Scheme

On 25 August 2017, the share option scheme of the Company adopted in 2010 was terminated and a new share option scheme was adopted (the "Share Option Scheme"). The Share Option Scheme was adopted for a period of 10 years commencing 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 for the Share Option Scheme, as at the date of this annual report, the total number of options granted under the Share Option Scheme is 263,221,200 share options.

MATERIAL RISKS FACTORS

Equity Price Risk

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

Foreign Exchange Risk

The Group's main operations are in Canada, UK, PRC (including Hong Kong 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.

Given the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items above, it is possible that the outcomes in the next financial year could differ from the expectations on which management's estimates are based, resulting in the recognition and measurement of materially different amounts from those estimated by management in the consolidated financial statements.

PLEDGE OF ASSETS

As at 31 December 2018, bank borrowings of the Group with carrying amount of US$42.3 million (2017: Nil) was secured under a mortgage arrangement over the Group's office premises located in Hong Kong and a corporate guarantee given by a subsidiary of the Company (2017: not applicable).

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2018, the Group had operating lease commitments of US$24.3 million (2017: US$25.0 million).

As at 31 December 2018, the Group had capital commitments of US$43.4 million (2017: US$24.7 million).

Corporate Governance Report

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICES

Deviations from the Code

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

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

Save as aforesaid, in the opinion of the Directors, the Company has met all the Code Provisions set out in the Code during the year ended 31 December 2018.

DIRECTORS

The Board

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

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

During the year, the Board held 16 meetings and the Company held its annual general meeting on 25 May 2018 and one extraordinary general meeting on 30 October 2018 to consider matters regarding the connected transactions of the Company. The attendance records of each Director at the Board meetings and general meetings held in 2018 are set out below:

Directors	Board Meetings	General Meetings
Executive Directors		
Mr. Xu Yiran	15/16	1/2
Mr. Li Yang *(Appointed on 23 November 2018)*	1/1	N/A
Mr. Gu Zhenghao	11/16	2/2
Mr. Cao Bo	15/16	2/2
Non-executive Directors		
Mr. Eric Todd	15/16	2/2
Mr. Cheng Chi Ming Brian	4/16	0/2
Mr. Li Zhigang *(Resigned on 15 November 2018)*	10/14	2/2
Independent Non-executive Directors		
Mr. Hu Chung Ming	15/16	2/2
Mr. Chan Chi Yuen	14/16	2/2
Mr. Kwan Ngai Kit	12/16	1/2

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

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

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

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

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

According to the current Board practice, if a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened Board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction concerned will be present at the Board meeting. Directors are required to abstain from voting and are not counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

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

Chairman and Chief Executive Officer

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

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

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

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

- providing leadership for the Board;

- ensuring that the Board works effectively, performs its responsibilities, discusses all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;
- drawing up, approving and considering whether to include the matters proposed by other Directors into the agenda for each Board meeting (this responsibility has been delegated to the company secretary of the Company and a designated Director);
- encouraging all Directors to fully and actively contribute to the Board's affairs and express different views and discuss issues in sufficient depth before reaching any consensus in Board's decisions;
- facilitating the effective contribution of Directors, in particular, the non-executive Directors, and promoting the constructive relations between the executive and non-executive Directors; and
- ensuring the effective communication between the Board and shareholders as a whole through different channels, including (i) printed or electronic copies (as elected by the shareholders) of corporate communications required by the Listing Rules; (ii) the annual general meeting which provides a forum for the shareholders to raise comments and exchange views with the Board; (iii) the Company's website which allows the shareholders to acquire the updated and key information on the Group and to provide feedback for the Company; and (iv) handling of the enquiries from the shareholders and investors generally.

Board Composition

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

Executive Directors:
Mr. Xu Yiran *(Chairman and Chief Executive Officer)*
Mr. Li Yang *(Deputy Chairman) (Appointed on 23 November 2018)*
Mr. Gu Zhenghao
Mr. Cao Bo

Non-executive Directors:
Mr. Eric Todd
Mr. Cheng Chi Ming Brian
Mr. Li Zhigang *(Resigned on 15 November 2018)*

Independent Non-executive Directors:
Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

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

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

Details of the biographies of the Directors are given under the section headed "Directors and Senior Management Profile" of this annual report on pages 42 to 45.

None of the Directors is related to each other.

The independent non-executive Directors play an important role on the Board. They are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Group as a whole. Throughout the year of 2018, the Board endeavored to meet the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number and mix of independent non-executive Directors on the Board for the year under review have met the applicable requirements under the Listing Rules.

Appointments, re-election and removal

Pursuant to Rule 3.13 of the Listing Rules, the Company has received an annual confirmation from each independent non-executive Director confirming his independence. The Company has assessed the independence of the independent non-executive Directors and considers that for the year ended 31 December 2018, all of them are independent based on the independence criteria under the Listing Rules, their non-involvement in the daily operation and management of the Company, and the absence of any relationships which may interfere with the exercise of their independent judgements.

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

Pursuant to Article 84(1) of the articles of association of the Company (the "Articles"), at each annual general meeting, not less than one-third of the Directors for the time being shall retire from office by rotation and every Director, including those who are appointed for a specific term and the non-executive Directors, shall be subject to retirement by rotation at least once every 3 years while those retiring Directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting. Mr. Xu Yiran, Mr. Cao Bo and Mr. Hu Chung Ming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Pursuant to Article 83(1) of the Articles, Mr. Li Yang will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Nomination of Directors

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

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

Responsibilities of Directors

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

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

The Board views that the non-executive Directors are well aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgement at Board meetings, taking the lead where potential conflicts of interest arise, scrutinising the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and Nomination Committee as required.

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

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

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

Induction and Continuous Professional Development

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

Directors	Corporate governance/ Updates on law, rules and regulations	Accounting/ Finance/ Management/ Other professional skills	Updates on business and market changes
Executive Directors			
Mr. Xu Yiran	✓	✓	✓
Mr. Li Yang *(Appointed on 23 November 2018)*	✓	✓	✓
Mr. Gu Zhenghao	✓	✓	✓
Mr. Cao Bo	✓	✓	✓
Non-executive Directors			
Mr. Eric Todd	✓	✓	✓
Mr. Cheng Chi Ming Brian	✓	✓	✓
Mr. Li Zhigang *(Resigned on 15 November 2018)*	✓	✓	✓
Independent non-executive Directors			
Mr. Hu Chung Ming	✓	✓	✓
Mr. Chan Chi Yuen	✓	✓	✓
Mr. Kwan Ngai Kit	✓	✓	✓

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

Securities Transactions Guidelines

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

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2018, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2018 are set out in the "Report of the Directors" of this annual report.

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

DELEGATION BY THE BOARD

Management Functions

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

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

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

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

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

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

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

BOARD COMMITTEES

Nomination Committee

The Nomination Committee is governed by its terms of reference, which were revised by the Board on 4 February 2019 to take effect on 1 January 2019 and are available on the websites of the Company and the Stock Exchange.

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

The main duties of the Nomination Committee include the following:

- reviewing the structure, size, composition and diversity of the Board;
- identifying qualified individuals to become members of the Board;
- assessing the independence of the independent non-executive Directors;
- making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to complement the Company's corporate strategy; and
- reviewing the time required of a Director to perform his responsibilities.

During the year, 2 Nomination Committee meetings were held. The attendance records of each member of the Nomination Committee at the said committee meetings are set out below:

Members of Nomination Committee	**Attendance/Number of Meetings(s) held during the tenure of memberships**
Executive Director	
Mr. Xu Yiran *(Committee Chairman)*	2/2
Independent Non-Executive Directors	
Mr. Hu Chung Ming	2/2
Mr. Chan Chi Yuen	2/2

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

- the nomination of Directors, including the appointment of Mr. Li Yang as an executive Director and Deputy Chairman of the Board;
- the structure, size and composition of the Board;
- the independence of independent non-executive Directors;
- the re-election of Directors; and
- the sufficiency of time commitment of Directors.

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

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

Criteria for Nomination of Directors

1. Common Criteria for All Directors

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

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

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

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

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

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

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

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

Remuneration Committee

Remuneration of Directors

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

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

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

During the year, 3 Remuneration Committee meetings were held. The attendance records of each member of the Remuneration Committee at the said committee meetings are set out below:

Members of Remuneration Committee	**Attendance/Number of Meetings(s) held during the tenure of memberships**
Executive Director	
Mr. Xu Yiran	3/3
Independent Non-Executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	3/3
Mr. Chan Chi Yuen	3/3

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

- considered the proposed remuneration of Mr. Li Yang as an executive Director;
- reviewed the Company's emolument policy and structure for all Directors and senior management of the Company;
- reviewed salary adjustment and 2017 bonus proposal of the Group and recommended the same to the Board for consideration; and
- determined the policy for the remuneration of executive Directors, assessed performance of executive directors and approved the terms of executive Directors' services contract.

The Remuneration Committee has adopted the manner set out under the Code Provision B.1.2(c)(ii) to make recommendations to the Board on the remuneration package of individual executive Director and senior management.

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

Emoluments of Directors

The emoluments of the Directors of the Company for the year ended 31 December 2018 are set out on Note 12 to the consolidated financial statements.

Audit Committee

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

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Hu Chung Ming (as Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit. Mr. Hu Chung Ming is the chairman of the Audit Committee, who has considerable experience in accounting and financial management.

The Audit Committee is governed by its terms of reference, which were revised by the Board on 17 December 2015 and further revised by the Board on 4 February 2019 to take effect on 1 January 2019. The terms of reference are made available on the websites of the Company and the Stock Exchange.

During the year, 4 Audit Committee meetings were held and the attendance of each member at the Audit Committee meetings is as follows:

Members of Audit Committee	Attendance/Number of Meetings(s) held during the tenure of memberships
Independent Non-Executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	4/4
Mr. Chan Chi Yuen	4/4
Mr. Kwan Ngai Kit	3/4

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

- the completeness and accuracy of the 2017 annual report and 2018 interim report;
- the Company's compliance with statutory and regulatory requirements, developments in accounting standards and the effect on the Company;
- the internal control report for year ended 31 December 2017;
- the connected transactions for year ended 31 December 2017;
- the scope of audit of risk management and internal control of the Group;
- findings and recommendations from the management on internal control;
- the terms of engagement of the external auditors;
- the nature and scope of work of the external auditors;
- the management letter prepared by the external auditors; and
- recommendations to the Board on the re-appointment of HLB Hodgson Impey Cheng Limited as the external auditors.

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

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Group had net assets of US$230.7 million as at 31 December 2018 and recorded a profit attributable to owners of the Company of US$20.4 million for the year ended 31 December 2018.

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

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

The statement by the external auditors of the Company regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" on pages 77 and 83 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the consolidated financial statements set out on pages 84 to 199 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives is explained in the section headed "Management Discussion and Analysis" set out on pages 8 to 21 of this annual report.

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

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

Risk Management and Internal Controls

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

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

The risk management and internal controls were reviewed by the external professional consultants for the year ended 31 December 2018. In addition, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

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

Connected Transactions

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted on normal commercial terms better, are fair and reasonable and are properly disclosed and (if necessary) approved by the independent Shareholders in accordance with Listing Rules. Details of the connected transactions of the Company during the year ended 31 December 2018 are set out in the Report of the Directors.

Auditors' Remuneration

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

	US$'000
Audit services	223
Non-audit services (including taxation compliance and agreed upon procedures)	20

COMPANY SECRETARY

Mr. Chan Siu Tak ("Mr. Chan") has been acting as the Company Secretary since 2017. The biographical details of Mr. Chan are set out under the section headed "Directors and Senior Management Profile".

Mr. Chan took not less than 15 hours of relevant professional training during the year ended 31 December 2018.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

The external auditors of the Company, HLB Hodgson Impey Cheng Limited, also attended the Company's annual general meeting held on 25 May 2018 to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

Voting by Poll

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

Shareholders' Rights

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

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

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

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

(iii) *Procedures for Putting Forward Proposals at Shareholders Meetings*

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

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

Constitutional Document

Pursuant to a special resolution passed at the annual general meeting on 25 May 2018, the amended and restated memorandum of association of the Company (the "Memorandum") and Articles were adopted on the same day.

The changes made to the amended and restated Memorandum and Articles include the following:

(i) deleted and replaced all references to “Sumpo Food Holdings Limited（森寶食品控股有限公司）” with “Leyou Technologies Holdings Limited（樂遊科技控股有限公司）”;

(ii) deleted and replaced the existing Clause 8 of the Memorandum in its entirety with “8. The share capital of the Company is HK$1,000,000,000 divided into 10,000,000,000 shares of a nominal or par value of HK$0.10 each.”;

(iii) deleted and replaced the existing Article 134 of the Articles in its entirety with “134. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, from any reserve set aside from profits which the Directors determine is no longer needed, or out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.”; and

(iv) deleted and replaced the existing Article 136 of the Articles in its entirety with “136. The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits and/or the financial position of the Company (as the case may be) and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.”

Conclusion

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

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Xu Yiran ("Mr. Xu")

Mr. Xu, aged 46, has been an executive Director and Chief Executive Officer of the Company since 30 June 2017. In addition, he was appointed as the chairman of the Board, the chairman of the nomination committee of the Company, a member of the remuneration committee of the Company and an authorised representative of the Company under the Listing Rules.

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

Mr. Li Yang ("Mr. Li")

Mr. Li, aged 47, was appointed as deputy chairman of the Board and an executive Director on 23 November 2018 with a term of 3 years. He obtained a junior college degree of Electronic Engineering from Shenzhen University in 1992 and his EMBA from Shenzhen College of Economics and Management (深圳經濟管理學院) in 2000. Mr. Li also completed a master degree programme of the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院), majoring in World Economics in 2001. Mr. Li has approximately 20 years of experience in investment activities and business management.

Mr. Li previously acted as a deputy chairman and an executive director of China Best Group Holding Limited (stock code: 370) from September 2014 to June 2018. He was appointed as a director of Brand Marvel Worldwide Consumer Products Corporation (TSXV symbol: BMW), a Canadian publicly traded company on the TSX Venture Exchange, from December 2010 to January 2016. Mr. Li was appointed as the chairman and director of Guanghe Landscape Culture Communication Co., Ltd., Shanxi* (山西廣和山水文化傳播股份有限公司) shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600234) from July 2015 to September 2016. He was an independent non-executive director of Sino Haijing Holdings Limited (Stock Code: 1106) from February 2017 to December 2018.

Mr. Gu Zhenghao ("Mr. Gu")

Mr. Gu, aged 48, has been an executive Director since 14 March 2017. He graduated with a Bachelor's degree in Economics from Renmin University of China in July 1992. Mr. Gu has over 20 years of experience in the banking and investment industry. Mr. Gu worked in China Construction Bank Co., Ltd. Shenzhen Branch (中國建設銀行股份有限公司深圳市分行) from July 1992 to July 2013, and also worked in Shenzhen Zhanfei Investment Limited (深圳市展飛投資有限公司) from August 2013 to March 2016.

Mr. Cao Bo ("Mr. Cao")

Mr. Cao, aged 32, has been an executive Director since 5 September 2017. He graduated from The University of Bath with a Bachelor's degree in Science in Mathematical Sciences with first-class honours in June 2008 and obtained a Master's degree of Science in Mathematical and Computational Finance from The University of Oxford in October 2009. He served as the trust manager of the trust business division of China Credit Trust Co., Ltd. from August 2009 to January 2017. He has been serving as the managing director of the Trust Investment Department of Zhongrong International Trust Co., Ltd since January 2017.

NON-EXECUTIVE DIRECTORS

Mr. Eric Todd ("Mr. Todd")

Mr. Todd, aged 57, has been a non-executive Director since 24 July 2015. He possesses extensive professional experience in the auditing, financial management, investment and media industry. Mr. Todd holds a Bachelor's degree in Business Administration in Accounting and Finance from the School of Management of Boston University in Massachusetts, USA. Mr. Todd has qualified as an U.S. Certified Public Accountant in 1989 and was a member of the American Institute of Certified Public Accountants from 1989 to 2010.

Mr. Todd is currently an executive director of Shi Shi Services Limited (formerly known as Heng Sheng Holdings Limited and Kong Shum Union Property Management (Holding) Limited) (stock code: 8181) and an executive director of Hsin Chong Group Holdings Limited (stock code: 404).

Mr. Todd was an independent non-executive director of Ngai Shun Holdings Limited (stock code: 1246) from July 2016 to August 2017. Mr. Todd worked for the international accounting firm KPMG and the Standard Chartered Group respectively between 1985 and 1995. He was the finance director for several manufacturing and media production and distribution companies from 1999 to 2008. Mr. Todd has been working as a business consultant since 2009 specialising in the finance, investment and media sectors.

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

Mr. Cheng, aged 36, has been a non-executive Director since 5 September 2017. He holds a Bachelor's degree in Science from Babson College in Massachusetts, USA. Mr. Cheng was a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets. He is currently an executive director of NWS Holdings Limited (stock code: 659), the chairman and a non-executive director of Integrated Waste Solutions Group Holdings Limited (stock code: 923) and a non-executive director of each of Haitong International Securities Group Limited (stock code: 665) and Wai Kee Holdings Limited (stock code: 610), all of which are listed on the main board of the Stock Exchange. He is also the chairman of Goshawk Aviation Limited, and a director of SUEZ NWS Limited, PBA International Pte. Ltd. and a number of companies in Mainland China.

Mr. Cheng was a non-executive director of Newton Resources Ltd (stock code: 1231; a company listed on the main board of the Stock Exchange) from 4 July 2011 to 23 January 2017, a non-executive director of Beijing Capital International Airport Co., Ltd. (stock code: 694) from 26 February 2014 to 2 February 2018 and a non-executive director of Tharisa plc, whose shares are listed on the Johannesburg Stock Exchange Limited and the London Stock Exchange plc. (resigned on 1 February 2017).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. Hu, aged 46, has been an independent non-executive Director since 17 December 2010. Mr. Hu is also the chairman of each of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Hu has been a certified practising accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow member of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings Limited (中國軟包裝控股有限公司) from 2003 to 2007, Yunnan Junfa Real Estate Company Limited (雲南俊發房地產有限責任公司) from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (stock code: 1938) from 2009 to 2011 respectively. Mr. Hu is currently the chief financial officer and the company secretary of Mobile Internet (China) Holdings Limited (stock code: 1439). Mr. Hu graduated from the University of Queensland with a Bachelor's degree in Commerce in December 1996.

