

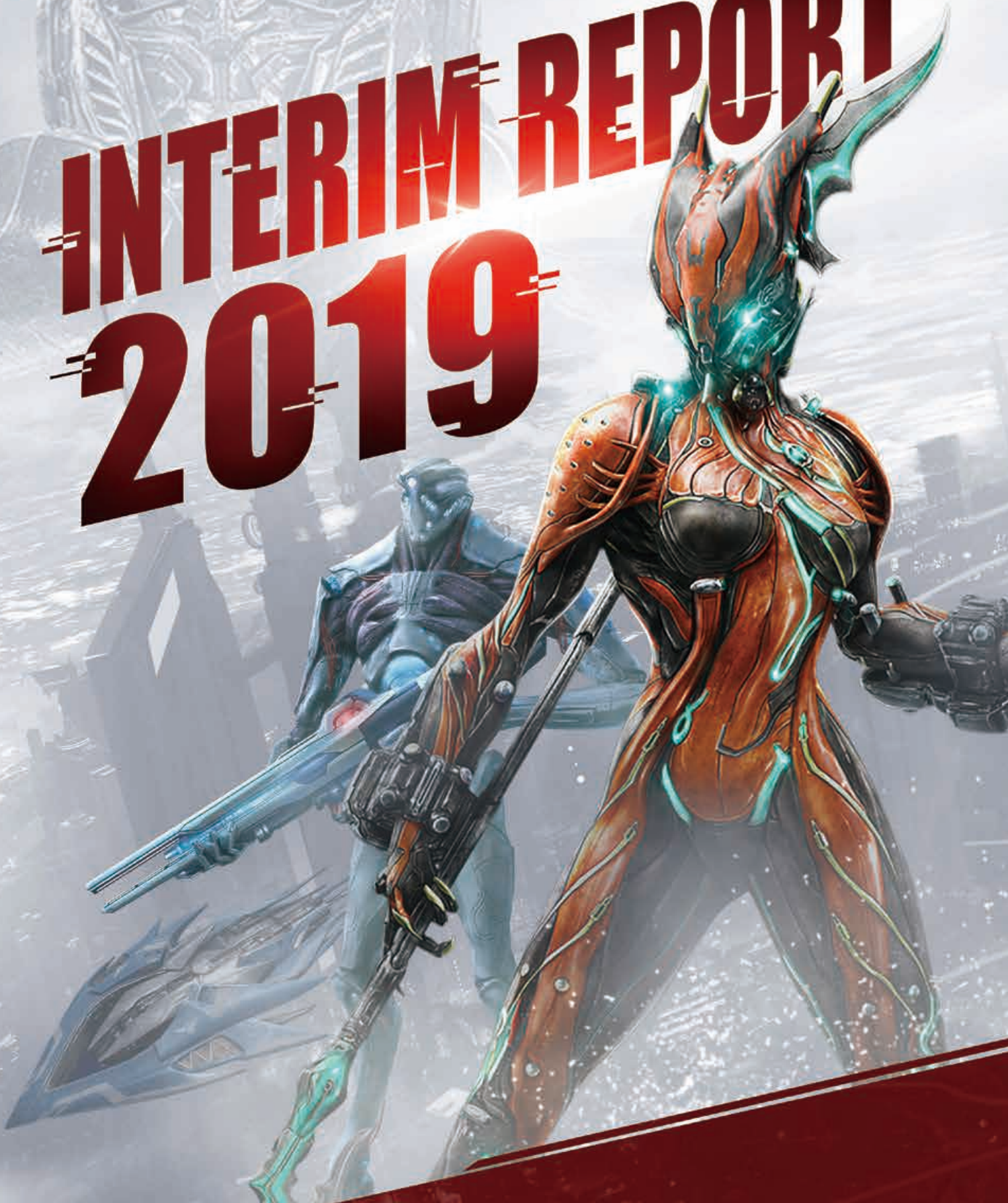


LEYOU TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1089

INTERIM REPORT 2019



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Corporate Information

DIRECTORS

Executive Directors

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

Mr. Li Yang (*Deputy Chairman*)

Mr. Gu Zhenghao

Mr. Cao Bo

Non-Executive Directors

Mr. Eric Todd

Mr. Cheng Chi Ming Brian (*Resigned on 5 June 2019*)

Independent Non-Executive Directors

Mr. Hu Chung Ming

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit

AUDIT COMMITTEE

Mr. Hu Chung Ming (*Committee Chairman*)

Mr. Chan Chi Yuen

Mr. Kwan Ngai Kit

REMUNERATION COMMITTEE

Mr. Hu Chung Ming (*Committee Chairman*)

Mr. Chan Chi Yuen

Mr. Xu Yiran

NOMINATION COMMITTEE

Mr. Xu Yiran (*Committee Chairman*)

Mr. Hu Chung Ming

Mr. Chan Chi Yuen

COMPANY SECRETARY

Mr. Chan Siu Tak

AUTHORISED REPRESENTATIVES

Mr. Xu Yiran

Mr. Chan Siu Tak

LEGAL ADVISORS AS TO HONG KONG LAW

MinterEllison LLP

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213 Queen's Road East,

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AUDITORS

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

31/F, Gloucester Tower,

The Landmark, 11 Pedder Street,

Central, Hong Kong

STOCK CODE

1089

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited

Bank of Communications Co., Ltd.

REGISTERED OFFICE

Cricket Square, Hutchins Drive, P.O. Box 2681,

Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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89 Queensway, Admiralty,

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

3rd Floor, Royal Bank House,

24 Shedden Road, P.O. Box 1586,

Grand Cayman, KY1-1110,

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

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183 Queen's Road East,

Hong Kong

COMPANY WEBSITE

www.leyoutech.com.hk

Financial Highlights

	Six months ended 30 June		
	2019	2018	Change
	US\$'000	US\$'000	%
	(Unaudited)	(Unaudited)	
RESULTS HIGHLIGHTS			
Revenue	105,671	107,880	-2.0%
Gross profit	63,908	73,765	-13.4%
Gross profit margin (%)	60.5%	68.4%	-7.9%
Profit for the period attributable to the owners of the Company	9,288	12,600	-26.3%
EBITDA*	37,785	33,936	+11.3%
Basic earnings per share (US cents)	0.30	0.41	-26.8%
Diluted earnings per share (US cents)	0.30	0.41	-26.8%
Dividend per share (US\$)	Nil	Nil	N/A

	As at	As at	Change
	30 June 2019	31 December 2018	
	US\$'000	US\$'000	
	(Unaudited)	(Audited)	
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS			
Total assets	347,918	310,703	+12.0%
Total interest-bearing borrowings**	38,490	42,868	-10.2%
Net assets	258,972	230,742	+12.2%
Net assets per share (US\$)***	0.08	0.08	-
Current ratio	1.62	1.50	+8.0%
Gearing ratio****	11.1%	13.8%	-2.7%

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

** Total interest-bearing borrowings = Bank borrowings + debenture

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

**** Gearing ratio = Total interest-bearing borrowings/Total assets

Management Discussion and Analysis

BUSINESS OVERVIEW

The performance of Leyou Technologies Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) on game development and publishing and work-for-hire businesses for the first half of 2019 has stabilised, while new game products in pipelines were still in development phases, the development progress was satisfactory. The Group’s revenue during the six months ended 30 June 2019 (the “Reporting Period”) was US\$105.7 million, representing a slight year-on-year decrease of 2.0%. Gross profit margin reduced from 68.4% in the first half of 2018 to 60.5% in the first half of 2019, and gross profit reduced by US\$9.9 million year-on-year to US\$63.9 million. Profit attributable to the owners of the Company and the Group’s EBITDA were US\$9.3 million and US\$37.8 million, respectively, decreasing by 26.3% and increasing by 11.3% over the corresponding period of 2018, respectively.

During the Reporting Period, game development and publishing, work-for-hire and other businesses contributed 86.4%, 13.4% and 0.2% to the revenue of the Group respectively.

Core Strategy and Market Observation

Based on the long-term operational experience of successful online game products and the unique insights of the global and Chinese teams in the gaming market, the Group has established its core strategy to develop high-quality personal computer (“PC”) and console free-to-play (“F2P”) video games with a focus on in-game social experience and adopted the “Game as a Service” (“GaaS”) model for long-term operation.

According to Newzoo’s latest report, the global game market value in 2019 was about US\$152.1 billion, a year-on-year growth of 9.6%, with the number of global players reaching 2.5 billion mark; PC and console games accounted for 55% of total revenue of the industry (23% and 32%, respectively), with a market size of US\$83.6 billion; whilst mobile games accounted for 45%, with a market size of about US\$68.5 billion. It was particularly notable that Newzoo expected the sales from console games to achieve a high growth rate of 13.4% in 2019, thus becoming the market with the highest growth rate. According to Newzoo’s research report for the last three years, the expected growth rate of PC game revenue was –2.6%, 1.6% and 4%, respectively, while the expected growth rate of console game revenue was 3.6%, 4.1% and 13.4%, respectively. This demonstrated the strong recovery and growth rate of the two large-screen markets, i.e. PC and console markets, which coincides with the Group’s strategy of focusing on developing video games for large-screen PC and consoles.

Management Discussion and Analysis

Compared to the traditional premium game model and the recent popular subscription model, a F2P online game removes the entry barrier for players by reducing the upfront payment for the game to zero, thereby quickly attracting a massive number of players and building a super powerful social community among fans, and it generates revenue through some (but not all) players participating in various in-game micro-transactions including payment for items and tools. F2P online games originated in Asia and have been popularised in the global mobile gaming market. However, AAA-quality free games are still very rare, and the European and American development teams with AAA game production capabilities are still improving their understanding of F2P online game design concepts. Accordingly, the transformation of the monetisation mode of their gaming products will take time. Following the explosion of *Fortnite*, another F2P game titled *Apex Legends* which was launched in 2019, has also won the favor of players around the world, establishing the global superiority and universality of the F2P model. Both *Fortnite* and *Apex Legends* also adopt the GaaS model, a recurring revenue model in which video games are monetised after the initial launch through continued streaming of new content, including stories, maps, characters and weapons, and allows for recurring and less cyclical revenue streams as compared to one-time only transaction models.

Other focal points in the gaming industry in the first half of 2019 are 5G and cloud games. Google officially announced the launch of the Stadia, a cloud gaming services, at Game Developers Conference (“GDC”) in March 2019, which lead to hot discussions in the industry. The dramatic increase in network bandwidth will allow players to finally get rid of a game’s requirements for the performance of the terminal hardware and to operate high-quality AAA game products with extremely low thresholds. Although the popularisation of 5G technology and the improvement of cloud gaming platforms still have a long way to go, the demand for high-quality gaming products in the global market will increase significantly in the next few years, and the Group will continue to pay great attention to new developments in AAA game products so that our products could meet the relevant standard quality requirements.

Game Development and Publishing

The game development and publishing business is the Group’s core business, and the Group’s major revenue and profit are currently driven by our flagship product *Warframe*. Although the revenue of *Warframe* improved in the Reporting Period, the increase in revenue was partially offset by the unsatisfactory gaming products and *Dirty Bomb*, a gaming product which removed all the monetisation in January 2019. As such, the Group’s game development and publishing revenue had slightly reduced by 4.8% to US\$91.4 million.