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

Mr. Chan, aged 52, has been an independent non-executive Director since 24 July 2015. He is also a member of each of the audit committee, remuneration committee and nomination committee of the Company. He obtained a Bachelor's degree with honours in Business Administration and a Master of Science with distinction in Corporate Governance and Directorship. He is a fellow of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales. Mr. Chan Chi Yuen is a practising certified public accountant and has extensive experience in financial management, corporate development, corporate finance and corporate governance.

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

Mr. Chan was an executive director of Co-Prosperity Holdings Limited (now known as Asia Television Holdings Limited) (stock code: 707) from December 2014 to October 2015, an executive director of South East Group Limited (now known as China Minsheng DIT Group Limited) (stock code: 726) from December 2013 to July 2015, an independent non-executive director of U-RIGHT International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited) (stock code: 627) from November 2010 to December 2017, an independent non-executive director of Junyang Financial Holdings Limited (now known as Power Financial Group Limited) (stock code: 397) from January 2005 to October 2017 and an independent non-executive director of Affluent Partners Holdings Limited (stock code: 1466) from December 2016 to September 2018. The shares of all the aforesaid companies are listed and traded on the Stock Exchange.

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

Mr. Kwan, aged 39, has been an independent non-executive Director and a member of the audit committee of the Company since 5 July 2017. He has been the chief financial officer and the company secretary of Modern Dental Group Limited (stock code: 3600) since 26 October 2016, and is responsible for corporate finance, merger and acquisition matters, financial and accounting management, investor relations, corporate governance as well as compliance affairs. Mr. Kwan was an executive director of Vision Fame International Holding Limited (stock code: 1315) from February 2015 to October 2016, where he also served as chief financial officer and company secretary from June 2014 to October 2016. Prior to March 2014, he worked as a senior manager in both the assurance department and the professional practice department of Ernst & Young during which he acquired extensive capital market transaction experience. He has been an independent non-executive director of Rare Earth Magnesium Technology Group Limited (formerly known as "Group Sense (International) Limited") (stock code: 601) since 6 June 2016, Lai Group Holding Company Limited (stock code: 8455) since 24 March 2017 and A & S Group (Holdings) Limited (stock code: 1737) since 21 February 2018 respectively. Mr. Kwan is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwan obtained a Master's degree in Business Administration from The Chinese University of Hong Kong in November 2014 and a Bachelor's degree from The Hong Kong Polytechnic University in November 2002.

COMPANY SECRETARY

Mr. Chan Siu Tak, aged 41, has been the financial controller and company secretary of the Company since 2017. Mr. Chan is an associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan graduated from the Hong Kong Polytechnic University with a Bachelor's degree in Accountancy. Mr. Chan has over 18 years of experience in accounting and financial management, audit, corporate governance and company secretarial matters. Prior to joining the Company, Mr. Chan worked for another listed company in Hong Kong and an international accounting firm.

Report of the Directors

The directors of the Company (the "Directors") are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are the development and publishing of online multiplayer PC and console video games.

RESULTS

The profit of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 84 to 199 of this annual report.

FINAL DIVIDEND

Subsequent to the balance sheet date, the Board adopted a dividend policy on 4 February 2019 to take effect on 1 January 2019.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

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

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW

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

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

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees are also discussed under the section headed "Environmental, Social and Governance Report" on pages 61 to 76 of this annual report.

Principal Risks and Uncertainties

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

Operational risk

In order to achieve sustainable growth of our business, we must retain our existing users, attract new users, maximise the network effect of our platform and ultimately improve our monetisation. This requires that we consistently launch popular games and release updates for our existing games to keep our users engaged and therefore stay within our platform of games. However, we cannot guarantee that popular games that we have will continue to sustain their current level of popularity. Users may lose interest in our games over time despite our efforts in improving or upgrading our existing games. Although the Group is dedicated to maintaining its hardware and providing software updates to enhance the gaming experience of our players, the gaming experience may still be adversely affected by any server or software problem that will in turn affect the game and the Company's reputation.

A majority of the games we publish are free to download and play, adopting an item-based revenue model, and being in line with the industry norm, only a small percentage of users who play our games in any period are paying users. As such, in order to sustain our revenue growth, we must effectively monetise our user base by converting active users to paying users and by encouraging paying users to spend more in our games. We invest in user data analysis to better understand our users' in-game consumption patterns.

We regard the intellectual property rights granted to us by our game developer partners, as well as our own copyrights, trademarks and other intellectual property, as critical for our success. Unauthorised use of these intellectual property rights may harm our brands and reputation and adversely affect our business. Although our contracts with our business partners prohibit the unauthorised use of our brands and intellectual property rights, we cannot assure that they will always comply with these terms. These agreements may not effectively prevent disclosure of confidential information to third parties and may not provide adequate remedy in the event of unauthorised disclosure of confidential information. While we actively take steps to protect the proprietary rights of our Group and those of our game developer partners, such steps may not be adequate to prevent infringement or misappropriation of such proprietary rights.

Our performance and future success depend on the talents and efforts of highly skilled individuals, especially art design, research and development and sales and marketing personnel. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas for our organisation. We will continue to adopt competitive reward packages to attract new employees and to retain and motivate our existing employees, especially key individuals.

Competition risk

The Group faces competition in the online game industry. New technologies such as Virtual Reality and the ever-changing hardware in both PC and mobile devices intensify competition among game developers in the market. We may be unable to compete successfully against our competitors or new market entrants, which may adversely affect our business and financial performance. We have dedicated considerable efforts in addressing feedback from existing players in developing and improving our games in order to retain players and prolong their playing time. We also conduct research and develop new ideas on an ongoing basis to attract new players.

Regulatory risk

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

Financial risk

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

Environmental Policy and Performance

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

Compliance with the Relevant Laws and Regulations

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

Relationships with Employees, Customers and Suppliers

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

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 200 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share options and share capital during the year, together with the reasons therefore, are set out in Notes 34 and 35 to the consolidated financial statements.

Increase in Authorised Share Capital

Pursuant to an ordinary resolution passed at the annual general meeting of the Company 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 Option Scheme

The share option scheme was adopted for a period of 10 years on, and commenced from, 25 August 2017 (the "Share Option Scheme"). 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 ("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.

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

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

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

(iii) the nominal value of the shares.

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

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 307,091,000 shares, representing 10.06% of the total number of shares in issue as at the date of this annual report.

During the year ended 31 December 2018, the movement in the share options granted under the Share Option Scheme was shown as follows:

				Number of share options				
Grantees	**Date of grant of share options**	**Exercise period**	**Exercise price of share options**	**Outstanding as at 1 January 2018**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 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	–	–	(14,623,400)	29,246,800
	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	–	–	(14,623,400)	116,987,200
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	–	–	(14,623,400)	263,221,200

Notes:

(a) The share options were vested upon grant.

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

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

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Capital and Share Options" in this Report of the Directors, no other equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2018.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling approximately US$342,000 (2017: US$260,000).

PRE-EMPTIVE RIGHTS

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

RESERVES

As at 31 December 2018, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses amounted to approximately US$71,094,000 (2017: US$124,389,000).

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 88 to 89 of this annual report and Note 45 to the consolidated financial statements respectively.

PERMITTED INDEMNITY PROVISION

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

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, sales to the Group's largest and five largest customers accounted for 31.8% and 84.5% of the Group's total sales respectively. For the year ended 31 December 2018, purchases from the Group's largest and five largest suppliers accounted for 3.0% and 11.7% of the Group's total cost of sales respectively.

None of the Directors or any of their associates or any shareholders of the Company (which to the best of the knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers for the year ended 31 December 2018.

DIRECTORS

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

Executive Directors:

Mr. Xu Yiran *(Chairman and Chief Executive Officer)*
Mr. Li Yang *(Deputy Chairman) (Appointed on 23 November 2018)*
Mr. Gu Zhenghao
Mr. Cao Bo

Non-executive Directors:

Mr. Eric Todd
Mr. Cheng Chi Ming Brian
Mr. Li Zhigang *(Resigned on 15 November 2018)*

Independent Non-executive Directors:

Mr. Hu Chung Ming
Mr. Chan Chi Yuen
Mr. Kwan Ngai Kit

In accordance with Article 84(1) of the Company's Articles of Association, Messrs. Xu Yiran, Cao Bo and Hu Chung Ming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 42 to 45 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' EMOLUMENTS

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

Emolument Policy and Long-Term Incentive Plan

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

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

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

As at 31 December 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 Listing Rules were as follows:

Name of Director/ Chief Executive of the Company	Nature of interests	Number of shares held	Number of underlying shares held under equity derivatives	Total number of shares interested	Approximate percentage of total issued share capital of the Company
Mr. Xu Yiran	Beneficial owner	–	29,246,800	29,246,800	0.96%
Mr. Gu Zhenghao	Beneficial owner	–	29,246,800	29,246,800	0.96%
Mr. Li Yang (Note)	Beneficial owner and interest of controlled corporation	3,360,000	–	3,360,000	0.11%

Note: 3,360,000 shares include (i) 1,380,000 shares beneficially owned by Mr. Li Yang; and (ii) 1,980,000 shares beneficially owned by DC Capital Management Inc., a company 100% controlled by Mr. Li Yang. Accordingly, Mr. Li Yang is deemed to be interested in the shares in which DC Capital Management Inc. is interested.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) were required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2018, so far as was known to the Directors and the chief executive of the Company, the persons (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Capacity/ nature of interests	Number of shares held	Number of underlying shares held under equity derivatives	Total number of shares interested	Approximate percentage of the issued share capital of the Company (%)
Port New Limited (Note 1)	Beneficial owner	1,539,894,522 (L)	518,700,000 (L)	2,058,594,522 (L)	67.47%
Mr. Yuk Kwok Cheung Charles ("Mr. Yuk") (Note 1)	Interest of controlled corporation	1,539,894,522 (L)	518,700,000 (L)	2,058,594,522 (L)	67.47%
Kingston Finance Limited (Note 2)	Security interest in shares	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	50.47%
Ample Cheer Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	50.47%
Best Forth Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	50.47%
Mrs. Chu Yuet Wah (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	50.47%
LaGuardia Venture Limited (Note 4)	Beneficial owner	518,700,000 (L)	–	518,700,000 (L) (Note 5)	17.00%
	Beneficial owner	–	518,700,000 (S)	518,700,000 (S) (Note 5)	17.00%
Alpha Frontier Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	17.00%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	17.00%
Giant Investment(HK) Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	17.00%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	17.00%
巨人網絡集團股份有限公司 (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	17.00%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	17.00%
Mr. Shi Yuzhu (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	17.00%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	17.00%

Abbreviations:

"L" stands for long position
"S" stands for short position

Note 1: Port New Limited is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Yuk. Accordingly, Mr. Yuk is deemed to be interested in the shares in which Port New Limited is interested. Meanwhile, Mr. Li Zhigang, a former non-executive Directors, is one of the two directors of Port New Limited.

Note 2: Kingston Finance Limited, a company incorporated in Hong Kong, is wholly owned by Ample Cheer Limited, a company incorporated in the British Virgin Islands. Ample Cheer Limited is owned as to 80% by Best Forth Limited, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mrs. Chu Yuet Wah.

Note 3: The four references to the long position of 1,539,894,522 shares relate to the same block of shares.

Note 4: LaGuardia Venture Limited, a company incorporated in the British Virgin Islands, is wholly owned by Alpha Frontier Limited, a company incorporated in the Cayman Islands. Alpha Frontier Limited is owned as to 0.02% by Giant Investment(HK) Limited, a company incorporated in Hong Kong. Giant Investment(HK) Limited is wholly owned by 巨人網絡集團股份有限公司, a company incorporated in the PRC, which is beneficially owned as to 37.5% by Mr. Shi Yuzhu.

Note 5: The five references to the long position of 518,700,000 shares and the short position of 518,700,000 shares relate to the same block of shares.

Note 6: As at 31 December 2018, the number of issued shares was 3,051,195,000 shares.

Save as disclosed above, as at 31 December 2018, the Directors and chief executives of the Company were not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group entered into connected transactions and continuing connected transactions.

Connected Transactions

(a) On 29 August 2018, the following three sale and purchase agreements were entered into:

(i) Excellent Wish Limited ("Excellent"), an indirect wholly-owned subsidiary of the Company, Ms. Wu Laam Anne ("Ms. Wu"), the spouse of Mr. Yuk, and Mr. Yuk entered into a sale and purchase agreement, pursuant to which Excellent conditionally agreed to acquire and Ms. Wu conditionally agreed to sell (i) the entire issued share capital of a target company ("Target Company I"), including a property owned by Target Company I ("Property I"); and (ii) the amount owing to Ms. Wu by this company on the relevant completion date, for an aggregate cash consideration of HK$83,310,000 ("Sale and Purchase Agreement I"). Mr. Yuk agreed to act as a guarantor of all the obligations and liabilities of Ms. Wu under the Sale and Purchase Agreement I.

(ii) Excellent, Ms. Wu and Mr. Yuk entered into a sale and purchase agreement, pursuant to which Excellent conditionally agreed to acquire and Ms. Wu conditionally agreed to sell (i) the entire issued share capital of a target company ("Target Company II"), including a property owned by Target Company II ("Property II"); and (ii) the amount owing to Ms. Wu by this company on the relevant completion date, for an aggregate cash consideration of HK$52,540,000 ("Sale and Purchase Agreement II"). Mr. Yuk agreed to act as a guarantor of all the obligations and liabilities of Ms. Wu under the Sale and Purchase Agreement II.

(iii) Excellent and Cindic Holdings Limited ("Cindic Holdings"), a company indirectly wholly-owned by Ms. Wu, entered into a sale and purchase agreement, pursuant to which Excellent conditionally agreed to acquire and Cindic Holdings conditionally agreed to sell a property (Property III) for a cash consideration of HK$124,150,000 ("Sale and Purchase Agreement III").

On 30 October 2018, all the resolutions proposed in relation to (i) the acquisition of 100% equity interests in the Target Company I and Target Company II (collectively, the "Target Companies") which indirectly held Property I and Property II respectively; and (ii) the acquisition of Property III (collectively, the "Acquisition") were duly passed by way of poll voting by the independent shareholders of the Company during the extraordinary general meeting of the Company.

On 30 November 2018, as the relevant conditions precedent under each of Sale and Purchase Agreement I, Sale and Purchase Agreement II and Sale and Purchase Agreement III in relation to the Acquisition have been fulfilled, completion took place in accordance with the terms and conditions as set out therein ("Completion"). Upon Completion, the Target Companies and their respective subsidiaries became wholly-owned subsidiaries of the Company, and their results and assets and liabilities were consolidated into the financial statements of the Group.

Further details of the said transaction were set out in the announcements respectively dated 29 August 2018, 30 October 2018 and 30 November 2018 and the circular dated 11 October 2018 of the Company.

(b) On 9 November 2018, the Company entered into a cooperative agreement with MEGA Ample Holdings Limited ("Cooperative Agreement"), a company wholly-owned by Mr. Yuk, pursuant to which the parties conditionally agreed to enter into a joint arrangement for the development and operation of five specific video games which are being or will be developed under the Cooperative Agreement.

Further details of the said transaction were set out in the announcements respectively dated 9 November 2018, 12 December 2018, 2 January 2019, 24 January 2019 and 20 February 2019. The announcements of the Company dated 12 December 2018, 2 January 2019, 24 January 2019 and 20 February 2019 were in relation to the delay in despatch of the circular for the Cooperative Agreement.

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

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

On 27 December 2018, Mr. Yuk, the controlling shareholder of the Company, pledged 1,539,894,522 ordinary shares in the issued share capital of the Company to Kingston Finance Limited.

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

During the year ended 31 December 2018, the Company repurchased on the market a total of 19,715,000 ordinary shares of the Company at an aggregate consideration of HK$40,011,000 (equivalent to approximately US$5,101,000) (and incurred transaction costs of HK$164,000, equivalent to approximately US$21,000). All of these shares were cancelled on 5 November 2018. The premium payable and transaction costs on repurchases of shares was both charged to share premium account.

Particulars of the repurchases are as follows:

Month	Number of shares repurchased	Purchase price per Share Highest (HK$)	 Lowest (HK$)	Aggregate consideration (US$)
October 2018	19,715,000	2.31	1.65	5,101,000
Total	19,715,000	2.31	1.65	5,101,000

The repurchases were made for the benefit of the Shareholders with a view to enhancing the net asset value and earnings per Share of the Group. Details of the share repurchases by the Company are included in Note 35(d) to the consolidated financial statements. Save for the above, neither the Company nor any of its subsidiaries purchased, redeemed or sold interest in any of the Company's listed securities for the year ended 31 December 2018.

INTERESTS OF CONTROLLING SHAREHOLDER IN CONTRACTS

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

EVENT(S) AFTER THE REPORTING PERIOD

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

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders of the Company entitled to attend and vote at the annual general meeting of the Company to be held on Friday, 28 June 2019, the register of members of the Company will be closed from Tuesday, 25 June 2019 to Friday, 28 June 2019, both days inclusive, during the period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 June 2019.

CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 22 to 41 of this annual report.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the conclusion of the Company's forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

Mr. Xu Yiran
Chairman

Hong Kong, 27 March 2019

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

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

The Group is a rapidly expanding developer and publisher of PC and home console video games around the globe, and also a market leader in the niche of free-to-play online multiplayer games. Flagship products of the Group include *Warframe* developed by Digital Extremes and *Dirty Bomb* developed by Splash Damage.