Management Discussion and Analysis

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

	Six months ended 30 June		
	2019	2018	Change
Total number of registered users of <i>Warframe</i>	53,119	41,800	+27.1%

Warframe

Warframe is a F2P 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 sixth anniversary during the Reporting Period. Since its initial launch, the game has been one of the most popular F2P 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 92% positive review score from players. The game is also a top F2P game in terms of revenue on PlayStation 4, Xbox One and Switch. The long-term success of *Warframe* is attributable to the unique and strong development and publishing capabilities of the Group for F2P 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, passionate gamer community and facilitates communications between gamers and the development team through online and offline interactions.

During the Reporting Period, the game development and publishing revenue of *Warframe* improved by 1.4% over the corresponding period of 2018, which was mainly driven by the launch of the PC version in China by Wegame. Games revenue typically fluctuates with factors such as new updates, promotions, and holidays. Our research and development team has been devoting tremendous efforts in developing a number of massive content updates, which are set to be released in the second half of 2019. Thus, there was no significant update being launched in the first half of 2019, resulting in a lower growth rate in the Reporting Period than that in the prior years. Nonetheless, the Group is very confident in the upcoming updates. The monthly active users and the average concurrent users of the game increased by 9.7% and 9.6% respectively during the Reporting Period as compared to the previous period in 2018. After winning one of the Platinum best-selling games and the highest number of simultaneous online games in both 2017 and 2018, *Warframe* won the Webby Award in 2019 for the People's Voice Award. Games on the top-selling list are awarded one of the four rankings by Steam, namely platinum, gold, silver and bronze, and only the top 12 games on such list, *Warframe* being one of them, are ranked as platinum. *Warframe* is the only non-Valve F2P game being ranked as platinum on Steam's Top Sellers.

Management Discussion and Analysis

During the fourth TennoCon, annual Warframe-themed online and offline interactive event held in July 2019, the Group announced a number of updates and development plans of *Warframe*, including a new spaceship game, *Empyrean* (formerly known as *Railjack*), the new open world *Duviri Paradox* and the new mission *The New War*, among which *Empyrean* and *The New War* are expected to be launched in the second half of 2019. *Empyrean* is a landmark with content update for *Warframe*. It has a new game set and adds new features such as interstellar exploration, resource mining and battleship battles. It can achieve seamless crossing from different planets to space, and possibly in the future, and develop into a system of interplanetary voyages, explorations and battles throughout the universe. On the day of TennoCon, *Warframe* daily active users and TennoLive live event audiences reached record highs, and the game has been increasingly popular among players.

Besides game content updates, the Group also explores more platforms for launching *Warframe* to cater to more players. As mentioned earlier, *Warframe* was launched on Tencent Wgame platform in early March 2019 in order to attract even more new players for the game.

Work-for-hire and Other Businesses

The Group's work-for-hire business, being mainly Splash Damage Limited ("Splash Damage Group"), one of the Group's subsidiary in the United Kingdom ("UK"), represents game development outsourcing services for global publishers and renowned game intellectual properties ("IPs"), which can bring steady cash flow from milestone payments on long term contracts signed. Long term partners of diversified gaming companies with hit titles provide recurring work and income to the Group. The game products that we are currently developing or participating on a long-term basis, such as the long-term development of *Gears of War* series and *Halo* series, consistently receive affirmative feedback from the players.

During the Reporting Period, the Group's work-for-hire business, recorded total revenue of US\$14.1 million, with an increase of 20.5% compared to the first half of 2018. Such increase was mainly attributable to the suspension of the Group's own-IP game *Dirty Bomb* in the fourth quarter of 2018 and redeployment of more resources to the aforementioned work-for-hire business. The Group has a number of work-for-hire orders on hand, which would bring stable cash income to the Group.

Other businesses mainly included the sale of merchandise goods, game-hosting and support services, which generated revenue of US\$0.2 million (2018: US\$0.2 million) during the Reporting Period.

Management Discussion and Analysis

New Products in Pipelines

Concurrent with the continuous improvements and upgrades of its operating games, the Group also attaches great importance to the development of new products, by either creating original IP or working with globally renowned ones.

Transformers

In 2017, the Group entered into an intellectual property agreement with Hasbro Inc. and Hasbro International Inc. (collectively referred to as “Hasbro”) to jointly develop the game *Transformers* alongside with renowned game developer, Certain Affinity, LLC (“Certain Affinity”). During the Reporting Period, the development of the project progressed very smoothly, and the Group increased the overall development budget which would further improve the quality of the game.

Civilization Online

In 2017, the Group and Take Two International GmbH (“Take Two”) entered into an intellectual property agreement, pursuant to which the internal studio of the Group would be responsible for the development of this massively multiplayer online game product. In 2018, Take Two awarded the global distribution rights of *Civilization Online* (excluding Mainland China) to the Group; the Group would also be responsible for the development and global distribution of *Civilization Online*, which could leverage the Group’s successful experience and unique advantages in multiplayer online games. During the Reporting Period, the development of the project progressed very smoothly.

Co-development of The Lord of the Rings (the “Game”) with Amazon Game Studios

In 2018, the Group secured another IP license from the owner of certain IP rights in *The Lord of the Rings* literary works, to develop a F2P massively multiplayer online (“MMO”) game based on the grand worldview of *The Lord of the Rings*. In 2019, the Group and subsidiaries of Amazon.com, Inc., have entered into a co-development agreement whereby the Group and Amazon Game Studios would co-develop and publish a F2P MMO game based on *The Lord of the Rings*. Under the co-development agreement, the parties will separately and exclusively market, publish and operate the Game in their respective territories. The Group believes that co-development of *The Lord of the Rings* with Amazon Game Studios is more beneficial to the Company by allowing the Game to be developed on a larger scale with greater complexity of characters and richness in content and be available on more platforms. In addition, Amazon Game Studios can leverage its resources in multiple gaming and other on-line business divisions to enhance the user acquisition and retention aspects of the Game.

Combining the huge organic traffic of popular IPs with the Group’s leading game development and publishing capabilities, the Group is able to maximise the success rate of new product becoming a hit.

Other New Products in Pipelines

Additionally, the Group has multiple unannounced new products in various development stages which are progressing well. Some of the new products are expected to be launched in the second half of 2019 and year 2020 respectively. With the product pipeline established and each product progressing well, the Company believes that the new games will lay a solid foundation for future revenue growth of the Group in the next few years.

Management Discussion and Analysis

MATERIAL TRANSACTIONS AND EVENTS

Cooperative Agreement in respect of Major and Connected Transaction (the “Cooperative Agreement”) with MEGA Ample Holdings Limited (“MEGA”)

On 9 November 2018, the Company entered into the Cooperative Agreement with MEGA, a company wholly-owned by Mr. Yuk Kwok Cheung (“Mr. Yuk”) who is the controlling shareholder of the Company, pursuant to which the parties conditionally agreed to enter into a joint arrangement for the development and operation of five specific video games which were being or would 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, 20 February 2019, 5 June 2019 and 31 July 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 announcements of the Company dated 5 June 2019 and 31 July 2019 were in relation to the agreement on the relevant long stop date.

Amendment Agreement in relation to the Increase in Principal Amount of Loan

On 7 January 2019, the Company, Certain Affinity and Mr. Hoberman entered into an amendment agreement (the “Amendment Agreement”) for supplementing and amending the game development agreement dated 15 October 2017 (the “Game Development agreement”) and a letter agreement in relation to the obligation of Mr. Hoberman to fund the development and production of a game based on certain intellectual property (the “Game Development”) should Certain Affinity fail to do so under the Game Development Agreement (the “Contingent Funding Agreement”). Mr. Hoberman is the founder, President and controlling shareholder of Certain Affinity.

Pursuant to the Amendment Agreement, the Company agreed, among other things, to increase the maximum principal amount of an interest-free loan facility under the Game Development Agreement as supplemented and varied by the Amendment Agreement (the “Loan”) from US\$15 million to US\$33 million. Save as disclosed in the announcement dated 7 January 2019, all other terms of the Loan shall remain in full force and effect. The Loan will continue to be interest-free and be granted on a non-recourse basis and solely recoupable by the Company from its share of the revenues derived from exploitation of the Game. The Company’s equity position and percentage of ownership in Certain Affinity remain unchanged.

Pursuant to the Contingent Funding Agreement, Mr. Hoberman agreed, among other things, to fund the portion of the costs and expenses required for the Game Development which is in excess of the Loan in accordance with the terms of the Game Development Agreement (as amended by the Amendment Agreement) in the event that Certain Affinity fails to do so.

Further details of the above Amendment Agreement were set out in the announcement of the Company dated 7 January 2019.

Management Discussion and Analysis

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 considered the above transaction to be in the interest of the Company as it would strengthen the strategic alliance between the Group and Meitu and its subsidiaries, which included, 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 could 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.

However, according to the poll results announcement of Meitu dated 18 April 2019, the resolutions proposed at the extraordinary general meeting of Meitu held on 18 April 2019 for approving the transaction documents and the transactions contemplated thereunder were not passed by the shareholders of Meitu. Accordingly, the condition precedent of obtaining the approval of Meitu’s shareholders was not fulfilled by the relevant long stop date, being 30 June 2019, after which the agreement lapsed and had no further effect.

Further details of the above transaction were set out in the announcements of the Company dated 28 January 2019, 19 February 2019 and 24 April 2019.

Management Discussion and Analysis

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 The People’s Republic of China (“PRC”) individual owners of Chengyou (the “PRC Owners”) and the Company entered into the investment agreement (“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 considered the above investment to be in the interest of the Company for the reasons that Chengyou, through contractual arrangements, would own and control Xiangshan Dacheng Tianxia Culture Development Co. Ltd. (“Dacheng Tianxia”) and its subsidiaries, which were 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 would be able to grow and diversify its business portfolio and in particular to develop businesses which would bring synergies to its existing game development and publishing business, thereby increasing the Group’s operating income. As at the date of this interim report, the conditions precedent for the completion of the above capital injection in accordance with the terms of the Investment Agreement have not yet been completely fulfilled.

Further details of the above cooperation were set out in the announcements of the Company dated 7 March 2019 and 30 April 2019.

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 considered 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.

Management Discussion and Analysis

Subscriptions of Shares

On 25 April 2019, the Company entered into a subscription agreement to allot and issue 30,500,000 ordinary shares of HK\$0.1 each at a subscription price of HK\$2.35 per subscription share to the subscriber who was an independent third party. The closing price of the shares of the Company on the date of the subscription agreement was HK\$2.32. The subscription was completed on 14 May 2019 and a total of 30,500,000 ordinary shares with nominal value of HK\$3,050,000 were issued to the subscriber at a net price of HK\$2.35 with aggregate net proceeds of approximately US\$9,135,000 (equivalent to HK\$71,675,000). The directors of the Company (the "Directors") consider that the subscription provides a good opportunity to broaden the shareholder and capital base of the Company.

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

Date of announcements	Event	Net proceeds	Intended use of net proceeds	Actual use of net proceeds as at the date of this interim report
25 April 2019 and 14 May 2019	Subscription of 30,500,000 shares	approximately US\$9,135,000 (equivalent to HK\$71,590,000)	(i) approximately US\$2,986,000 (equivalent to HK\$23,400,000) will be used for part of the capital injection as contemplated under the Investment Agreement (details of which are set out in the announcements of the Company dated 7 March 2019 and 30 April 2019)	As at the date of this interim report, the conditions precedent for the completion of the capital injection in accordance with the terms of the Investment Agreement have not yet been completely fulfilled, and accordingly, it had not utilised the net proceeds yet.
			(ii) approximately US\$6,149,000 (equivalent to HK\$48,190,000) had been used for the general working capital	Fully utilised.