This ESG report covers the Group's overall environmental and social performances of its major computer and video gaming operations. This covers performance of the game development studios of Digital Extremes and Splash Damage in Toronto, Canada (including its cafeteria operation) and Kent, the UK respectively, from 1 January 2018 to 31 December 2018, unless otherwise stated. The scope of this ESG report remained unchanged comparing to the last reporting period.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

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

- Employment;
- Occupational health and safety;
- Labour standards;
- Intellectual property; and
- Customer privacy.

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

CORPORATE MEMBERSHIPS

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

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at enquiry@leyou.com.hk.

THE GROUP'S SUSTAINABILITY VISION AND COMMITMENT

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

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

The Board of the Group understands that it has overall responsibility for the Group's ESG strategy and reporting. The Group reviews and monitors several aspects in ESG such as risk management policies, annual budgets, business plans, performance objectives and measures implementation, and progress against goals and targets for addressing climate-related issues. It has also engaged an external ESG consultancy firm to review its ESG performance annually during the Board meetings.

A. ENVIRONMENTAL

The Group strictly abides by the local environmental laws, rules and regulations. It aims to grow and deliver returns to shareholders without environmental detriment. During the reporting period, no material non-compliance in relation to air and greenhouse gas emissions, discharges into water and land, or generation of hazardous and non-hazardous waste was recorded.

A1. Emissions

A1.1. Air Emissions

The Group consumed natural gas in the reporting period, which contributed to the emission of 0.78 kg of nitrogen oxides ("NOx") and insignificant amount of sulphur oxides ("SOx").

A1.2. Greenhouse Gas Emissions

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tonnes of carbon dioxide equivalent "tCO_2e")	Total Emission (in percentage)
Scope 1 Direct Emission			
Combustion of natural gas for stationary source		7.60	25%
Refrigerant		113.07	
Scope 2 Energy Indirect Emission			
Purchased electricity		112.84	24%
Purchased natural gas		2.41	
Scope 3 Other Indirect Emission			
Paper waste disposal		0.73	51%
Electricity used for processing fresh water		8.31	
Electricity used for processing sewage		0.41	
Business air travel		236.54	
Total		481.91	100%

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

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

Note 3: Emission factors for calculation of emission from purchased electricity in the video gaming operations in Canada and the UK were made reference to the 2017 Community Energy & Greenhouse Gas Emissions Inventory Report (August 2018) of the City of London and the EDF Energy Fuel Mix on the EDF Energy website respectively.

The Group's activities contributed to 481.91 tonnes (0.02 tCO_2/m^2 of total area of studios) of carbon dioxide equivalent emission (including carbon dioxide, methane and nitrous oxides) in the reporting period.

A1.3. Hazardous Waste

The major hazardous wastes generated by the Group during the reporting period were cooking grease, printer toner cartridges and batteries.

Hazardous Wastes	Wastes Generated in 2018
Cooking grease	100 gallons
Printer toner cartridges	10 kg
Batteries	13 kg

A1.4. Non-hazardous Waste

The Group generated domestic waste, recyclable waste (including cards, paper and glasses) and organic waste. A total of 12.89 tonnes of domestic and recyclable wastes were generated during the reporting period.

Non-hazardous Wastes	Wastes Generated in 2018
Domestic waste	11.16 tonnes
Recyclable waste	1.56 tonnes
Waste paper	0.17 tonnes
Organic waste*	16,000 litres

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

A1.5. Measures to Mitigate Emissions

Employees travel by air for meetings with colleagues, suppliers and clients. The Group keeps track of their business air travels and avoids travelling by air whenever possible. It strives to reduce its carbon footprint by encouraging the use of public transit (such as train and carpooling for local travel), providing bicycle parking, using video conference and choosing the most efficient routes for air travel whenever possible.

A1.6. Waste Handling and Waste Reduction Initiatives

Waste Handling

All hazardous wastes are collected regularly by qualified collectors. The Group's cafeteria operation installed grease trap and grease is collected regularly by qualified grease trap specialist which uses food waste as natural soil conditioner. Domestic waste, recyclable waste and organic waste were collected separately. The Group also utilises reusable dishes and utensils in its cafeteria.

Waste Reduction Initiatives

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

A total of 857 kg of paper was recycled during the reporting period, contributing to a reduction of 4.11 tCO_2e emission. The staff of its cafeteria operation also aims to minimise organic waste by repurposing leftover food for other meals and recycle food waste. A total of 2.6 tonnes of food waste has been recycled during the reporting period.

A2. Use of Resources

Although the Group has no official policy on efficient use of resources, it is committed to continually identifying ways in which it can minimise its impact on the environment. For example, when electronic hardware malfunction occurs, only the malfunctioning component will be replaced rather than the entire hardware unit.

A2.1. Energy Consumption

The energy use involved in the Group's operation included the consumption of natural gas and electricity. Natural gas was consumed for cooking in the cafeteria operation in Canada and electricity was consumed for daily office operation. The Group consumed a total of 1,893.36 MWh (0.08 MWh/m^2 of total area of studios) in the reporting period.

Energy Consumption Sources	Direct Consumption	Energy Consumption (in MWh)
Natural gas	4,077.26 m^3	35.04
Electricity	1,858.32 MWh	1,858.32

A2.2. Water Consumption

Water consumption record of Digital Extremes was not available as the consumption was managed by the office building landlord. A total of 20,657.28 m^3 (water intensity of 0.84 m^3/m^2 of total area of studios) of water was supplied by the municipal water supplier for Splash Damage during the reporting period.

A2.3. Energy Use Efficiency Initiatives

The Group reduces electricity consumption by:

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

A2.4. Water Use Efficiency Initiatives

The Group encourages water saving behaviours. Dual flush toilet units have been installed to reduce water consumption.

A2.5. Packaging Materials

The Group is not involved in any packaging materials consumption as packaging of all tangible merchandises is outsourced, but it is noteworthy that most of the packaging materials of its merchandises are recyclable.

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

The business operation of the Group involves consumption of natural gas, electricity, refrigerant and water, and generates small amount of hazardous and non-hazardous wastes. It strives to reduce adverse environmental impact through conservation of energy, water and resources. The Group is aware that business air travels contribute to a significant amount of its carbon emission. It will continue to explore means to avoid business air travels.

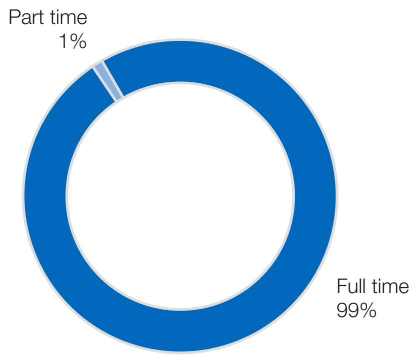
B. SOCIAL

1. Employment and Labour Practices

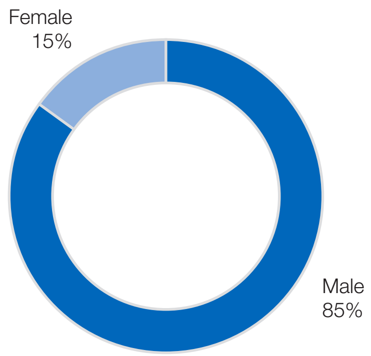
B1. Employment

There were 644 employees in UK and Canada as of 31 December 2018, and a total of 112 employees who left the Group during the reporting period (turnover rate: 17%).

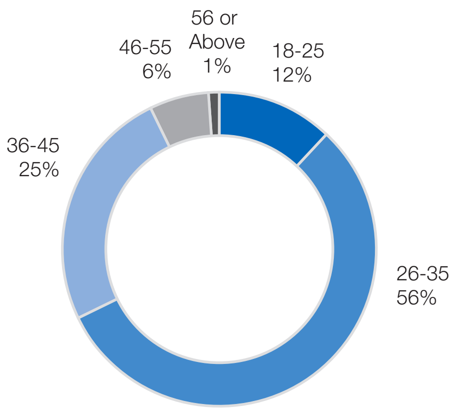
Distribution of Employees by Employment Type



Distribution of Employees by Gender



Distribution of Employees by Age Group



Distribution of Employees by Geographical Region

Canada	46%
Britain	29%
America	4%
Spain	3%
Italy	2%
Germany	2%
France	2%
Netherlands	1%
Others[1]	11%

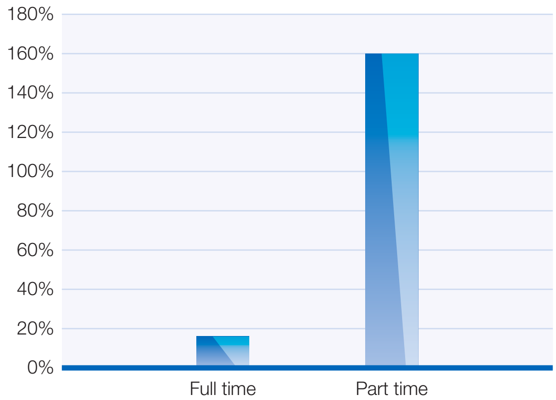
[1] Others include employees from geographical regions (less than 1% each) including Argentina, Australia, Austria, Belgium, Bulgaria, China, Finland, Greek, India, Iran, Lithuania, Mexico, Montenegro, New Zealand, Norway, Poland, Portugal, Romania, Russia, Slovakia, South Africa, South Korea, Sweden, Switzerland, Turkey and Ukraine.

Recruitment for the studios had been a challenge due to the strong competition within the local region as well as the wider global video game market. There was also a high demand for experienced talents for the Group's long-term growth. To overcome these challenges, the Group introduced internal and external measures to attract high-calibre talents.

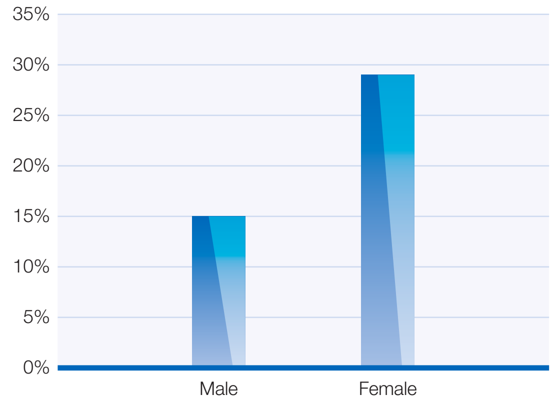
Internally, the Group continuously improves technologies to refine hiring process and keeps candidates engaged throughout the hiring process. It uses recruiters to widen the selection pool and utilises direct hiring channels such as social media, job boards, networking events and advertisements. To acquire the best talents regardless of geographical location, the Group now allows home office and offers moving allowances. It has also implemented referral scheme to reward employees bringing new talents into the Group.

Externally, the Group maintains close ties with educational institutions to stay competitive in acquiring skilled graduates and interns. The marketing department also strives to elevate brand awareness through advertising and editorial campaigns.

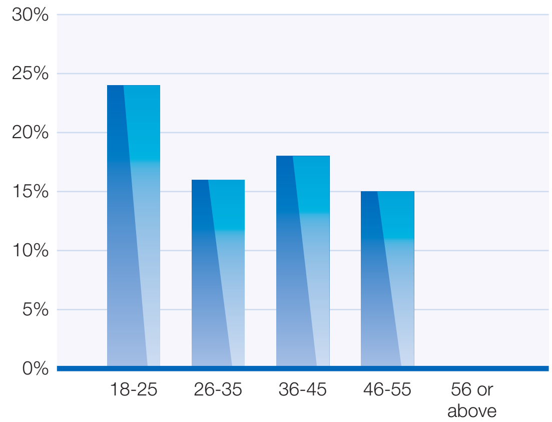
Turnover Rate by Employment Type



Turnover Rate by Gender



Turnover Rate by Age Group



Turnover Rate by Geographical Region

Poland	100%	Sweden	25%
Lithuania	50%	Ukraine	25%
Norway	50%	Britain	22%
Romania	50%	Italy	13%
Austria	40%	Netherlands	13%
France	36%	America	12%
Spain	35%	Canada	11%
Portugal	25%	Germany	7%

Employee Compensation and Benefits

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

The Group recruits in an open and transparent manner. Applications from external sources or internal referral will undergo standard selection according to the requirements of the positions. Competitive salary with discretionary bonus is offered to attract talents. Salary is reviewed once to twice a year and is determined with reference to the market trend and employee's competency, qualifications and experience. A task force has been established by Splash Damage to review and improve the way employees are onboarded and exit interviews were conducted with departing employees to understand their reasons for leaving the company.

During the reporting period, Splash Damage was listed on the Best Company 2 Star Accreditation, a UK accreditation system for organisations that demonstrate high levels of employee engagement based on staff feedback, in which majority of staff agreed that their teams are fun to work with and the company encourages charitable activities. During the reporting periods, Digital Extremes was selected as one of Canada's Top 100 Employers (2018) due to the following reasons:

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

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

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

During the reporting period, no material non-compliance in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, or other benefits and welfare was recorded.

Employee Communication

The Group particularly values feedback from its employees. Employees can raise their concerns through weekly company updates and surveys to rate satisfaction of their workplaces, products or services. Senior management will discuss the raised topics, address areas of concern and take actions as appropriate. One of the major ESG aspects raised by the Group's employees was salary. The Group addresses salary concerns of employees in a transparent manner by disclosing their salary benchmarking exercises to employees. In December 2018, Splash Damage had conducted a salary benchmarking exercise, the results showed that its salary packages offered were lower than its competitors. Splash Damage was looking to rectify the issue through it salary review process.

To strengthen employees' sense of belonging, social events are regularly organised which employees could participate in with their families and friends, such as the employee appreciation events and holiday parties. The Group also promotes camaraderie and wellbeing by engaging employees in different sports teams including baseball, hockey, basketball and soccer teams.

Equal Opportunity

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

B2. Employee Health and Safety

Occupational Health and Safety

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

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

Occupational Health and Safety Data in 2018

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

Food Health and Safety

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

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

B3. Development and Training

The Group does not have published policies regarding development and training, but a learning and development strategy is currently being developed, which will be in place in the next reporting period. The Group provides annual funding for full-time employees to develop their careers through various means including courses at an accredited colleges or university, software training courses, online training, industry seminars, events and conferences. Splash Damage also created its own Leadership Development Programme, provided technical online courses and in-house classroom-based training for soft skills. Training needs are identified through monthly appraisal conversations to ensure trainings provided are catered to employee needs. The training topics covered in the reporting period include but not limited to:

- Payroll and compensation;
- Translation;
- Level design;
- Programming;
- Communication; and
- 3D design.

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

B4. Labour Standards

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

2. Operating Practices

B5. Supply Chain Management

The Group has no policy on managing environmental and social risks of the supply chain, but it has its own procurement procedures and is committed to procuring in a timely, efficient and effective manner with due regard to best practices. Vendor selection is based on a variety of factors which includes the business reputation of the supplier in addition to cost effectiveness. Credit checks and margin checks are performed when necessary. Preference of vendor selection is also given to energy efficient (energy label with A++ grade) equipment. The Group engages reliable vendors and review vendors' performances and cost on a regular basis. If a supplier is not meeting expectations, actions will be taken by the Group depending on the specific circumstances and the details of the contract. The major suppliers of the Group were from America and Britain.

B6. Product Responsibility

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

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

To protect players from adverse consequences of gaming, in certain jurisdictions, players receive in-game alerts reminding them to take a break if they have been playing for more than an hour.

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

- The Best Xbox One Game of E3 2018 (nominated);
- The Best PC Game of E3 2018 (nominated);
- The Steam Labor of Love Award (won);
- The Best Marketing Campaign of the Year Award (won); and
- The Webby Awards (won).

Product Assurance and Recall

To accommodate players from all over the world, the Group has localised games into multiple languages and has been working with server hosts to ensure appropriate service quality against the cost. It monitors services to detect early signs of any issue that would affect players and resolve them as quickly as possible to minimise impact on players. The quality assurance department performs extensive testing on all released content to find bugs, troubleshoot and implement fixes. The Group also listens to feedback through forums, social media and customer experience programs to identify negative experience of players and eliminate negative impacts on players whenever possible.

Fairness is a crucial element of an enjoyable game experience. Splash Damage adopts a monetisation strategy that is not pay-for-power or pay-to-win, while Digital Extremes makes content drop rates available to players and periodically rebalances drop rates, characters or weapon mechanics in order to maintain fairness.

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

IP Rights

Game merchandises were created using the Group's own proprietary technology which are filled with original characters, locations, sounds and music. The Group possesses a lot of internal IPs. Therefore, an internal policy has been established to ensure that adequate measures are in place to safeguard internal IPs and mitigate potential revenue loss in an event that any IP is inappropriately used by a third party.

Registration of a particular IP is determined depending on the assessment of how the IP will be used, the cost in dollars and time, and the risk of loss. Newly registered trademarks will be communicated internally via email or staff communication platforms.

IP rights will not be granted without a signed contract and a non-disclosure agreement in place. The Group checks online from time to time to ensure that no self-owned IPs are used without consent. Employees are also aware of the Group-owned IPs through the rules and details in the employee handbook. All employees have undertaken to respect and protect both internal and third-party IP rights. Before entering the games developed by the Group, users agree upon the End User License Agreement and the Terms of Use Agreement, which stipulated that the IPs belong to Digital Extremes and are not properties of the users. Employee must obtain written consent from senior management before working on any personal project under the Additional Work Request Policy, whereby no IP rights of the Group shall be used in the personal projects. For any infringement found, the Group will seek a cease-and-desist order or damages by initiating a lawsuit. No case regarding IP rights infringement was received during the reporting period.

Information Security Management

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

With the implementation of the General Data Protection Regulation ("GDPR"), the Group engaged a professional law firm, reviewed its privacy policy and audited its data storage to ensure compliance with the GDPR. Digital Extremes has updated the conditions for data consent so that they were in clear and distinguishable language. It refined the procedures to withdraw and give personal data by updating the consent policy. As customers now have the right of personal data access, the right to data erasure and data portability, the Group has also developed policies for handling requests for data access, erasure and portability.

There was no breach or complaint from regulatory bodies regarding customer privacy during the reporting period.

Communication with Users

The Group has dedicated a customer service team for handling all types of support requests from end users, including billing, technical, equipment, quest and account information issues during working hours. Players with requests or enquiries will be directed to the customer service representatives ("CSRs") based on their categories. Sensitive issues are only handled by CSRs. Apart from providing adequate support to users, the Group actively engages its users through forums, livestreams and out-of-game events.

Games from Splash Damage were developed with founder players' assistance in game testing. Their feedback is an integral part of the game creation and these 1-to-1 relationships with its players is at the core of Splash Damage. Therefore, continual accessible events were organised to reward players for their non-monetary participation. Splash Damage occasionally invites community members to the studio to meet the developers and understand more about game development. In the game, the community is highly involved when a new character or story line is being developed, as preferences of the community will be incorporated in the final creation.

Digital Extremes organises annual events which allow community members from all over the world to gather and network with each other. These events include Tennocon and TennoVIP, which are organised several times a year. When there are new features added to the game, the community team of Digital Extremes live-streams to players through Twitch, where they also discuss feedback on the new features.

B7. Anti-corruption

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

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

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

B8. Community Investment

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

During the reporting period, Digital Extremes donated approximately CAD370,000 to registered charities, which contributed to promoting technology education in Canada and supporting pioneer research and treatments for children with cancer and other life-threatening diseases. It sponsored around CAD80,000 to organisations including Toronto Game Jam, Forest City Film Festival, Humane Society London & Middlesex, Canadian Gaming Exo, London's Forest City Comicon, and the Brain Tumour Foundation of Canada. Splash Damage had also donated around GBP5,000 to various registered charities.

Registered charities receiving donations from the Group include but not limited to:

- British Heart Foundation;
- Canada Learning Code;
- Canadian Red Cross;
- Children's Hospice;
- Islamic Relief;
- London Health Sciences Foundation;
- Paws United;
- St. Jude's Children's Hospital; and
- The Royal British Legion.

Independent Auditors' Report

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

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

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

OPINION

We have audited the consolidated financial statements of Leyou Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 84 to 199, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of game development and publishing services	
Refer to Notes 3, 4 and 6 to the consolidated financial statements.	
Game development and publishing revenue of approximately US$201,909,000 for the year ended 31 December 2018 was recognised over the estimated usage pattern that paying players typically play the game. Management has estimated the usage pattern on a game by game basis for revenue recognition. We focused on this area because the inherent uncertainities and subjectivities involved in estimation of usage pattern, which could result in differences in periods when revenue is recognised.	Our procedures in relation to revenue recognition of game development and publishing services included: • Evaluating whether the Group's revenue recognition policies in compliance with HKFRSs for game development and publishing services; • Assessing the appropriateness of the methodologies and assumptions used in the estimation of usage pattern by checking the mathematic formula as well as comparing them with historical data and industry practice; • On sample basis, checking the key inputs used in the estimation with the original data directly extracted from the game service system; • For selected samples, re-calculate the related usage pattern of selected games, and compared the results with usage pattern prepared by management; and • Performing test of details, on a sample basis, by comparing the details and amount of the transactions selected with the details and amounts shown on the underlying documentation. We found that the accounting estimates made by the management in relation to the revenue recognition to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter

Impairment assessment on goodwill and fair value assessment of consideration payable

Refer to Notes 3, 4, 18 and 36(a) to the consolidated financial statements.

As at 31 December 2018, the Group has goodwill with net carrying amount of approximately US$76,419,000 relating to the computer and video games business and contingent consideration payable carrying at fair value of zero.

Management performed impairment assessment of the computer and video games business and fair value assessment on consideration payable based on discounted cash flows estimation. For the year ended 31 December 2018, an impairment loss on goodwill of approximately US$42,944,000 and a fair value gain on contingent consideration payable of approximately US$37,424,000 was recognised in the consolidated statement of profit and loss.

We focused on these areas as the assessment made by management involved significant estimates and judgements in relation to the performance of computer and video games business and discount rates applied, which may be affected by unexpected changes in future market or economic conditions or significant events or circumstances related to the computer and video games business. Independent external valuation was obtained in order to support the management's estimation.

Our procedures in relation to the management's impairment assessment of goodwill and fair value assessment of consideration payable included:

- Evaluating the competency, capabilities and objectivity of the independent professional external valuer;
- Assessing the appropriateness of the valuation methodology, key assumptions and estimates used based on our knowledge of the relevant industry and using our valuation experts;
- Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry; and
- Checking, on a sampling basis, the accuracy and relevance of the input data used.

We found that the assumptions made by the management in relation to the value in use calculations and the fair value assessment of consideration payable to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on trade receivables and deposits and other receivables	
Refer to Notes 2, 3, 24, 25 and 40 to the consolidated financial statements.	
As at 31 December 2018, the Group had gross trade receivables of approximately US$45,670,000 and provision for impairment of approximately US$1,373,000, and gross deposits and other receivable of approximately US$12,137,000 and provision for impairment of approximately US$3,298,000, respectively. Management performed periodic assessment on the recoverability of the trade receivables and deposits and other receivables and the sufficiency of provision for impairment based on information including credit profile of different counterparties, ageing of the receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going relationships with the relevant counterparties. Management also considered forward-looking information that may impact the counterparties' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables and deposits and other receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's estimated credit losses of the trade receivables and deposits and other receivables as at 31 December 2018 included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables and deposits and other receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables and deposits and other receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the counterparties based on trade records and operation record, checking historical and subsequent settlement records of and other correspondence with the counterparties; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgement and estimates used to assess the recoverability of the trade receivables and deposits and other receivables and determine the impairment provision to be supportable by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895
Hong Kong, 27 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Continuing operations			
Revenue	6	**227,720**	166,736
Cost of sales		**(86,233)**	(55,962)
Gross profit		**141,487**	110,774
Other revenue and gains	7	**8,192**	611
Net loss on financial assets at fair value through profit or loss	11	**(23,743)**	(5,955)
Loss on disposal of available-for-sale financial assets		**–**	(2)
Fair value change of contingent consideration payable	36(a)	**37,424**	2,716
Amortisation of intangible assets	19	**(18,467)**	(20,364)
Impairment of intangible assets	19	**(4,896)**	(4,872)
Impairment of goodwill	18	**(42,944)**	–
Selling and marketing expenses		**(13,470)**	(11,958)
Administrative expenses		**(34,553)**	(28,914)
Finance costs	8	**(790)**	(3,371)
Other operating expenses		**(13)**	(1,042)
Equity-settled share-based payment expenses		**(4,377)**	(12,528)
Profit before taxation	11	**43,850**	25,095
Taxation	9	**(23,483)**	(13,823)
Profit for the year from continuing operations		**20,367**	11,272
Discontinued operations			
Loss for the year from discontinued operations	10	**–**	(1,026)
Profit for the year		**20,367**	10,246
Profit/(loss) for the year attributable to:			
Owners of the Company			
– from continuing operations		**20,413**	9,834
– from discontinued operations		**–**	(1,026)
Non-controlling interests			
– from continuing operations		**(46)**	1,438
– from discontinued operations		**–**	–
		20,367	10,246
Earnings per share			
From continuing and discontinued operations			
Basic (US cents per share)	15	**0.67**	0.30
Diluted (US cents per share)	15	**0.66**	0.30
From continuing operations			
Basic (US cents per share)	15	**0.67**	0.34
Diluted (US cents per share)	15	**0.66**	0.34

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Profit for the year		**20,367**	10,246
Other comprehensive (loss)/income for the year, 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		**1,000**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(15,265)**	13,790
Reclassification adjustments relating to foreign operations disposed of during the year	10(d)	**–**	669
Other comprehensive (loss)/income for the year, net of income tax		**(14,265)**	14,459
Total comprehensive income for the year		**6,102**	24,705
Total comprehensive income for the year attributable to:			
Owners of the Company		**6,367**	23,084
Non-controlling interests		**(265)**	1,621
		6,102	24,705

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Non-current assets			
Property, plant and equipment	17	**39,945**	6,121
Goodwill	18	**76,419**	127,641
Intangible assets	19	**31,516**	57,913
Development expenditure	20	**48,297**	12,364
Available-for-sales financial assets	21	**–**	8,100
Financial assets at fair value through other comprehensive income	22	**9,100**	–
		205,277	212,139
Current assets			
Inventories	23	**174**	285
Trade receivables	24	**44,297**	31,538
Deposits paid, prepayments and other receivables	25	**17,113**	19,450
Financial assets at fair value through profit or loss	26	**8,522**	1,900
Tax recoverable		**2,662**	2,221
Cash and bank balances	27	**32,658**	45,898
		105,426	101,292
Current liabilities			
Trade payables	28	**2,109**	1,977
Accruals and other payables	29	**11,146**	8,094
Bank borrowings	30	**42,280**	–
Consideration payable	36(a)	**–**	6,407
Deferred revenue	31	**–**	8,898
Contract liabilities	32	**14,770**	–
		70,305	25,376
Net current assets		**35,121**	75,916
Total assets less current liabilities		**240,398**	288,055

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Equity			
Share capital	35	**39,345**	39,597
Reserves		**187,830**	181,956
Equity attributable to owners of the Company		**227,175**	221,553
Non-controlling interests		**3,567**	4,441
Total equity		**230,742**	225,994
Non-current liabilities			
Deferred tax liabilities	16	**9,068**	13,495
Deferred revenue	31	**–**	1,640
Consideration payable	36(a)	**–**	46,358
Debenture	33	**588**	568
Total non-current liabilities		**9,656**	62,061
Total equity and non-current liabilities		**240,398**	288,055

Approved by the board of directors on 27 March 2019 and signed on its behalf by:

Mr. Xu Yiran
Executive Director

Mr. Li Yang
Executive Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Equity attributable to owners of the Company										
	Share capital US$'000	Share premium* US$'000	Capital reserve* US$'000	Exchange reserve* US$'000 (Note (a))	Available-for-sale financial assets/ financial assets at FVTOCI reserve* US$'000 (Note (b))	Other reserve* US$'000	Share option reserve* US$'000 (Note (c))	Retained earnings* US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
As at 1 January 2017	37,003	133,559	(437)	(982)	–	(47,911)	4,707	20,171	146,110	3,350	149,460
Profit for the year	–	–	–	–	–	–	–	8,808	8,808	1,438	10,246
Other comprehensive income for the year	–	–	–	14,276	–	–	–	–	14,276	183	14,459
Total comprehensive income for the year	–	–	–	14,276	–	–	–	8,808	23,084	1,621	24,705
Acquisition of subsidiaries (Note 36(b))	–	–	–	–	–	–	–	–	–	592	592
Issue of shares by placing (Note 35(c))	1,872	29,948	–	–	–	–	–	–	31,820	–	31,820
Transaction costs on placement of shares (Note 35(c))	–	(649)	–	–	–	–	–	–	(649)	–	(649)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	12,528	–	12,528	–	12,528
Exercise of share options (Note 35(b))	722	9,971	–	–	–	–	(2,033)	–	8,660	–	8,660
Lapse of share options	–	–	–	–	–	–	(2,674)	2,674	–	–	–
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	2	2
Dividend paid to non-controlling interests (Note 46)	–	–	–	–	–	–	–	–	–	(1,124)	(1,124)
As at 31 December 2017 and 1 January 2018	39,597	172,829	(437)	13,294	–	(47,911)	12,528	31,653	221,553	4,441	225,994
Profit for the year	–	–	–	–	–	–	–	20,413	20,413	(46)	20,367
Other comprehensive (loss)/income for the year	–	–	–	(15,046)	1,000	–	–	–	(14,046)	(219)	(14,265)
Total comprehensive (loss)/income for the year	–	–	–	(15,046)	1,000	–	–	20,413	6,367	(265)	6,102
Repurchase and cancellation of shares (Note 35(d))	(252)	(4,849)	–	–	–	–	–	–	(5,101)	–	(5,101)
Transaction costs on repurchase of shares (Note 35(d))	–	(21)	–	–	–	–	–	–	(21)	–	(21)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	4,377	–	4,377	–	4,377
Lapse of share options	–	–	–	–	–	–	(881)	881	–	–	–
Dividend paid to non-controlling interests (Note 46)	–	–	–	–	–	–	–	–	–	(609)	(609)
As at 31 December 2018	**39,345**	**167,959**	**(437)**	**(1,752)**	**1,000**	**(47,911)**	**16,024**	**52,947**	**227,175**	**3,567**	**230,742**

* These reserve accounts comprise the consolidated reserves of US$187,830,000 (2017: US$181,956,000) in the consolidated statement of financial position.

Notes:

(a) Exchange reserve

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

(b) Available-for-sale financial assets/financial assets at FVTOCI reserve

Fair value reserve comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income ("FVTOCI") under HKFRS 9 that are held at the end of the reporting period, and the balance at 31 December 2017 represents the available-for-sale financial assets reserve under HKAS 39 basis.

(c) Share option reserve

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Operating activities			
Profit before taxation from continuing operations		**43,850**	25,095
Loss before taxation from discontinued operations		**–**	(1,017)
Adjustments for:			
Interest income	7	**(695)**	(240)
Interest expenses	8	**790**	3,371
Loss on disposal of subsidiaries	10(d)	**–**	986
Loss on disposal of available-for-sale financial assets	11	**–**	2
Net loss on financial assets at fair value through profit or loss	11	**23,743**	5,955
Net loss on disposal of property, plant and equipment	11	**–**	6
Depreciation of property, plant and equipment	11	**1,523**	528
Amortisation of intangible assets	11, 19	**18,467**	20,364
Impairment of intangible assets	11, 19	**4,896**	4,872
Equity-settled share-based payment expenses		**4,377**	12,528
Change in fair value of contingent consideration payable	36(a)	**(37,424)**	(2,716)
Allowance for expected credit loss recognised in respect of deposits and other receivables	11, 25	**3,298**	954
Impairment of goodwill	18	**42,944**	–
Amortisation of development expenditure	11, 20	**3,048**	–
Impairment of development expenditure	11, 20	**4,360**	–
Allowance for expected credit loss recognised in respect of trade receivables	11, 24	**1,379**	–
Operating cash flows before movements in working capital		**114,556**	70,688
Increase in trade receivables		**(16,706)**	(12,687)
(Increase)/decrease in deposits paid, prepayments and other receivables		**(1,494)**	30,845
Decrease in financial assets at fair value through profit or loss		**–**	30,185
Decrease in inventories		**89**	6
Increase in trade payables		**278**	1,478
Increase/(decrease) in accruals and other payables		**3,633**	(10,178)
Increase in contract liabilities		**14,940**	–
Cash generated from operations		**115,296**	110,337
Interest paid		**(686)**	(3,355)
Income tax paid		**(32,645)**	(20,184)
Net cash generated from operating activities		**81,965**	86,798

	Notes	2018 US$'000	2017 US$'000
Investing activities			
Dividends paid		**(609)**	(1,124)
Interest received		**695**	58
Net cash outflow from acquisition of subsidiaries	36	**–**	(45,404)
Net cash inflow from disposal of subsidiaries	10(e)	**–**	11,827
Proceeds from disposal of property, plant and equipment		**1,575**	227
Purchase of property, plant and equipment	17	**(20,047)**	(4,231)
Net cash outflow from acquisition of subsidiaries that are not constitute business	37	**(17,358)**	–
Increase in intangible assets	19	**(1,029)**	(3,998)
Increase in development cost capitalised	20	**(43,601)**	(11,697)
Proceeds from disposal of available-for-sale financial assets		**–**	4,421
Purchase of available-for-sale financial assets		**–**	(8,100)
Purchase of financial assets at fair value through profit and loss		**(30,329)**	(1,900)
Payment for repurchase of shares	35(d)	**(5,122)**	–
Settlement of consideration payable in relation to acquisition of subsidiaries	36(a)	**(15,492)**	–
(Decrease)/increase in deferred revenue		**(9,836)**	6,680
Net cash used in investing activities		**(141,153)**	(53,241)
Financing activities			
Repayments of bank borrowings		**(4,203)**	(5)
Proceeds from bank borrowings		**46,483**	–
Proceeds from the shareholder's loan		**894**	–
Repayments of the shareholder's loan		**(894)**	–
Issue of share	35(c)	**–**	31,820
Repayment of bond		**–**	(41,875)
Capital contribution from non-controlling interest		**–**	2
Exercise of share option	35(b)	**–**	8,660
Payment for transaction costs attributable to issue of shares	35(c)	**–**	(649)
Net cash generated from/(used in) financing activities		**42,280**	(2,047)
Net (decrease)/increase in cash and cash equivalents		**(16,908)**	31,510
Cash and cash equivalents at beginning of the year		**45,898**	13,139
Effect of foreign exchange rate changes, net		**3,668**	1,249
Cash and cash equivalents at end of the year		**32,658**	45,898

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

1. GENERAL INFORMATION

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

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

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

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

In the current year, the Group has applied, for the first time, a number of the new and amendments to standards, amendments and interpretations ("new and amendments to HKFRSs") (which included all HKFRSs, Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2018. A summary of the new and amendments to HKFRSs are set out as below:

HKAS 28 (Amendments)	As Part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 1 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

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

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

(a) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below:

Consolidated statement of financial position (extract)	31 December 2017 US$'000	HKFRS 9 US$'000	HKFRS 15 US$'000	1 January 2018 US$'000
Non-current assets				
Available-for-sales financial assets	8,100	(8,100)	–	–
Financial assets at fair value through other comprehensive income	–	8,100	–	8,100
Current assets				
Trade receivables	31,538	–	–	31,538
Deposits paid, prepayments and other receivables	19,450	–	–	19,450
Current liabilities				
Deferred revenue	8,898	–	(8,898)	–
Contract liabilities	–	–	8,898	8,898
Non-current liabilities				
Deferred revenue	1,640	–	(1,640)	–
Contract liabilities	–	–	1,640	1,640
Net assets	225,994	–	–	225,994
Capital and reserves				
Reserves	181,956	–	–	181,956
Total equity	225,994	–	–	225,994

(b) HKFRS 9 Financial Instruments – Impact of adoption

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

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

(b) HKFRS 9 Financial Instruments – Impact of adoption (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 US$'000	Reclassification US$'000	HKFRS 9 carrying amount as at 1 January 2018 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:

From available-for-sale equity investments to financial assets at fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity securities previously classified as available-for-sale. These equity securities are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, US$8,100,000 were reclassified from available-for-sale investments to financial assets at FVTOCI.