Save as disclosed above, the Company did not conduct any other equity fund raising activity during the Reporting Period.

Events after the Reporting Period

Further details of the events after the Reporting Period are set out in Note 26 of this interim report.

Management Discussion and Analysis

Outlook

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

The Group is glad to see that the strategies formulated by the Group a few years ago have built a solid foundation at the global blue-ocean market of large-screen F2P online games. 2019 is a year of foundation for the Group. Looking ahead, the Group will continue to firmly implement the Group's core strategies, further expand the market share of its game products, expand the world's leading game development team, and strengthen the Group's F2P online game development and its operational advantages. At the same time, 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

Revenue

Our total revenue decreased by 2.0%, from US\$107.9 million for the six months ended 30 June 2018 to US\$105.7 million for the six months ended 30 June 2019, primarily due to fewer content update releases in the first six months of 2019 compared to 2018. In June 2018, due to the successful launch of *The Sacrifice*, this update had tremendously driven the revenue of *Warframe*.

Gross Profit

Our total gross profit decreased by 13.4%, from US\$73.8 million for the six months ended 30 June 2018 to US\$63.9 million for the six months ended 30 June 2019 and the gross profit margin significantly decreased from 68.4% for the six months ended 30 June 2018 to 60.5% for the six months ended 30 June 2019, primarily due to the increase in direct labor cost.

Other Revenue and Gains

Other revenue and gains significantly decreased by 75.2%, from US\$3.5 million for the six months ended 30 June 2018 to US\$0.9 million for the six months ended 30 June 2019, primarily due to the decrease in net exchange gain by US\$3.3 million, and offset by the increase in interest income on bank deposits by US\$0.5 million.

Management Discussion and Analysis

Selling and Marketing Expenses

Selling and marketing expenses significantly increased by 57.8%, from US\$3.9 million for the six months ended 30 June 2018 to US\$6.2 million for the six months ended 30 June 2019, primarily due to the increased marketing activities to further promote the brand awareness of *Warframe*.

Administrative Expenses

Administrative expenses significantly increased by 45.5%, from US\$13.6 million for the six months ended 30 June 2018 to US\$19.8 million for the six months ended 30 June 2019. Administrative expenses primarily consist of rental expenses, staff costs and other professional fees. The increase was primarily driven by greater staff costs and legal expenses.

Amortisation of Intangible Assets

Amortisation of intangible assets decreased by 8.7%, from US\$9.5 million for the six months ended 30 June 2018 to US\$8.7 million for the six months ended 30 June 2019, primarily as a result of impairment of intangible assets made in the second half of 2018.

Finance Costs

Finance costs increased significantly by 12.8 times, from US\$0.1 million for the six months ended 30 June 2018 to US\$1.3 million for the six months ended 30 June 2019, primarily as a result of interest on bank borrowings drawdown during the second half of 2018. Finance costs included interest on bank borrowings of US\$0.8 million (2018: US\$0.1 million) and interest on lease liabilities in respect of the adoption of HKFRS 16 of US\$0.5 million (2018: Nil), which was made effective at the beginning of the Reporting Period.

Equity-settled Share-based Payment Expenses

Equity-settled share-based payment expenses remained stable at US\$2.5 million for the six months ended 30 June 2019 (2018: US\$2.4 million).

Taxation

Taxation remained stable at US\$10.7 million for the six months ended 30 June 2019 (2018: US\$10.7 million).

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 30 June 2019, property, plant and equipment remained stable at US\$39.9 million (31 December 2018: US\$39.9 million).

Management Discussion and Analysis

Goodwill

Goodwill was allocated to cash-generating units (“CGU(s)”) in Canada, UK and PRC. As at 30 June 2019, goodwill remained stable at US\$77.6 million (31 December 2018: US\$76.4 million). The slight increase was mainly attributable to the exchange alignment during the Reporting Period.

Intangible Assets

Intangible assets comprise brand name, completed game, game engine, game under development and trademark. As at 30 June 2019, intangible assets amounted to US\$24.1 million (31 December 2018: US\$31.5 million). The significant decrease was mainly attributable to amortisation of intangible assets amounted to US\$8.7 million during the Reporting Period.

Development Expenditure

Development expenditure represents payment to independent video game developers under development agreements. As at 30 June 2019, development expenditure amounted to US\$71.1 million (31 December 2018: US\$48.3 million). The significant increase was mainly due to the involvement of several new projects during the Reporting Period.

Financial Assets at Fair Value Through Other Comprehensive Income

As at 30 June 2019, financial assets at fair value through other comprehensive income amounted to US\$9.4 million (31 December 2018: US\$9.1 million). The increase was mainly due to the change in fair value of financial assets at fair value through other comprehensive income during the Reporting Period.

Financial Assets at Fair Value Through Profit or Loss

As at 30 June 2019, financial assets at fair value through profit or loss amounted to US\$5.1 million (31 December 2018: US\$8.5 million). The decrease in financial assets at fair value through profit or loss during the Reporting Period was mainly attributable to disposal of financial assets and fair value loss.

Trade Receivables

As at 30 June 2019, trade receivables remained stable at US\$44.4 million (31 December 2018: US\$44.3 million).

Bank Borrowings

At 30 June 2019, the Group had bank borrowings of US\$37.9 million (31 December 2018: US\$42.3 million). The bank borrowings were secured by leasehold land and buildings as the Group’s office premises located in Hong Kong, and included in property, plant and equipment with carrying amount of US\$33.8 million (31 December 2018: US\$34.0 million) and a corporate guarantee given by a subsidiary of the Group for an amount up to US\$25 million (31 December 2018: US\$25 million). The decrease was due to repayment of bank borrowings during the Reporting Period.

Management Discussion and Analysis

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. At 30 June 2019, deferred tax liabilities amounted to US\$7.0 million (31 December 2018: US\$9.1 million). The decrease in deferred tax liabilities was in line with amortisation of intangible assets during the Reporting Period.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

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

As at 30 June 2019, cash and bank balances amounted to US\$30.0 million (31 December 2018: US\$32.7 million), which were denominated in United States Dollars (“US\$”), Canadian Dollars (“CAD”), British Pound (“GBP”), Renminbi (“RMB”) and Hong Kong dollars (“HK\$”). The slight decrease in cash and bank balances was mainly due to the increase in development expenditure during the Reporting Period.

Interest-bearing Borrowings and Gearing Ratio

As at 30 June 2019, the total amount of interest-bearing borrowings was US\$38.5 million (31 December 2018: US\$42.9 million). The decrease was mainly attributable to repayment of bank borrowings during the Reporting Period.

As at 30 June 2019, the gearing ratio of the Group was 11.1% (31 December 2018: 13.8%). This was calculated by dividing total interest-bearing borrowings by total assets of the Group.

OTHER INFORMATION

Human Resources

As at 30 June 2019, the Group had 983 employees (31 December 2018: 889).

Staff Costs

Total staff costs, including directors’ emoluments, amounted to US\$16.5 million for the six months ended 30 June 2019 (2018: US\$13.9 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 Benefits Costs

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.

Management Discussion and Analysis

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 United States of America ("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

The share option scheme was adopted for a period of 10 years on, and commenced from, 25 August 2017. Details of the rules of the share option scheme were set out in the circular of the Company dated 8 August 2017. As at the date of this interim report, the total number of outstanding share options granted under the share option scheme was 417,557,021 share options.

Management Discussion and Analysis

MATERIAL RISK 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 enter 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 differ from the expectations on which the management's estimates are based, resulting in the amounts of recognition and measurement being materially different from those estimated by the management in the consolidated financial statements.

PLEDGE OF ASSETS

As at 30 June 2019, bank borrowings of the Group with carrying amount of US\$37.9 million (31 December 2018: US\$42.3 million) 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 Group.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2018, the Group had operating lease commitments of US\$24.3 million.

As at 30 June 2019, the Group had capital commitments of US\$72.8 million (31 December 2018: US\$43.4 million).

Other Information

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

As at 30 June 2019, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") were as follows:

Name of Director/ chief executive	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	0.95%
Mr. Gu Zhenghao	Beneficial owner	–	29,246,800	29,246,800	0.95%
Mr. Li Yang	Beneficial owner and interest of controlled corporation	2,895,000 (Note)	12,750,000	15,645,000	0.51%

Note: 2,895,000 shares include (i) 1,895,000 shares beneficially owned by Mr. Li Yang; and (ii) 1,000,000 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 30 June 2019, none of the Directors or chief executives had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

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

As at 30 June 2019, the interests or short positions of the persons (other than the Directors or chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number of 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)	66.80%
Novel New Limited (Note 1)	Beneficial owner	74,100,000 (L)	–	74,100,000 (L)	2.41%
Mr. Yuk (Note 1)	Interest of controlled corporation	1,613,994,522 (L)	518,700,000 (L)	2,132,694,522 (L)	69.21%
Kingston Finance Limited (Note 2)	Security interest in shares	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
Ample Cheer Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
Best Forth Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
Mrs. Chu Yuet Wah (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.97%
LaGuardia Venture Limited (Note 4)	Beneficial owner	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Beneficial owner	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%

Other Information

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

Name of shareholder	Capacity/nature of interest	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 (%)
Alpha Frontier Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
Giant Investment(HK) Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
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)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%
Mr. Shi Yuzhu (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.83%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.83%

Abbreviations:

“L” stands for long position

“S” stands for short position

Other Information

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

Note 1: Mr. Yuk is interested in approximately 69.21% of the issued share capital of the Company through (i) Port New Limited as to approximately 66.80%; and (ii) Novel New Limited as to approximately 2.41%. Each of Port New Limited and Novel New Limited is a company incorporated in the British Virgin Islands and is wholly controlled by Mr. Yuk. Accordingly, Mr. Yuk is deemed to be interested in the shares in which Port New Limited and Novel New Limited are respectively interested. Meanwhile, Mr. Li Zhigang, one of the 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 controlled by Alpha Frontier Limited, a company incorporated in the Cayman Islands. Alpha Frontier Limited is controlled as to approximately 0.02% by Giant Investment(HK) Limited, a company incorporated in Hong Kong. Giant Investment(HK) Limited is wholly controlled by 巨人網絡集團股份有限公司, a company incorporated in the PRC, which is controlled as to approximately 37.53% 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 30 June 2019, the number of issued shares was 3,081,695,000 shares.

Note 7: The percentages are subject to rounding difference, if any.