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

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

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.

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 deposits and 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.

The Group assessed the expected credit losses of other financial assets at amortised cost as at 1 January 2018. There was no significant change in the loss allowance as at 1 January 2018.

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

(c) HKFRS 15 Revenue from Contracts with Customers and the related amendments

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	HKAS 18 carrying amount as at 31 December 2017	**Reclassification**	**HKFRS 15 carrying amount as at 1 January 2018**
	US$'000	US$'000	US$'000
Deferred revenue (note)	10,538	(10,538)	–
Contract liabilities (note)	–	10,538	10,538

Note:

As a result of the changes in the Group's accounting policies, except for the reclassification of the contract liabilities from deferred revenue of US$10,538,000 at initial application, HKFRS 15 was generally adopted without restating any other comparative information. The adoption of HKFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial statements and/or disclosures set out in the consolidated financial statements except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018 as stated in Notes 31 and 32 to consolidated financial statements.

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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
HKAS 1 and HKAS 8 (Amendments)	Definition of Material[4]
HKAS 19 (Amendments)	Employee Benefits[1]
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures[1]
HKFRS 3 (Amendments)	Business Combinations[4]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[5]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.
2 Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted provided HKFRS 15 Revenue from Contracts with Customers is also applied.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020. Earlier application is permitted.
5 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company (the "Directors") anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

HKFRS 16 Leases (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$24,319,000 as disclosed in Note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as leases and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

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

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

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in presentation currency

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Change in the Group's ownership interests in existing subsidiaries

Change in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

Business combinations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (continued)

(a) Game development and publishing

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

(b) Work-for-hire

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

(c) Game-hosting and supporting

The Group holds the backbone server platform and provides game-hosting and supporting services for customers. Revenue is recognised at point in time when related service is delivered.

(d) Sales of merchandise goods

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

(e) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (before application of HKFRS 15 on 1 January 2018)

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

(a) Game development and publishing

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

(b) Work-for-hire

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

(c) Game-hosting and supporting

The Group holds the backbone server platform and provides game-hosting and supporting services for customers. Revenue is recognised when related service is delivered.

(d) Sales of merchandise goods

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

(e) Interest income

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

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

Leasing

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

The Group as lessee

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

Borrowing costs

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

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

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

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs (continued)

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

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

The Group's subsidiary in the United States of America ("US") is participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, the Group's subsidiary matches voluntary employee's contribution at a rate of 100% for the first 6% of the employee's eligible compensation. Employee contributions are voluntary.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements

Equity-settled share-based payments to employees and other providing similar services are measured at fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 34.

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

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

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share based payments.

Taxation

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

Current tax

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

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

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

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

Leasehold land	Over the remaining unexpired term of lease
Buildings	10 – 35 years
Office equipment	3 – 10 years
Motor vehicles	5 – 10 years
Tools	3 – 5 years

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

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

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

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

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

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

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

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

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

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

Development expenditures

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

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

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

Provisions

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

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

Cash and cash equivalents

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of available-for-sale financial assets/financial assets at FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the available-for-sale financial assets/financial assets at FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the available-for-sale financial assets/financial assets at FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for expected credit loss (the "ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits and other receivables, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience an forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 180 days, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

(i) Significant increase in credit risk (continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 1-year unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and deposits and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

AFS financial assets

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

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

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

Loans and receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the fair value change of consideration payable line item in profit or loss. Fair value is determined in the manner described in Note 40(c).

Other financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

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

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

On derecognition of an AFS financial asset, the accumulative gain or loss previously accumulated in the available-for-sale financial assets/financial assets at FVTOCI reserve is reclassified to profit or loss.

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

Related parties transactions

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties transactions (continued)

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (other than goodwill)

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

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

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

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

Contingent liabilities and contingent assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Impairment of property, plant and equipment

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

(b) Provision of ECL for trade receivables and deposits and other receivables

The Group uses provision matrix to calculate ECL for the trade receivables and general approach for deposits and other receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each of the reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and deposits and other receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and deposits and other receivables are disclosed in Note 40(b).

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

(c) Depreciation

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

(d) Income taxes

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

(e) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of intangible assets at the end of the reporting period were US$31,516,000 (2017: US$57,913,000) and impairment loss of US$4,896,000 (2017: US$4,872,000) was recognised during the year ended 31 December 2018.

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. The carrying amounts of goodwill at the end of the reporting period were US$76,419,000 (2017: US$127,641,000) and impairment loss of US$42,944,000 was recognised during the year ended 31 December 2018 (2017: Nil).

(g) Revenue recognition on game development and publishing

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

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

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

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

Management estimates and judgements may change from time to time based upon future events that may or may not occur and changes in these estimates and judgements could adversely affect the carrying amounts of available-for-sale financial assets. No available-for-sale financial assets at the end of the reporting period (2017: US$8,100,000) and no impairment loss was recognised during the year ended 31 December 2018 (2017: Nil), as these equity securities are classified as financial assets at FVTOCI upon application HKFRS 9 with transition in accordance with Note 2.

(i) Fair value of contingent consideration payable

The fair value of contingent consideration payable was determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including the discount rates and estimation of future performance. Changes in assumptions used could materially affect the Group's financial condition and results of operations. As at 31 December 2018, there was no carrying amount of contingent consideration payable (2017: US$51,882,000) and a gain on change in fair value of contingent consideration payable of US$37,424,000 (2017: US$2,716,000) was recognised during the year ended 31 December 2018.

(j) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2018 was US$9,100,000 (2017: Nil). Further details are included in Notes 21 and 22 to the consolidated financial statements.

5. SEGMENT INFORMATION

During the year ended 31 December 2018, the Group operated in one operating segment which was the business of on-line game operation and retail game development. A single management team reported to the Directors (being the chief operating decision-maker) who comprehensively managed the entire business. Accordingly, the Group has not presented separate segment information.

Geographical information

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

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

Revenue from continuing operations from external customers

	2018 **US$'000**	2017 US$'000
Canada	**194,481**	144,080
UK	**33,103**	22,656
The People's Republic of China ("PRC")	**136**	–
	227,720	166,736

Non-current assets

	2018 **US$'000**	2017 US$'000
Canada	**64,638**	80,496
UK	**55,664**	115,080
PRC	**3,160**	115
HK	**81,810**	16,448
US	**5**	–
	205,277	212,139

5. SEGMENT INFORMATION (CONTINUED)

Other information

Revenue from major products

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

	2018 US$'000	2017 US$'000
Computer and video games	**227,720**	166,736

Information about major customers

Revenue from each of the four (2017: three) major customers with whom transactions amounted to 10% or more of the Group's revenue from continuing operations is set out below:

	2018 US$'000	2017 US$'000
Customer A[1]	**72,382**	47,840
Customer B[1]	**49,557**	30,562
Customer C[1]	**31,294**	28,101
Customer D[1, 2]	**24,773**	–

1 Revenue from game development and publishing

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

6. REVENUE

Continuing operations

	2018 US$'000	2017 US$'000
Game development and publishing	**201,909**	146,162
Work-for-hire	**25,488**	19,470
Sale of merchandise goods	**323**	317
Game-hosting and support service	**–**	787
	227,720	166,736
Timing of revenue recognition		
Over time	**227,397**	165,632
At a point in time	**323**	1,104
	227,720	166,736

As at 31 December 2018, the aggregate amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts of game development and publishing is approximately US$14,770,000 and the Group will recognised this revenue in 2019.

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

7. OTHER REVENUE AND GAINS

Continuing operations

	2018 US$'000	2017 US$'000
Interest income on:		
Bank deposits	**695**	58
Other receivables	**–**	182
Total interest income	**695**	240
Net exchange gain	**6,299**	–
Sundry income	**1,198**	371
	8,192	611

8. FINANCE COSTS

Continuing operations

	2018 US$'000	2017 US$'000
Interest on:		
Bank borrowings	**734**	–
Bond	**–**	3,319
Debenture	**53**	52
Shareholder's loan	**3**	–
	790	3,371

9. TAXATION

Continuing operations

	2018 US$'000	2017 US$'000
Canada corporate income tax		
– current year	**29,055**	20,605
UK corporate income tax		
– current year	**(2,662)**	(1,096)
Deferred tax (Note 16)		
– current year	**(2,910)**	(5,686)
Income tax expense	**23,483**	13,823

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2018 US$'000	2017 US$'000
Profit before taxation	**43,850**	25,095
National tax on profit before taxation calculated at rates applicable to profits in the countries concerned	**16,676**	9,881
Tax effect of the expenses not deductible for tax purpose	**5,381**	5,410
Tax effect of income not taxable for tax purpose	**(5,657)**	(550)
Tax effect of unrecognised temporary difference	**(2,910)**	(5,686)
Special tax relief	**(367)**	(5)
Tax effect of tax loss not recognised	**10,360**	4,773
	23,483	13,823

9. 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) For the year ended 31 December 2017, Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC were liable to PRC Enterprise Income Tax ("EIT") at a tax rate of 25% for the years ended 31 December 2018 and 2017.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada were liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the years ended 31 December 2018 and 2017.

(e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK were liable to UK CIT at a tax rate of 19% for the year ended 31 December 2018 and the nine months ended 31 December 2017. The Group took advantage of Video Games Tax Relief which was tax relief of 25% of qualifying expenditure on qualifying video games as certified by the British Film Institute. Qualifying expenditure is 80% of development costs incurred within the European Economic Area.

(f) Pursuant to the income tax rules and regulations of US, the companies comprising the Group in US were liable to the US Tax Cuts and Jobs Act ("Tax Act"), the Tax Act reduces the federal corporate tax rate from 35% to 21% for the year ended 31 December 2018.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2018 would not be distributed in the foreseeable future (2017: Nil).

10. DISCONTINUED OPERATIONS

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

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

Loss from the discontinued operations were as follows:

	2017 US$'000
Loss for the year (Note 10(a))	(40)
Loss on disposal of subsidiaries (Note 10(d))	(986)
Loss from discontinued operations (Note 15)	(1,026)

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

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

10. DISCONTINUED OPERATIONS (CONTINUED)

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

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

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

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

(d) Disposal of subsidiaries

Analysis of assets and liabilities over which control was lost:

	2017 US$'000
Net liabilities disposed of	
Property, plant and equipment (Note 17)	13
Prepayment and other receivables	12,156
Cash and cash equivalents (Note 10(e))	9
Accruals and other payables	(25)
Amount due to the Group	(12,979)
	(826)
Loss on disposal of subsidiaries	
Net liabilities disposed of	826
Consideration	11,836
Cumulative exchange gain in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	(669)
Waiver of amount due to the Group	(12,979)
	(986)

10. DISCONTINUED OPERATIONS (CONTINUED)

(e) Net cash inflow on disposal of subsidiaries

	2017 US$'000
Analysis of net cash flow in respect of the disposal of subsidiaries is as follows:	
Cash consideration received	11,836
Cash and cash equivalents disposed of (Note 10(d))	(9)
Net cash inflow from disposal of subsidiaries	11,827

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

Continuing operations

	2018 **US$'000**	2017 US$'000
Staff costs including Directors' remuneration (Note 12)	**24,121**	17,156
Equity-settled share-based payment expenses	**4,377**	12,528
Retirement schemes benefits	**1,291**	940
Total staff costs	**29,789**	30,624
Depreciation of property, plant and equipment (Note 17)	**1,523**	520
Amortisation of intangible assets (Note 19)	**18,467**	20,364
Amortisation of development expenditure (Note 20)	**3,048**	–
Total depreciation and amortisation	**23,038**	20,884
Cost of inventories recognised as expenses	**181**	193
Auditors' remuneration		
– Audit service	**223**	218
– Other service	**20**	45
Operating lease rental expenses	**2,799**	2,737
Net loss on disposal of property, plant and equipment	**–**	6
Loss on disposal of AFS financial assets	**–**	2
Impairment of intangible assets (Note 19)	**4,896**	4,872
Impairment of development expenditure (Note 20)*	**4,360**	–
Allowance for expected credit loss recognised in respect of trade receivables (Note 24)**	**1,379**	–
Allowance for expected credit loss recognised in respect of deposits and other receivables (Note 25)**	**3,298**	954

* Included in cost of sales in the consolidated statement of profit or loss

** Included in administrative expenses in the consolidated statement of profit or loss

11. PROFIT BEFORE TAXATION (CONTINUED)

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

	2018 US$'000	2017 US$'000
Proceeds on sales	–	8,414
Less: Cost of sales	–	(12,249)
Net realised loss on financial assets at fair value through profit or loss	–	(3,835)
Unrealised loss on financial assets at fair value through profit or loss	(23,743)	(2,120)
Net loss on financial assets at fair value through profit and loss	(23,743)	(5,955)

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	2018 US$'000	2017 US$'000
Directors' fees	141	97
Other emoluments:		
Salaries, allowances and benefits in kind	800	882
Discretionary bonus	51	229
Retirement schemes contributions	6	5
Equity-settled share-based payment expenses	–	3,662
	857	4,778
	998	4,875

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

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

For the year ended 31 December 2018

	Directors' fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonus US$'000	Retirement scheme contributions US$'000	Equity-settled share-based payment expenses US$'000	Total US$'000
Executive directors:						
Mr. Xu Yiran *(Chairman and CEO)* (Note (a))	–	613	51	2	–	666
Mr. Li Yang *(Deputy Chairman)* (Note (b))	–	65	–	–	–	65
Mr. Gu Zhenghao (Note (c))	–	61	–	2	–	63
Mr. Cao Bo (Note (d))	–	61	–	2	–	63
	–	800	51	6	–	857
Non-executive directors:						
Mr. Eric Todd	15	–	–	–	–	15
Mr. Li Zhigang (Note (e))	38	–	–	–	–	38
Mr. Cheng Chi Ming Brian (Note (f))	43	–	–	–	–	43
	96	–	–	–	–	96
Independent non-executive directors:						
Mr. Hu Chung Ming	15	–	–	–	–	15
Mr. Chan Chi Yuen	15	–	–	–	–	15
Mr. Kwan Ngai Kit (Note (g))	15	–	–	–	–	15
	45	–	–	–	–	45
	141	800	51	6	–	998

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

For the year ended 31 December 2017

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

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

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

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

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

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

Notes:

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

(b) Mr. Li Yang has been appointed as a deputy chairman of the board and an executive director dated on 23 November 2018.

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

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

(e) Mr. Li Zhigang has been appointed as a non-executive director of the board dated on 5 September 2017. Mr. Li has been resigned as a non-executive director of the board dated on 15 November 2018.

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

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

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

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

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

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

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

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

The remuneration shown above represents remuneration received and receivable from the Group by these Directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the years ended 31 December 2018 and 2017 respectively. None of the Directors agreed to waive or waived any emoluments during the year (2017: Nil).

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

13. EMPLOYEES EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year included one director (2017: one) whose emolument is stated in Note 12. The emoluments of the remaining four (2017: four) highest paid individuals whose emoluments are reflected in the analysis below:

	2018	2017
	US$'000	US$'000
Salaries, allowances and benefits in kind	**2,622**	3,416
Equity-settled share-based payment expenses	**–**	2,433
Retirement schemes contributions	**5**	13
	2,627	5,862

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

	For the year ended 31 December	
	2018	2017
HK$2,000,001 to HK$2,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**2**	1
HK$5,500,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,500,001 to HK$8,000,000	**–**	1
HK$8,001,000 to HK$8,500,000	**2**	1

During the reporting period, no emoluments were paid by the Group to the Directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil). None of the chief executive and Directors waived or agreed to waive any emoluments during the reporting period (2017: Nil).

14. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

15. EARNINGS PER SHARE

Continuing and discontinued operations

	2018 **US$'000**	2017 US$'000
Earnings		
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	**20,413**	8,808

Continuing operations

	2018 **US$'000**	2017 US$'000
Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	**20,413**	8,808
Add: Loss for the year from discontinued operations (Note 10)	**–**	1,026
Profit for the purpose of basic earnings per share from continuing operations	**20,413**	9,834

Discontinued operations

For the year ended 31 December 2017, basic and diluted loss per share for discontinued operations attributable to the owners of the Company was US0.04 cents per share, based on loss for the year of US$1,026,000.

15. EARNINGS PER SHARE (CONTINUED)

Weighted average number of ordinary shares

During the years ended 31 December 2018 and 2017, the weighted average number of ordinary shares used as denominator in calculating earnings per share was as follows:

	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**3,067,831**	2,932,229
Effect of dilutive potential ordinary shares:		
– Share options (Note)	**22,783**	274
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**3,090,614**	2,932,503

Note:

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercised price lower than the average market price during the years ended 31 December 2018 and 2017 and with the adjustment for the share options lapsed or exercised.