Save as disclosed above and so far as the Directors and chief executives of the Company are aware of, as at 30 June 2019, no person (other than the Directors or chief executive of the Company) had any interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

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

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

Other Information

SHARE OPTIONS (CONTINUED)

Details of the movement in the share options granted under the share option scheme during the six months ended 30 June 2019 are as follows:

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2019	Number of share options			Outstanding as at 30 June 2019
					Granted during the period	Exercised during the period	Lapsed during the period	
<i>Executive Directors</i>								
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
Mr. Li Yang	2 May 2019	2 May 2020 to 2 November 2022	HK\$2.50	–	4,250,000	–	–	4,250,000
	2 May 2019	2 May 2021 to 2 November 2022	HK\$2.80	–	4,250,000	–	–	4,250,000
	2 May 2019	2 May 2022 to 2 November 2022	HK\$3.10	–	4,250,000	–	–	4,250,000
Sub-total				58,493,600	12,750,000	–	–	71,243,600

Other Information

SHARE OPTIONS (CONTINUED)

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2019	Number of share options			Outstanding as at 30 June 2019
					Granted during the period	Exercised during the period	Lapsed during the period	
<i>Employees</i>	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK\$1.91	29,246,800	-	-	-	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
	2 May 2019	2 May 2020 to 2 November 2022 (Note (d))	HK\$2.50	-	41,849,987	-	-	41,849,987
	2 May 2019	2 May 2021 to 2 November 2022 (Note (d))	HK\$2.80	-	41,849,987	-	-	41,849,987
	2 May 2019	2 May 2022 to 2 November 2022 (Note (d))	HK\$3.10	-	41,850,026	-	-	41,850,026
	20 May 2019	20 May 2020 to 20 November 2022	HK\$2.50	-	2,059,959	-	(48,021)	2,011,938
	20 May 2019	20 May 2021 to 20 November 2022	HK\$2.80	-	2,059,959	-	(48,021)	2,011,938
	20 May 2019	20 May 2022 to 20 November 2022	HK\$3.10	-	2,059,966	-	(48,021)	2,011,945
	5 June 2019	5 June 2020 to 5 December 2022	HK\$2.50	-	333,333	-	-	333,333
	5 June 2019	5 June 2021 to 5 December 2022	HK\$2.80	-	333,333	-	-	333,333
	5 June 2019	5 June 2022 to 5 December 2022	HK\$3.10	-	333,334	-	-	333,334
Sub-total				116,987,200	132,729,884	-	(144,063)	249,573,021

Other Information

SHARE OPTIONS (CONTINUED)

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2019	Number of share options			Outstanding as at 30 June 2019
					Granted during the period	Exercised during the period	Lapsed during the period	
<i>Consultants</i>	24 October 2017	24 October 2017 to 24 October 2022 (Note (a))	HK\$1.91	87,740,400	–	–	–	87,740,400
	20 May 2019	20 May 2020 to 20 November 2022	HK\$2.50	–	2,500,000	–	–	2,500,000
	20 May 2019	20 May 2021 to 20 November 2022	HK\$2.80	–	2,500,000	–	–	2,500,000
	20 May 2019	20 May 2022 to 20 November 2022	HK\$3.10	–	2,500,000	–	–	2,500,000
	5 June 2019	5 June 2020 to 5 December 2022	HK\$2.50	–	500,000	–	–	500,000
	5 June 2019	5 June 2021 to 5 December 2022	HK\$2.80	–	500,000	–	–	500,000
	5 June 2019	5 June 2022 to 5 December 2022	HK\$3.10	–	500,000	–	–	500,000
Sub-total				87,740,400	9,000,000	–	–	96,740,400
Total				263,221,200	154,479,884	–	(144,063)	417,557,021

Other Information

SHARE OPTIONS (CONTINUED)

Notes:

- (a) The share options were vested upon grant.
- (b) The exercise price of the share options was subject to adjustments in 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 on 24 October 2017 was HK\$1.88; the market prices of the shares on the dates of grant on 2 May 2019, 20 May 2019 and 5 June 2019 were HK\$2.32, HK\$2.24 and HK\$2.30 respectively.
- (d) The share options will be vested in three tranches in accordance with a vesting schedule, conditional upon the achievement by the grantee of certain performance targets. For details of the vesting schedule and exercise price of the share options, please refer to the announcement of the Company dated 2 May 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

CORPORATE GOVERNANCE CODE

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

Under the Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Xu Yiran 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, one non-executive Director 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 Reporting Period.

Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CHANGES IN DIRECTOR'S INFORMATION

In March 2019, Mr. Eric Todd, a non-executive Director, resigned as an executive director of Hsin Chong Group Holdings Limited (Stock Code: 404).

AUDIT COMMITTEE

The unaudited interim condensed consolidated results for the six months ended 30 June 2019 have been reviewed by the Audit Committee which comprises Mr. Hu Chung Ming (Committee Chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, all being independent non-executive Directors.

INTERIM DIVIDEND

The Board has resolved not to declare payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

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

Hong Kong, 23 August 2019

Interim Results

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Revenue	4	105,671	107,880
Cost of sales		(41,763)	(34,115)
Gross profit		63,908	73,765
Other revenue and gains	5	873	3,517
Net loss on financial assets at fair value through profit or loss	8	(821)	(21,817)
Selling and marketing expenses		(6,222)	(3,942)
Administrative expenses		(19,831)	(13,632)
Amortisation of intangible assets	8, 13	(8,707)	(9,535)
Fair value change of contingent consideration payable		–	(1,704)
Finance costs	6	(1,312)	(95)
Other operating expenses		(4,390)	(581)
Equity-settled share-based payment expenses		(2,524)	(2,383)
Profit before taxation	8	20,974	23,593
Taxation	7	(10,744)	(10,674)
Profit for the period		10,230	12,919
Profit for the period attributable to:			
Owners of the Company		9,288	12,600
Non-controlling interests		942	319
		10,230	12,919
Earnings per share			
Basic (US cents per share)	9	0.30	0.41
Diluted (US cents per share)	9	0.30	0.41

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

Interim Results

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

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Profit for the period	10,230	12,919
Other comprehensive income/(loss) for the period, net of income tax:		
<i>Items that will not be reclassified to profit or loss:</i>		
Changes in the fair value of equity investments at fair value through other comprehensive income	300	400
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operation	6,041	(7,126)
Total comprehensive income for the period	16,571	6,193
Total comprehensive income for the period attributable to:		
Owners of the Company	15,748	5,964
Non-controlling interests	823	229
	16,571	6,193