16. DEFERRED TAXATION

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

Deferred tax liabilities

	Property, plant and equipment US$'000	Intangible assets US$'000	Total US$'000
As at 1 January 2017	221	16,008	16,229
Fair value adjustment from acquisition of subsidiaries (Note 36(a))	–	1,836	1,836
Credited to profit or loss (Note 9)	503	(6,189)	(5,686)
Exchange alignment	31	1,085	1,116
As at 31 December 2017 and 1 January 2018	755	12,740	13,495
Credited to profit or loss (Note 9)	1,345	(4,255)	(2,910)
Exchange alignment	(456)	(1,061)	(1,517)
At 31 December 2018	**1,644**	**7,424**	**9,068**

Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of US$99,014,000 (2017: US$46,521,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost				
As at 1 January 2017	–	5,302	96	5,398
Additions	–	4,231	–	4,231
Disposals	–	(573)	(96)	(669)
Acquired through business combination (Note 36)	–	1,228	–	1,228
Derecognised on disposal of subsidiaries (Note 10(d))	–	(51)	–	(51)
Exchange alignment	–	549	–	549
As at 31 December 2017 and 1 January 2018	–	10,686	–	10,686
Additions	17,272	2,682	93	20,047
Disposals	–	(1,769)	–	(1,769)
Acquired through acquisition of assets (Note 37)	16,824	518	–	17,342
Exchange alignment	(27)	(782)	–	(809)
As at 31 December 2018	**34,069**	**11,335**	**93**	**45,497**
Accumulated depreciation				
As at 1 January 2017	–	3,097	96	3,193
Provided for the year	–	528	–	528
Eliminated on disposal	–	(340)	(96)	(436)
Acquired through business combination (Note 36)	–	1,025	–	1,025
Eliminated on disposal of subsidiaries (Note 10(d))	–	(38)	–	(38)
Exchange alignment	–	293	–	293
As at 31 December 2017 and 1 January 2018	–	4,565	–	4,565
Provided for the year (Note 11)	73	1,431	19	1,523
Eliminated on disposal	–	(194)	–	(194)
Exchange alignment	–	(342)	–	(342)
As at 31 December 2018	**73**	**5,460**	**19**	**5,552**
Net carrying amount				
As at 31 December 2018	**33,996**	**5,875**	**74**	**39,945**
As at 31 December 2017	–	6,121	–	6,121

Note:

As at 31 December 2018, all of the Group's leasehold land and buildings have been pledged to secure banking facilities of the Group (2017: no property, plant and equipment are pledged as collaterals for the Group's bank borrowings).

18. GOODWILL

	2018 US$'000	2017 US$'000
Cost		
At the beginning of the year	**127,641**	27,443
Additional amount recognised from business combination occurring during the year (Note 36)	**–**	91,699
Exchange alignments	**(8,278)**	8,499
At the end of the year	**119,363**	127,641
Accumulated impairment loss		
At the beginning of the year	**–**	–
Impairment loss recognised during the year	**42,944**	–
Exchange alignments	**–**	–
At the end of the year	**42,944**	–
Net carrying amount at the end of year	**76,419**	127,641

Allocation of goodwill to cash-generating units

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

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

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

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

	2018 US$'000	2017 US$'000
Digital Extreme	**27,041**	29,352
Splash Damage Group	**91,952**	97,924
Guangzhou Radiance	**370**	365
	119,363	127,641

18. GOODWILL (CONTINUED)

Allocation of goodwill to cash-generating units (continued)

The recoverable amounts of the CGUs were determined on the basis of value in use calculation. The calculation uses cash flow projection based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The Group engaged Royson Valuation Advisory Limited and APAC Appraisal and Consulting Limited, independent valuers, as the valuers to perform the valuations of the CGUs of the Group as at 31 December 2018 and 2017.

Notes:

Set out below are information on the valuation method, details of the value of inputs used in the valuation, key assumption, details of the value of inputs used in the valuation, key assumption adopted by the valuer for performing the impairment assessment of the CGUs as at 31 December 2018 and 2017:

	Digital Extreme	Splash Damage Group	Guangzhou Radiance
Valuation method	Discounted cash flow	Discounted cash flow	Discounted cash flow
Major parameters on valuation			
(a) Expected compound annual growth	2018: 3%	2018: 15%	2018: 30%
rate in sales	2017: 12%	2017: 20%	2017: 75%
(b) Expected annual net profit margin	2018: 36%	2018: Ranged from 12% to 20%	2018: Ranged from 41% to 64%
	2017: Ranged from 32% to 35%	2017: Ranged from 19% to 29%	2017: Ranged from 30% to 59%
(c) Corporate tax rate	2018: 26.5%	2018: 19%	2018: 25%
	2017: 26.5%	2017: 19%	2017: 25%
(d) Weighted average cost of capital	2018: 21%	2018: 22%	2018: 28%
(pre-tax)	2017: 23%	2017: 20%	2017: 27%
(e) Terminal growth rate	2018: 3%	2018: 3%	2018: 3%
	2017: 3%	2017: 3%	2017: 3%

The valuation methodology and assumptions were consistently adopted and applied in the valuations conducted by the respective valuers. The board of directors and audit committee of the Group considered that the basis and assumptions used for preparing the cash flow projection and the valuation methodology, basis and assumptions used for preparing the valuation report were reasonable and appropriate.

The carrying amounts of goodwill at the end of the reporting period were approximately US$76,419,000 (2017: US$127,641,000) and impairment loss approximately of US$42,944,000 was recognised during the year ended 31 December 2018 (2017: Nil). The impairment was due to the decrease in recoverable amount of Splash Damage Limited and its subsidiaries ("Splash Damage Group"), taking account of the repositioning of business of the Splash Damage Group from developing both own IP games and work-for-hire business to focusing on standalone work-for-hire business. The recoverable of the Splash Damage Group was based on value in use calculation. The calculation based on the profit forecast approved by the management covering five-year period and a discount rate of 22% (2017: 20%) per annum which reflects current market assessment.

Any assumptions in value in use calculation will lead to further losses of impairment.

19. INTANGIBLE ASSETS

	2018 US$'000	2017 US$'000
Cost		
At the beginning of the year	**110,822**	84,292
Acquisition through business combinations (Note 36(a))	**–**	15,615
Additions	**1,029**	3,998
Exchange alignment	**(8,081)**	6,917
At the end of the year	**103,770**	110,822
Accumulated amortisation and impairment		
At the beginning of the year	**52,909**	23,883
Acquisition through business combinations (Note 36(a))	**–**	1,489
Charge for the year (Note 11)	**18,467**	20,364
Impairment during the year (Note 11)*	**4,896**	4,872
Exchange alignment	**(4,018)**	2,301
At the end of the year	**72,254**	52,909
Net carrying amount	**31,516**	57,913

* As a result of the under-performance of a developed game, the Directors determine the recoverable amount of the developed game was minimal, an impairment of intangible assets of US$4,896,000 was recognised during the year ended 31 December 2018 (2017: US$4,872,000).

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

19. INTANGIBLE ASSETS (CONTINUED)

Cost of intangible assets:

	2018 **US$'000**	2017 US$'000
Brand name	**9,584**	10,207
Completed game	**62,676**	68,031
Game engine	**11,422**	10,658
Game under development	**19,972**	21,828
Trademark	**116**	98
Total	**103,770**	110,822

20. 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.

	2018 **US$'000**	2017 US$'000
At the beginning of the year	**12,364**	624
Additions	**43,601**	11,697
Amortisation during the year (Note 11)	**(3,048)**	–
Impairment during the year (Note 11)*	**(4,360)**	–
Exchange alignment	**(260)**	43
At the end of the year	**48,297**	12,364

* As a result of the under-performance of a game, the Directors determine the recoverable amount of this game related development expenditure is minimal, an impairment loss of US$4,360,000 was recognised during the year ended 31 December 2018 (2017: Nil).

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 **US$'000**	2017 US$'000
Unlisted equity securities outside HK	**–**	8,100
Analysis for reporting purposes as:		
Non-current assets	**–**	8,100

Available-for-sale financial assets were reclassified to equity securities designated at fair value through other comprehensive income upon the initial application of HKFRS 9 at 1 January 2018 (see Note 2).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income comprise the equity security which is not held for trading, and which the Group has irrevocably elected at initial recognition to recognised in this category. This are strategic investment and the Group considers this classification to be more relevant.

	2018	2017
	US$'000	US$'000
Non-current assets		
Unlisted equity securities outside HK	**9,100**	–

The following is a list of financial assets at fair value through other comprehensive income as at 31 December 2018 and 2017:

Name of equity	Proportion share capital owned as at 31 December 2018	2017	Cost of investment	Fair value as at 31 December 2018	Fair value as at 31 December 2017
	%	%	US$'000	**US$'000**	US$'000
Certain Affinity, LLC ("Certain Affinity") (Note)	**20**	20	8,100	**9,100**	–

Note:

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

On 15 October 2017, the Company and Certain Affinity have entered into (i) the sale and purchase agreement pursuant to which the Company has agreed to purchase series A preferred stock representing 20% of the issued share capital of Certain Affinity at a total consideration of US$10 million ("Sale and purchase agreement in Certain Affinity"); and (ii) the game development agreement pursuant to which Certain Affinity shall, under the direction of, and with input and cooperation from the Company, develop and produce for the Company the game based on certain intellectual property. The transaction was completed on 30 October 2017. At 31 December 2017, the consideration comprising of available-for-sale financial assets and financial assets at fair value through profit or loss amounted to US$8,100,000 and US$1,900,000, respectively. Further details of the transaction were set out in the announcement of the Company dated 16 October 2017. This investment was reclassified to financial assets at fair value through other comprehensive income upon the initial application of HKFRS 9 at 1 January 2018 (see Note 2).

The fair value of investment in Certain Affinity at 31 December 2018 was determined by the Directors by reference to the valuation carried out by an external independent valuer by using the discounted cash flow method which is based on the cash flow projections prepared by management of Certain Affinity derived from the most recent approved financial budgets for the next 5 years. The cash flows beyond 5 year period are extrapolated using a growth rate of 3% (2017: 3%).

The Group is unable to exercise significant influence over Certain Affinity as the Group do not have the power to appoint any of its director and do not participate in its policy-making processes. The investment in Certain Affinity is not accounted for as associates of the Group.

23. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2018 **US$'000**	2017 US$'000
Merchandise goods	**174**	285

24. TRADE RECEIVABLES

	2018 **US$'000**	2017 US$'000
Trade receivables	**45,670**	31,538
Less: Allowance for credit loss (Note 40(b))	**(1,373)**	–
	44,297	31,538

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

	2018 **US$'000**	2017 US$'000
Within 30 days	**32,022**	29,786
31 days to 60 days	**3,706**	374
61 days to 180 days	**8,563**	110
Over 180 days	**6**	1,268
	44,297	31,538

As of 31 December 2017, trade receivables of US$1,378,000 were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 US$'000
Overdue by:	
1 day to 120 days	110
Over 120 days	1,268
	1,378

As at 31 December 2017, no trade receivables was impaired and had been fully provided for.

24. TRADE RECEIVABLES (CONTINUED)

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

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 40(b).

25. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	2018 **US$'000**	2017 US$'000
Deposits paid and prepayments	**8,132**	2,498
Amounts due from directors of subsidiaries (Note 41(b))	**142**	333
Other receivables	**12,137**	16,619
	20,411	19,450
Less: Allowance for credit loss (Note 40(b))	**(3,298)**	–
	17,113	19,450

Further details on the Group's credit policy and credit risk arising from deposits and other receivable are set out in Note 40(b).

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 **US$'000**	2017 US$'000
Held for trading:		
– Listed equity securities in HK (Note (a))	**1,333**	–
Derivative financial instruments, at fair value (Note (b))	**2,400**	1,900
Interest rate swap (Note (c))	**127**	–
Equity accumulator contract in Canada (Note (d))	**4,662**	–
	8,522	1,900

Notes:

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

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

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Notes: (continued)

(b) Derivative financial instruments, at fair value

Pursuant to Sale and purchase agreement in Certain Affinity, the Group was granted with a call option ("Call Option"), whereby the Group has the discretion to acquire the remaining equity interest in Certain Affinity at a consideration of US$1, which is exercisable within 3 months following the receipt of Certain Affinity's audited financial statements for the year ending 31 December 2020. As at 31 December 2018 and 2017, the fair values of the Call Option were US$2,400,000 and US$1,900,000, respectively, which were determined by an independent valuer based on binomial option pricing model. The key inputs into the model for the value of the option are as follows:

	2018	2017
80% of equity value (US$'000)	**40,666**	36,195
Maturity	**2.5 years**	3.5 years

(c) Interest rate swap

During the year, the Company entered into interest rate swap contract which was non-hedging derivative and was classified as current assets. For information about the methods and assumptions used in determining the fair value of derivative, please refer to Note 40(c).

The notional amount of the outstanding interest rate swap contracts as at 31 December 2018 was HK$189,586,800 (2017: Nil).

(d) Equity accumulator contract in Canada

On 20 November 2018, the Group has entered into a prepaid range bonus accumulator with guaranteed payment with maturity date on 20 November 2019.

Based on the prepaid range bonus accumulator contract, the Group has an obligation to buy a specified amount of the CAD at specific date every month (the "Affected Date") up to the maturity date. If the spot exchange rate on the Affected Date is (i) less than when spot exchange rate is greater than or equal to CAD1.2650 per USD and less than or equal to CAD1.3800 per USD ("the Bonus Payout Range"), the Counterparty shall receive the USD repayment amount plus the guaranteed payment amount; (ii) within the Bonus Payout Range, the Group will receive the USD repayment amount plus the guaranteed payment amount and the Bonus Payout Amount; and (iii) greater than the Bonus Payout Range, the Group shall receive the CAD repayment amount plus the guaranteed payment amount. All other terms and conditions of the transaction shall remain in effect.

27. CASH AND BANK BALANCES

	2018 US$'000	2017 US$'000
Cash and bank balances	**32,658**	45,898

Cash and bank balances comprise cash held by the Group during the year. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of US$764,000 (2017: US$1,525,000) which are not freely convertible into other currencies.

28. TRADE PAYABLES

	2018 US$'000	2017 US$'000
Trade payables	**2,109**	1,977

The ageing analysis of trade payables is as follows:

	2018 US$'000	2017 US$'000
Within 30 days	**1,660**	1,591
31 days to 90 days	**394**	286
91 days to 180 days	**1**	100
Over 180 days	**54**	–
	2,109	1,977

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

29. ACCRUALS AND OTHER PAYABLES

	2018 US$'000	2017 US$'000
Accruals and other payables	**11,146**	8,094

30. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	2018 US$'000	2017 US$'000
Secured:		
Term loan (Note (a))	**20,754**	–
Mortgage loans (Note (b))	**13,225**	–
Revolving loan (Note (c))	**8,301**	–
	42,280	–

At 31 December 2018, the bank borrowings were repayable as follows:

	2018 US$'000	2017 US$'000
Within 1 year or on demand	**42,280**	–

30. BANK BORROWINGS (CONTINUED)

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

	2018 US$'000	2017 US$'000
HK dollars	21,526	–
US dollars	20,754	–
	42,280	–

Notes:

The secured bank borrowings were secured by leasehold land and buildings included in property, plant and equipment with carrying amounts of US$33,996,000 (2017: Nil) and a corporate guarantee given by a subsidiary of the Company for an amount up to US$25,000,000 (2017: not applicable).

Particulars of each bank borrowing are as follows:

(a) Term loan

The term loan is scheduled for repayment in June 2021. In addition, the related loan agreements contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion. Accordingly, the term loan is classified as current liability in the consolidated statement of financial position. The term loan carries interest at Hong Kong Interbank Offer Rate ("HIBOR") plus 3.9%. The effective interest rate as at 31 December 2018 was ranged from 4.9% to 6.0% per annum.

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

(b) Mortgage loans

The mortgage loans carry interest at HIBOR plus 1.2%. The effective interest rate as at 31 December 2018 was 2.40% per annum.

(c) Revolving loan

On 26 November 2018, the Company entered into a revolving loan facility of up to HK$65,000,000 (equivalent to approximately US$8,333,000) for a term of one year. The revolving loan was intended for general corporate funding purposes of the Company. The revolving loan carries interest at HIBOR plus 0.9%. The effective interest rate as at 31 December 2018 was 2.58% per annum. As at 31 December 2018, the Company had fully utilised the banking facilities.

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

31. DEFERRED REVENUE

	2018 US$'000	2017 US$'000
Arising from sale of virtual currency (Note)	–	10,011
Arising from license fee received	–	527
	–	10,538

Analysed for reporting purposes as:

	2018 US$'000	2017 US$'000
Current liabilities	–	8,898
Non-current liabilities	–	1,640
	–	10,538

Note:

As at 31 December 2017, deferred revenue comprised receipt from sale of virtual currency through their online game that is being recognised through profit and loss over the average estimated paying player life.

Deferred revenue was reclassified to contract liabilities upon the initial application of HKFRS 15 at 1 January 2018 (see Note 2).

32. CONTRACT LIABILITIES

	2018 US$'000	2017 US$'000
Arising from sale of virtual currency (Note)	**14,770**	–

Note:

As at 31 December 2018, contract liabilities comprised receipt from sale of virtual currency through their online game that is being recognised through profit or loss over the average estimated paying player life.

Contract labilities was reclassified from deferred revenue upon the initial recognition of HKFRS 15 at 1 January 2018 (see Note 2).

32. CONTRACT LIABILITIES (CONTINUED)

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sale of virtual currency of online games US$'000
Revenue recognised from performance obligations satisfied in prior periods:	
Incomes from sales of virtual currency of online game, not previously recognised due to the constraint	8,898

33. DEBENTURE

	2018 **US$'000**	2017 US$'000
Unsecured debenture at 5%	**588**	568

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

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

34. SHARE OPTION SCHEME

During the year ended 31 December 2017, the share option which was adopted by the Company on 17 December 2010 was terminated and a new share option scheme (the "Share Option Scheme") was adopted by the Company. Summaries of the Share Option Scheme are set out below:

The Company adopted the Share Option Scheme on 25 August 2017.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of the participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

The participants of the Share Option Scheme to whom options may be granted by the board shall include any employee, consultant, advisor, agent, contractor, client or supplier who in the sole discretion of the board has contributed or is expected to contribute to the Group.

During the period commencing one month immediately preceding the earlier of (a) the date of the board meeting for approval of the Company's interim or annual results or (b) the failure of the Company to publish its interim or the annual results announcement under the Listing Rules and ending on the date of the results announcement, no option should be granted.

The subscription price per share shall be rounded upwards to the nearest whole cent. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The subscription price for the shares under the Share Option Scheme will be a price determined by the board in its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the higher of (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (2) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; or (3) the nominal value of HK$0.10 of each share.

The total number of the shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue.

34. SHARE OPTION SCHEME (CONTINUED)

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. No offer may be made under the Share Option Scheme if this will result in the aforementioned limit being exceeded.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carrying neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the year:

				Number of share options				
Category of grantee	**Exercise price per share option**	**Date of grant**	**Exercisable period**	**As at 1 January 2018**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2018**
Executive Directors								
Mr. Xu Yiran	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	29,246,800	–	–	–	29,246,800
Mr. Gu Zhenghao	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	29,246,800	–	–	–	29,246,800
Sub-total				58,493,600	–	–	–	58,493,600
Employees	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	43,870,200	–	–	(14,623,400)	29,246,800
	HK$1.91	24 October 2017	24 October 2018 to 24 October 2022	29,246,791	–	–	–	29,246,791
	HK$1.91	24 October 2017	24 October 2019 to 24 October 2022	29,246,791	–	–	–	29,246,791
	HK$1.91	24 October 2017	24 October 2020 to 24 October 2022	29,246,818	–	–	–	29,246,818
Sub-total				131,610,600	–	–	(14,623,400)	116,987,200
Consultants	HK$1.91	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	87,740,400	–	–	–	87,740,400
Total				277,844,600	–	–	(14,623,400)	263,221,200

34. SHARE OPTION SCHEME (CONTINUED)

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

34. SHARE OPTION SCHEME (CONTINUED)

Notes:

(a) The share options were vested upon granted.

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

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

During the year ended 31 December 2017, the Company granted 277,844,600 share options under the Share Option Scheme on 24 October 2017. The fair value of the options determined at the date of grant using the binomial option pricing model was US$19,995,000.

During the year ended 31 December 2017, the share option scheme adopted on 17 December 2010 was terminated.

Fair value of share options granted during the year ended 31 December 2017

The weighted average of fair value of the share options granted during the financial year ended 31 December 2017 is US$0.072. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations.

Inputs into the model	Start from 24 October 2020	Start from 24 October 2019	Start from 24 October 2018	Start from 24 October 2017
Grant date share price (HK$)	1.88	1.88	1.88	1.88
Exercise price (HK$)	1.91	1.91	1.91	1.91
Expected volatility	58.30%	58.30%	58.30%	58.30%
Option life	5 years	5 years	5 years	5 years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	1.90%	1.90%	1.90%	1.90%

34. SHARE OPTION SCHEME (CONTINUED)

Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2018		2017	
	Number of options '000	**Weighted average exercise price HK$**	Number of options '000	Weighted average exercise price HK$
At the beginning of year	**277,845**	**1.91**	129,600	1.20
Granted during the year	**–**	**–**	277,845	1.91
Exercise during the year	**–**	**–**	(56,200)	1.20
Lapsed during the year	**(14,624)**	**1.91**	(73,400)	1.20
At the end of year	**263,221**	**1.91**	277,845	1.91

Share options outstanding at the end of the year

204,729,591 outstanding share options are exercisable at the end of the respective reporting period (2017: 190,104,200 outstanding share options are exercisable).

The share options outstanding at the end of the year had a weighted average exercise price of HK$1.91, and a weighted average remaining contractual life of 3.82 years.

35. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares	
		HK$'000	US$'000
Authorised:			
As at 1 January 2017, 31 December 2017, 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
Balance as at 31 December 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
Issue of shares on exercise of share options (Note (b))	56,200,000	5,620	722
Issue of shares by placing (Note (c))	146,230,000	14,623	1,872
Balance as at 31 December 2017 and 1 January 2018	3,070,910,000	307,091	39,597
Share repurchased and cancelled (Note (d))	(19,715,000)	(1,972)	(252)
Balance as at 31 December 2018	**3,051,195,000**	**305,119**	**39,345**

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 ended 31 December 2017.

(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 during the year ended 31 December 2017. The net proceeds of US$31,171,000 (equivalent to HK$243,000,000) was utilised by the Group as its general working capital.

(d) During the year ended 31 December 2018, the Company repurchased on the market a total of 19,715,000 ordinary shares of the Company for an aggregate consideration of HK$40,011,000 (equivalent to approximately US$5,101,000) (and incurred transaction costs of HK$164,000, equivalent to approximately US$21,000). All of these shares were cancelled on 5 November 2018. The premium payable and transaction costs on repurchases of shares were both charged to share premium account.

36. ACQUISITION OF SUBSIDIARIES

(a) Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group")

On 1 July 2016, Radius Maxima Limited ("Radius Maxima"), an indirectly wholly-owned subsidiary of the Company, entered into an equity transfer agreement and a supplemental agreement in relation to the acquisition of the entire equity interest of Splash Damage Group from Paul Wedgwood. Further details of the said transaction were set out in the announcements of the Company dated 3 July 2016 and 26 September 2016, respectively, and the circular of the Company dated 22 February 2017. The said acquisition was duly approved by the shareholders of the Company in an extraordinary general meeting on 9 March 2017. This transaction was completed on 31 March 2017, and accordingly, Splash Damage Group had since then become wholly-owned subsidiaries of Radius Maxima. Further details of the said transaction were set out in the announcement of the Company dated 31 March 2017.

The purchase consideration of US$109,100,000, which comprised advance payment and deferred payment in a total amount of US$45,000,000, adjustment payment of US$9,502,000 and earn-out consideration of US$54,598,000. The earn-out consideration consisted of the payments during the years ending 2017, 2018 and 2019, and shall not exceed US$105,000,000. A total of US$53,619,000 has been paid as purchase consideration during the year ended 31 December 2017.

36. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(a) Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group") (continued)

The net assets acquired in the transaction and the goodwill arising therefrom, are as follow:

	Fair value recognised on acquisition US$'000
Net assets acquired:	
Property, plant and equipment (Note 17)	126
Intangible assets (Note 19)	14,126
Trade receivables	3,555
Deposits paid, prepayments and other receivables	1,307
Amount due from a related party	1
Tax recoverable	2,352
Cash and bank balances	8,009
Trade payables	(146)
Accruals and other payables	(9,432)
Tax payable	(273)
Bank borrowings	(5)
Deferred tax liabilities (Note 16)	(1,836)
	17,784
Goodwill arising on acquisition (Note 18)	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)

36. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(a) Splash Damage Limited, Fireteam Limited and Warchest Limited (collectively named as "Splash Damage Group") (continued)

Acquisition-related costs of US$3,468,000 have been charged to administrative expenses in the consolidated statement of profit or loss during the year ended 31 December 2017.

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

Impact of acquisition on the results of the Group

Since the acquisition, Splash Damage Group contributed US$22,656,000 to the Group's revenue and profit of US$6,598,000 to the consolidated profits for the year ended 31 December 2017.

Had the acquisition of Splash Damage Group taken place at 1 January 2017, the Group's revenue for the year ended 31 December 2017 would have been US$28,126,000 and the consolidated profit for the year would have been US$9,202,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2017, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Splash Damage Group had been acquired at the beginning of the year, the Directors have calculated depreciation of property, plant and equipment and amortisation of intangible assets on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

Note:

Consideration payable are unsecured and interest-free.

There was no consideration payable as at 31 December 2018 (2017: US$52,765,000), of which none of initial consideration payable (2017: US$883,000) and the earn-out (2017: US$51,882,000) . At 31 December 2018, there was no earn-out consideration payable (2017: current: US$5,524,000 and non-current: US$46,358,000). During the year ended 31 December 2018, a gain on change in fair value of contingent consideration payable amounting to US$37,424,000 was recognised in profit or loss (2017: US$2,716,000). The earn-out is contingent consideration that would be payable if Splash Damage Group achieves the respective base year profit targets, calculated on a predetermined basis, during the designated periods of time.

The fair value of contingent consideration payable as at 31 December 2018 and 2017 are based on the valuation performed by an independent professional valuer not connected with the Group.

36. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) Guangzhou Radiance Software Technology Co. Ltd（廣州榮端軟件科技有限公司）("Guangzhou Radiance")*

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

The net assets acquired in the transaction and the goodwill arising therefrom, are as follow:

	Fair value recognised on acquisition US$'000
Net assets acquired:	
Property, plant and equipment (Note 17)	77
Deposits paid, prepayments and other receivables	82
Amount due from a related party	3
Cash and bank balances	1,206
Accruals and other payables	(147)
Tax payable	(12)
	1,209
Non-controlling interests	(592)
Goodwill arising on acquisition (Note 18)	383
Total consideration	1,000
Satisfied by:	
Cash	1,000
Net cash inflow arising on acquisition:	
Consideration paid in cash	(1,000)
Less: Cash and bank balances acquired	1,206
	206

36. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) Guangzhou Radiance Software Technology Co. Ltd（廣州榮端軟件科技有限公司）("Guangzhou Radiance")* (continued)

Acquisition-related costs of US$23,000 have been charged to administrative expenses in the consolidated statement of profit or loss during the year ended 31 December 2017.

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

Impact of acquisition on the results of the Group

Since the acquisition, Guangzhou Radiance contributed US$396,000 to the Group's revenue and loss of US$366,000 to the consolidated profit for the year ended 31 December 2017.

Had the acquisition of Guangzhou Radiance taken place at 1 January 2017, the Group's revenue for the year ended 31 December 2017 would have been US$1,824,000 and the consolidated profit for the year would have been US$101,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2017, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Guangzhou Radiance had been acquired at the beginning of the year, the Directors have calculated depreciation of property, plant and equipment on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

* For identification purpose only

37. ACQUISITION OF ASSETS

During the year ended 31 December 2018, Excellent Wish Limited ("Excellent"), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements with (A) Ms. Wu Laam Anne ("Ms. Wu"), wife of Mr. Yuk (the controlling shareholder of the Company) to acquire (i) the entire equity interests in Xiang Tian Limited (together with its sole subsidiary, Idea Charm Investments Limited, collectively, the "Xiang Tian Group"); (ii) the entire equity interests in Reach Affluent Limited (together with its sole subsidiary, Strong Achieve Limited, collectively, the "Reach Affluent Group"); and (iii) the shareholder's loan owed by Xiang Tian Group and Reach Affluent Group to Ms. Wu; and with (B) Cindic Holdings Limited, a company wholly-owned by Ms. Wu, to acquire a property, at a total consideration of HK$260,000,000 (equivalent to approximately US$33,228,000).

Xiang Tian Group and Reach Affluent Group are principally engaged in property holding and leasing in Hong Kong and as at the date of acquisition, each of Xiang Tian Group and Reach Affluent Group did not carry out any significant business transactions except for holding a property in Hong Kong.

The above acquisitions in respect of Xiang Tian Group and Reach Affluent Group have been accounted for by the Group as acquisition of assets as the entities acquired by the Group do not constitute a business.

Pursuant to the relevant sale and purchase agreements in respect of the acquisition of Xiang Tian Group and Reach Affluent Group, the aggregate consideration for the two groups was adjusted to HK$135,850,000 (equivalent to approximately US$17,362,000) based on the net asset values of Xiang Tian Group and Reach Affluent Group as at 30 November 2018 (date of acquisition). The net assets acquired by the Group in the above transactions are as follows:

	Xiang Tian Group US$'000	**Reach Affluent Group** US$'000	**Total** US$'000
Net assets acquired:			
Property, plant and equipment (Note 17)	10,633	6,709	17,342
Prepayments, deposits and other receivables	15	5	20
Bank balances	3	1	4
Accruals and other payables	(4)	–	(4)
	10,647	6,715	17,362
Satisfied by:			
Cash	10,647	6,715	17,362

37. ACQUISITION OF ASSETS (CONTINUED)

An analysis of the cash flows in respect of the acquisition of the entities is as follows:

	US$'000
Cash consideration	(17,362)
Bank balances acquired	4
Net cash outflow in respect of the acquisition of subsidiaries that are not constitute business	(17,358)

38. RETIREMENT BENEFIT PLANS

The Group operates a MPF Scheme for all qualifying employees in HK. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, this contribution is matched by employees.

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefits schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligations of the Group with respect to the retirement benefits schemes are to make the specified contributions.

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

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

The Group's subsidiary in the US participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, the Group's subsidiary matches voluntary employee's contribution at a rate of 100% for the first 6% of the employee's eligible compensation. Employee contributions are voluntary.

For defined contribution plans, the 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.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss in related to the continuing operation of approximately US$1,291,000 (2017: US$940,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of bank borrowings, debenture and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained earnings).

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of bank borrowings.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings (comprised of bank borrowings and debenture) with total assets. The Group's overall strategy remains unchanged during the reporting period. The gearing ratio at the end of each reporting periods were as follows:

	2018 **US$'000**	2017 US$'000
Total borrowings	**42,868**	568
Total assets	**310,703**	313,431
Gearing ratio (%)	**13.8%**	0.2%

40. FINANCIAL INSTRUMENTS AND FAIR VALUES

(a) Categories of financial instruments

	2018 US$'000	2017 US$'000
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**1,333**	–
– Derivative financial instruments	**2,400**	1,900
– Interest rate swap	**127**	–
– Equity accumulator contract in Canada	**4,662**	–
Available-for-sale financial assets	**–**	8,100
Financial assets at FVTOCI	**9,100**	–
Financial assets at amortised costs (including cash and bank balances)		
– Trade receivables	**44,297**	31,538
– Financial assets included in deposits paid, prepayments and other receivables	**11,873**	16,370
– Cash and bank balances	**32,658**	45,898
	106,450	103,806
Financial liabilities		
Amortised cost		
– Trade payables	**2,109**	1,977
– Financial liabilities included in accruals and other payables	**11,146**	8,094
– Debenture	**588**	568
– Bank borrowings	**42,280**	–
– Consideration payable	**–**	883
Financial liabilities at fair value through profit or loss		
– Contingent consideration payable	**–**	51,882
	56,123	63,404

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies

The Directors monitors and manages the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's major financial instruments include financial assets at fair value through profit or loss, financial assets at FVTOCI, trade receivables, financial assets included in deposits paid, prepayments and other receivables, cash and bank balances, trade payables, financial liabilities included in accruals and other payables, debenture, bank borrowings, consideration payable and financial liabilities at fair value through profit or loss. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

The Group has customers in various countries of the world and is expected to foreign exchange risk arising from various currency exposures, primarily with respect to US$. The Group currently does not hedge transactions undertaken in foreign currencies but manages its exposure through constant monitoring to limited as much as possible the amount of its foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

In addition, the Group's foreign exchange position is monitored on an ongoing basis in order to minimise the impact from the fluctuation of foreign currency rate. The Group currently does not maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is exposed to cash flow and fair value interest rate risks in relation to non-derivative financial assets and liabilities. The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of HIBOR arising from the Group's variable-rate secured bank borrowings (see Note 30 for details).

The Group manages its interest rate risk for variable-rate secured bank borrowings by entering into interest rate swaps to hedge against its exposures to interest rate on certain variable-rate secured bank borrowings. The management will continue to monitor the interest rate risk to the Group and take further actions by entering interest rate swaps to hedge against any foreseeable interest rate exposure, if necessary.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivatives instruments. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 (2017: 50) basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's profit before taxation and distribution to unitholders for the year ended 31 December 2018 would decrease/increase by US$211,000 (2017: Nil). This is mainly attributable to the Group's exposure to interest rates on its secured variable-rate secured bank borrowings which are not hedged and have an aggregate amount of US$42,280,000 (2017: Nil).

Credit risk

Credit risk is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The Group diversified business base ensures that there are no significant concentrations of credit risk for a particular customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk limited to trade receivables, deposits and other receivables and bank balances. which will cause the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 33% (2017: 32%) of the Group's accounts receivable was due from the Group's largest counterparty.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

Trade receivables

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 3 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Deposits and other receivables

The Group measures the loss allowance equal to 12-month ECL of deposits and other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group apply lifetime ECL based on aging for classes with different credit risk characteristics and exposures.

Cash and cash equivalents

As at 31 December 2018 and 2017, all cash and cash equivalents were deposited in state owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its computer and video games operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with credit-impaired with gross carrying amounts of US$45,670,000 as at 31 December 2018 were assessed individually.

	Average loss rate	Trade receivables	Loss allowance
		US$'000	US$'000
Low risk	0%	36,969	–
Watch list	14.29%	1	–
Loss	15.78%	8,700	1,373
		45,670	1,373

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided US$1,373,000 impairment allowance for trade receivables based on the provision matrix. Impairment allowance of US$1,373,000 was made on debtors with credit impaired.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) US$'000	Lifetime ECL (credit-impaired) US$'000	Total US$'000
As at 31 December 2017 under HKAS 39	–	–	–
Adjustment upon application of HKFRS 9	–	–	–
As at 1 January 2018 – As restated	–	–	–
Changes due to financial instruments recognised as at 1 January 2018:			
– Impairment losses recognised	–	1,379	1,379
Exchange alignment	–	(6)	(6)
As at 31 December 2018	–	1,373	1,373

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 1 year, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

Impairment loss on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The following tables show reconciliation of loss allowances that has been recognised for deposits and other receivables:

	Credit impaired 12-month ECL US$'000
As at 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	–
As at 1 January 2018 – As restated	–
Changes due to financial instruments recognised as at 1 January 2018:	
– Impairment losses recognised	3,298
As at 31 December 2018	3,298

During the year ended 31 December 2018, the Group provided US$3,298,000 impairment allowance for deposits and other receivables.

Liquidity risk

The Group is exposed to minimal liquid risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate %	On demand or within one year US$'000	More than one year but less than two years US$'000	More than two years but less than five years US$'000	More than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2018							
Non-derivative financial liabilities							
Trade payables	–	2,109	–	–	–	2,109	2,109
Accruals and other payables	–	11,146	–	–	–	11,146	11,146
Debenture	9.4	32	32	647	–	711	588
Bank borrowings	3.9	46,859	–	–	–	46,859	42,280
		60,146	32	647	–	60,825	56,123

	Weighted average interest rate %	On demand or within one year US$'000	More than one year but less than two years US$'000	More than two years but less than five years US$'000	More than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2017							
Non-derivative financial liabilities							
Trade payables	–	1,977	–	–	–	1,977	1,977
Accruals and other payables	–	8,094	–	–	–	8,094	8,094
Debenture	9.4	32	32	679	–	743	568
Consideration payable	–	6,407	20,305	30,416	–	57,128	52,765
		16,510	20,337	31,095	–	67,942	63,404

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value

Fair value hierarchy

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2018

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets				
Financial assets at fair value through profit or loss	1,333	4,789	2,400	8,522
Financial assets at fair value through other comprehensive income	–	–	9,100	9,100
	1,333	4,789	11,500	17,622

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Fair value hierarchy (continued)

As at 31 December 2017

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets				
Financial assets at fair value through profit or loss	–	–	1,900	1,900
Available-for-sale financial assets	–	–	8,100	8,100
	–	–	10,000	10,000
Financial liability				
Contingent consideration payable	–	–	51,882	51,882

Reconciliation of Level 3 fair value measurements of financial assets

	2018 **US$'000**	2017 US$'000
As at 1 January	**10,000**	–
Additions	**–**	10,000
Fair value gain in profit or loss	**500**	–
Fair value gain in other comprehensive income	**1,000**	–
As at 31 December	**11,500**	10,000

The above fair value gain included in the consolidated statement of profit or loss for the current year related to investment in financial assets at fair value through profit or loss held at the end of the reporting period.

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial liability

	2018 US$'000	2017 US$'000
As at 1 January	**51,882**	–
Addition	**–**	54,598
Settlement during the year	**(14,609)**	–
Fair value gain in profit or loss	**(37,424)**	(2,716)
Exchange alignment	**151**	–
As at 31 December	**–**	51,882

The financial liability subsequently measured at fair value on Level 3 fair value measurement represents contingent consideration relating to the acquisition of Splash Damage Group (see Note 36(a)). A gain on fair value of US$37,424,000 for the year ended 31 December 2018 (2017: US$2,716,000) relating to this contingent consideration has been recognised in profit or loss.

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial assets			
Financial assets at fair value through profit or loss – Derivative financial instruments outside HK 2018: US$2,400,000 2017: US$1,900,000	Level 3	Binomial option pricing model	• Risk-free rate (2.47%) (2017: 2.03%): 1% increase/(decrease) in risk-free rate would have no material impact on the fair value • Volatility (21%) (2017: 21%): 1% increase/(decrease) in volatility would have no material impact on the fair value • Equity value of Certain Affinity: A significant increase/(decrease) in the equity value of Certain Affinity would result in the significant increase/(decrease) in the fair value of derivative financial instruments
– Equity accumulator contract in Canada 2018: US$4,662,000 2017: Nil	Level 2	Monte Carlo Simulation – Risk-free rate (2.57%) – Volatility (6.92%)	• NA
– Listed equity securities in HK 2018: US$1,333,000 2017: Nil	Level 1	Quoted price in active market	• NA

40. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
– Interest rate swap 2018: US$127,000 2017: Nil	Level 2	Monte Carlo Simulation – Cap rate (4% per annum) – Floating rate (1.3%)	• NA
Financial assets at fair value through other comprehensive income (2017 categorised as available-for-sale financial assets)			
– Unlisted equity securities outside HK 2018: US$9,100,000 2017: US$8,100,000	Level 3	Discounted cash flow method	• Discount for credit risk (18.0%) (2017: 15.5%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US$600,000)/ US$800,000 (2017: (US$865,000)/US$1,119,000) • Estimated net profit of Certain Affinity: A significant increase/(decrease) in estimated net profit of Certain Affinity would result in the significant increase/(decrease) in the fair value of derivative financial instruments
Financial liability			
Financial liability at fair value through profit or loss			
– Contingent consideration payable 2018: Nil 2017: US$51,882,000	Level 3	Expected cash flow method	• Discount for credit risk (5%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US$800,000)/US$823,000 • Estimated profit before tax of Splash Damage Group: A significant increase/(decrease) in estimated profit before tax of Splash Damage Group would result in the significant increase/(decrease) in the fair value of contingent consideration payable

41. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions

Particulars of significant party transactions during the reporting period are as follows:

Name of company/party	Nature of transaction	Relationship	2018 US$'000	2017 US$'000
Cindic Holdings Limited ("Cindic Holdings")	Rental paid	Common shareholder in a related company (Note (a))	**337**	185
Mr. Yuk Kwok Cheung Charles ("Mr. Yuk")	Interest expense	Controlling shareholder of the company (Note (b))	**3**	–
Ms. Wu Laam Anne ("Ms. Wu")	Acquire for leasehold land and buildings	The relative of controlling shareholder of the company (Note (c))	**33,228**	–

Notes:

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

(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 year.

In the opinions 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.

(c) On 30 November 2018, Ms. Wu and Mr. Yuk entered into sale and purchase agreements with the Group, which Ms. Wu agreed to sell (i) the entire issued share capital of two target companies (Xiang Tian Group and Reach Affluent Group, respectively), including properties owned by the target companies with consideration of HK$135,850,000 (equivalent to approximately US$17,362,000); and (ii) Ms. Wu agreed to sell a property for a consideration of HK$124,150,000 (equivalent to approximately US$15,866,000). For detail, please refer to the Note 17 and 37.

41. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2018 US$'000	2017 US$'000
Amounts due from the directors of subsidiaries (Note 25)*	**142**	333

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

(c) Key management personnel remuneration

	2018 US$'000	2017 US$'000
Short term employee benefits	**307**	1,048
Retirement schemes contributions	**2**	9
	309	1,057

(d) For the connected transaction under Chapter 14A of the Listing Rules, please refer to the section headed "Connected Transactions and Related Party Transactions" under the "Report of the Directors" of this annual report.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

	2018 US$'000	2017 US$'000
Within one year	**5,724**	4,548
In the second to fifth years, inclusive	**13,953**	12,724
After the fifth years	**4,642**	7,759
	24,319	25,031

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

43. COMMITMENTS

	2018 US$'000	2017 US$'000
Commitments for:		
– development expenditure	**43,353**	24,638
– acquisition of property, plant and equipment	**–**	74
	43,353	24,712

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	**2018** **US$'000**	2017 US$'000
Non-current assets			
Property, plant and equipment		**8**	18
Intangible assets		**1,570**	–
Development expenditure		**37,720**	7,965
Available-for-sale financial assets		**–**	8,100
Financial assets at fair value through other comprehensive income		**9,100**	–
Investment in subsidiaries		**7**	7
		48,405	16,090
Current assets			
Deposits paid, prepayments and other receivables		**11,059**	15,782
Amounts due from subsidiaries		**159,572**	122,813
Financial assets at fair value through profit or loss		**3,860**	1,900
Cash and bank balances		**2,915**	20,730
		177,406	161,225
Current liabilities			
Accruals and other payables		**868**	1,473
Amounts due to subsidiaries		**56,272**	–
Bank borrowings		**42,280**	–
		99,420	1,473
Net current assets		**77,986**	159,752
Total assets less current liabilities		**126,391**	175,842
Equity			
Share capital		**39,345**	39,597
Reserves	45	**86,458**	135,677
Total equity		**125,803**	175,274
Non-current liabilities			
Debenture		**588**	568
		588	568
Total equity and non-current liabilities		**126,391**	175,842

Approved by the board of directors on 27 March 2019 and signed on its behalf by:

Mr. Xu Yiran	**Mr. Li Yang**
Executive Director	*Executive Director*

45. RESERVES OF THE COMPANY

	Share premium* US$'000	Exchange reserve US$'000	Available-for-sale financial assets/ financial assets at FVTOCI reserve US$'000	Share option reserve US$'000	Accumulated losses* US$'000	Total US$'000
As at 1 January 2017	133,559	(10)	–	4,707	(12,161)	126,095
Loss for the year	–	–	–	–	(38,953)	(38,953)
Other comprehensive loss for the year	–	(1,230)	–	–	–	(1,230)
Total comprehensive loss for the year	–	(1,230)	–	–	(38,953)	(40,183)
Issue of shares by placing (Note 35(c))	29,948	–	–	–	–	29,948
Transaction cost on placement of shares (Note 35(c))	(649)	–	–	–	–	(649)
Recognition of equity-settled share-based payment expenses	–	–	–	12,528	–	12,528
Exercise of share options (Note 35(b))	9,971	–	–	(2,033)	–	7,938
Lapse of share options	–	–	–	(2,674)	2,674	–
As at 31 December 2017 and 1 January 2018	172,829	(1,240)	–	12,528	(48,440)	135,677
Loss for the year	–	–	–	–	(49,306)	(49,306)
Other comprehensive (loss)/income for the year	–	(420)	1,000	–	–	580
Total comprehensive (loss)/income for the year	–	(420)	1,000	–	(49,306)	(48,726)
Repurchase and cancellation of shares (Note 35(d))	(4,849)	–	–	–	–	(4,849)
Transaction cost on repurchase of shares (Note 35(d))	(21)	–	–	–	–	(21)
Recognition of equity-settled share-based payment expenses	–	–	–	4,377	–	4,377
Lapse of share options	–	–	–	(881)	881	–
As at 31 December 2018	**167,959**	**(1,660)**	**1,000**	**16,024**	**(96,865)**	**86,458**

* As at 31 December 2018, the Company's reserves available for distributions to owners of the Company comprising share premium account less accumulated losses amounted to US$71,094,000 (2017: US$124,389,000).

46. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2018 are as follows:

Name of subsidiary	Place of incorporation /operation	Issued and paid up capital	Percentage of equity interest and voting power attributable to the Company Direct %	Indirect %	Principal activities
Dream Beyond Holdings Limited	BVI	US$1	100	–	Investment holding
Idea Charm Investments Limited	HK	HK$1	–	100	Property holding
Strong Achieve Limited	HK	HK$1	–	100	Property holding
Digital Extremes	Canada	CAD300	–	97	Development of video games
Digital Extremes US, Inc.	US	US$100	–	97	Marketing support activities
Radius Maxima Limited	UK	US$50,000	–	100	Investment holding
Splash Damage Limited	UK	GBP113	–	100	Development of video games
Fireteam Limited	UK	GBP1	–	100	Provision of online services, consultancy and back-end technologies
Warchest Limited	UK	GBP1	–	100	Publishing and operating competitive multiplayer games
Brilliant China International Holdings Limited	HK	HK$1	–	100	Investment holding
King Maker (Beijing) Technology Co., Ltd	PRC (Note 1)	HK$30,000,000	–	100	Development, operation and management of online games
Guangzhou Radiance	PRC (Note 2)	RMB2,048,000	–	51	Development of computer software and online games

Notes:

(1) King Maker (Beijing) Technology Co., Ltd is a wholly foreign owned enterprise.

(2) Guangzhou Radiance is a sino-foreign equity joint venture.

46. PRINCIPAL SUBSIDIARIES (CONTINUED)

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place and date of incorporation	Proportion of ownership interests and voting power held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
		%	%	**US$'000**	US$'000	**US$'000**	US$'000
Digital Extremes	Canada,17 September 2013	**3**	3	**2,240**	1,259	**5,146**	3,710

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2018	2017
	US$'000	US$'000
Non-current assets	**14,131**	9,588
Current assets	**129,211**	70,213
Current liabilities	**(37,723)**	(36,123)
Non-current liabilities	**(1,642)**	(2,395)
Total equity	**103,977**	41,283

	2018	2017
	US$'000	US$'000
Revenue	**194,481**	144,080
Cost of sales and expenses	**(108,771)**	(85,681)
Profit for the year	**85,710**	58,399
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**85,710**	58,399

	2018	2017
	US$'000	US$'000
Net cash inflow from operating activities	**41,823**	37,126
Net cash outflow from investing activities	**(18,417)**	(1,314)
Net cash outflow from financing activities	**(18,939)**	(37,455)
Net increase/(decrease) in cash and bank balances	**4,467**	(1,643)
Dividend paid to non-controlling interest	**609**	1,124

46. PRINCIPAL SUBSIDIARIES (CONTINUED)

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Liabilities from financing activities			
	Bond US$'000	Debenture US$'000	Bank borrowings US$'000	Total US$'000
As at 1 January 2017	(41,948)	(552)	–	(42,500)
Financing cash flows	41,875	(20)	5	41,860
Acquisition of subsidiaries (Note 36(a))	–	–	(5)	(5)
Exchange alignment	73	4	–	77
As at 31 December 2017 and 1 January 2018	–	(568)	–	(568)
Financing cash flows	–	(21)	(42,280)	(42,301)
Exchange alignment	–	1	–	1
As at 31 December 2018	**–**	**(588)**	**(42,280)**	**(42,868)**

48. COMPARATIVES

The comparative consolidated statement of profit or loss has been re-presented as the PRC segments were discontinued during the prior year. Certain comparative amounts have been reclassified to conform to the current year's presentation. In the opinion of the Directors, such reclassification provides a more appropriate presentation of the Group's business segments.

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method, comparative information is not restated. Further details of the changes in accounting policies as disclosed in Note 2.

49. EVENTS AFTER THE REPORTING PERIOD

Disposal of 31% of the issued share capital of Dreamscape Horizon Limited in return for consideration shares in Meitu, Inc. ("Meitu")

On 19 February 2019, Dream Beyond Holdings Limited ("Dream Beyond") (a direct wholly-owned subsidiary of the Company), the Company, Meitu (a company the shares of which are listed on the Stock Exchange) and Meitu Investment Ltd ("Meitu Investment") (a direct wholly-owned subsidiary of Meitu) entered into a sale and purchase agreement, pursuant to which, among other matters, Dream Beyond conditionally agreed to sell and Meitu Investment conditionally agreed to purchase 31% of the issued share capital of Dreamscape Horizon Limited (an indirect wholly-owned subsidiary of the Company) at a consideration of HK$2,686,577,470 (equivalent to approximately US$342,539,000) which shall be satisfied by the allotment and issue by Meitu to the Company of 991,357,000 new listed ordinary shares of Meitu.

The Company considers the above transaction to be in the interest of the Company as it will strengthen the strategic alliance between the Group and Meitu and its subsidiaries, which includes among other things, the design and development by the Group for Meitu of various large-scale online games and casual games, with reference to the age, gender and view and knowledge of the world of Meitu's large base of loyal users. On the other hand, with the massive user data of Meitu, the Group can better understand the preferences and habits of users, thereby developing and improving the existing products, expanding the user base horizontally, ultimately generating synergies and accelerating the penetration of the Group's online and causal games around the world.

Further details of the above transaction were set out in the announcements of the Company dated 28 January 2019 and 19 February 2019.

Investment agreement

On 7 March 2019, Famous Champion Limited (an indirect wholly-owned subsidiary of the Company) ("Famous Champion"), Chengyou (Shanghai) Development Company Limited ("Chengyou"), the two PRC individual owners of Chengyou (the "PRC Owners") and the Company entered into the investment agreement, pursuant to which, among other matters, (i) Famous Champion conditionally agreed to subscribe for approximately 70% of the equity interests in Chengyou by way of capital injection in the amount of RMB100,000,000 (equivalent to approximately US$14,910,000) into Chengyou's registered capital, and (ii) Famous Champion conditionally agreed to purchase and the PRC Owners conditionally agreed to sell 30% of the equity interests in Chengyou, free from encumbrances, at a consideration ranging between approximately RMB121,270,000 (equivalent to approximately US$18,081,000) to RMB200,000,000 (equivalent to approximately US$29,820,000).

The Company considers the above investment to be in the interest of the Company for the reasons that Chengyou, through contractual arrangements, owns and controls Xiangshan Dacheng Tianxia Culture Development Co. Ltd. ("Dacheng Tianxia") and its subsidiaries, which are engaged in the business of radio or television program and film production, and by investing in and controlling Chengyou, and hence Dacheng Tianxia and its subsidiaries, the Group will be able to utilise radio/television programs and film production to enrich the contents and proposition it can offer to the large base of loyal users of Meitu and its subsidiaries in the long run. The Group believes that this may broaden the income source and bring synergies to the existing game development and publishing business of the Group, and believes it will contribute towards the Group's strategic cooperation with Meitu.

Further details of the above cooperation were set out in the announcement of the Company dated 7 March 2019.

49. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Termination of memorandum of understanding in relation to a proposed acquisition

On 14 March 2019, the Company and an independent third party mutually agreed to terminate a memorandum of understanding entered into between them on 14 July 2017 ("MOU") in relation to a proposed purchase of the shares in a holding company which operates social causal games business through its subsidiaries. The Board considers that the termination of the MOU would not have any material adverse impact on the existing business operation and financial position of the Company. The Board will continue to explore other potential investment opportunities to strengthen the profitability of the Company.

Further details of the above termination were set out in the announcement of the Company dated 14 March 2019.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

Five-Year Financial Summary

A summary of the results of the Group for the last five financial years and of its assets, liabilities and non-controlling interests as at the end of the last five financial years, as extracted from the published audited consolidated financial statements in this annual report, is set out below:

	Year ended 31 December				
	2018	2017	2016	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000
Results					
Continuing operations					
Revenue	**227,720**	166,736	111,802	51,503	–
Profit/(loss) before taxation from continuing operations	**43,850**	25,095	19,099	5,625	(3,525)
Taxation	**(23,483)**	(13,823)	(9,549)	(6,103)	–
Profit/(loss) for the year from continuing operations	**20,367**	11,272	9,550	(478)	(3,525)
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**–**	(1,026)	4,530	(9,408)	1,938
Profit/(loss) for the year	**20,367**	10,246	14,080	(9,886)	(1,587)
Attributable to:					
Owners of the Company	**20,413**	8,808	8,132	(13,505)	(1,624)
Non-controlling interests	**(46)**	1,438	5,948	3,619	37
	20,367	10,246	14,080	(9,886)	(1,587)

	As at 31 December				
	2018	2017	2016	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000
Assets and liabilities					
Total assets	**310,703**	313,431	219,524	332,808	137,861
Total liabilities	**(79,961)**	(87,437)	(70,064)	(119,648)	(60,535)
	230,742	225,994	149,460	213,160	77,326
Total equity attributable to owners of the Company	**227,175**	221,553	146,110	177,595	75,083
Non-controlling interests	**3,567**	4,441	3,350	35,565	2,243
Total equity	**230,742**	225,994	149,460	213,160	77,326