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

Interim Results

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	39,890	39,945
Goodwill	12	77,568	76,419
Intangible assets	13	24,059	31,516
Development expenditure	14	71,115	48,297
Right-of-use assets		18,628	–
Financial assets at fair value through other comprehensive income		9,400	9,100
		240,660	205,277
Current assets			
Inventories		340	174
Trade receivables	15	44,445	44,297
Deposits paid, prepayments and other receivables		21,408	17,113
Financial assets at fair value through profit or loss	16	5,064	8,522
Tax recoverable		5,998	2,662
Cash and bank balances		30,003	32,658
		107,258	105,426
Current liabilities			
Trade payables	17	4,642	2,109
Accruals and other payables		11,288	11,146
Lease liabilities		4,990	–
Bank borrowings	18	37,889	42,280
Contract liabilities		7,300	14,770
		66,109	70,305
Net current assets		41,149	35,121
Total assets less current liabilities		281,809	240,398

Interim Results

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

	Notes	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Equity			
Share capital	20	39,734	39,345
Reserves		214,848	187,830
Equity attributable to owners of the Company		254,582	227,175
Non-controlling interests		4,390	3,567
Total equity		258,972	230,742
Non-current liabilities			
Deferred tax liabilities		6,962	9,068
Lease liabilities		15,274	–
Debenture	19	601	588
Total non-current liabilities		22,837	9,656
Total equity and non-current liabilities		281,809	240,398

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

Interim Results

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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	Equity attributable to owners of the Company US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
As at 1 January 2018 (audited)	39,597	172,829	(437)	13,294	-	(47,911)	12,528	31,653	221,553	4,441	225,994
Profit for the period	-	-	-	-	-	-	-	12,600	12,600	319	12,919
Exchange differences on translating foreign operations and other comprehensive (loss)/income for the period	-	-	-	(7,036)	400	-	-	-	(6,636)	(90)	(6,726)
Total comprehensive (loss)/income for the period	-	-	-	(7,036)	400	-	-	12,600	5,964	229	6,193
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	2,383	-	2,383	-	2,383
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(609)	(609)
As at 30 June 2018 (unaudited)	39,597	172,829	(437)	6,258	400	(47,911)	14,911	44,253	229,900	4,061	233,961
As at 1 January 2019 (audited)	39,345	167,959	(437)	(1,752)	1,000	(47,911)	16,024	52,947	227,175	3,567	230,742
Profit for the period	-	-	-	-	-	-	-	9,288	9,288	942	10,230
Exchange differences on translating foreign operations and other comprehensive income/(loss) for the period	-	-	-	6,160	300	-	-	-	6,460	(119)	6,341
Total comprehensive income for the period	-	-	-	6,160	300	-	-	9,288	15,748	823	16,571
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	2,524	-	2,524	-	2,524
Ordinary shares issued	389	8,746	-	-	-	-	-	-	9,135	-	9,135
Lapse of share option	-	-	-	-	-	-	(1)	1	-	-	-
As at 30 June 2019 (unaudited)	39,734	176,705	(437)	4,408	1,300	(47,911)	18,547	62,236	254,582	4,390	258,972

* These reserve accounts comprise the consolidated reserve of US\$214,848,000 (31 December 2018: US\$187,830,000) in the interim condensed consolidated statement of financial position.

Notes:

(a) Exchange reserve

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

(b) 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.

(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 interim condensed consolidated financial statements.

Interim Results

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Operating activities		
Cash from operation	42,129	59,264
Interest paid	(842)	(35)
Tax paid	(16,530)	(14,379)
Net cash generated from operating activities	24,757	44,850
Investing activities		
Purchase of property, plant and equipment	(748)	(1,803)
Purchase of intangible assets	(403)	(2,537)
Settlement of consideration payable in relation to acquisition of subsidiaries	–	(15,492)
Dividend paid	–	(609)
Other cash flows arising from investing activities	(31,252)	(46,406)
Net cash used in investing activities	(32,403)	(66,847)
Financing activities		
Repayment of bank borrowings	(4,490)	–
Proceeds from bank borrowings	–	25,000
Issue of shares	9,135	–
Interest element of lease rental paid	(2,588)	–
Net cash generated from financing activities	2,057	25,000
Net (decrease)/increase in cash and bank balances	(5,589)	3,003
Cash and bank balances at the beginning of the period	32,658	45,898
Effect of foreign exchange rate changes, net	2,934	(2,229)
Cash and bank balances at the end of the period	30,003	46,672

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

Interim Results

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The interim condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018 as contained in the Company’s Annual Report 2018 (the “Annual Report 2018”).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the Annual Report 2018, except for the impact of the adoption of the new and revised HKASs, Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretations described below.

New and amended standards adopted by the Group

Except for the impact of adoption of HKFRS 16 set out below, the adoption of other applicable new and amended standards and interpretations did not have material impact on the interim condensed consolidated financial statements of the Group.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 “Leases” and related interpretations where the distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the consolidated statement of financial position for all leases by lessees, except for leases that have a lease term of 12 months or less and leases of low-value assets. The standard does not significantly change the accounting of lessors.

HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Interim Results

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities. The weighted average lessee's incremental borrowing rate applies to the lease liabilities on 1 January 2019 was 5.4%. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the interim condensed consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

(a) *The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:*

	Increase/ (Decrease) US\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	18,966
Liabilities	
Increase in lease liabilities	20,491
Decrease in accruals and other payables	(1,525)
	18,966

Interim Results

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(b) Nature of the effect of adoption of HKFRS 16:

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	US\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	24,319
Discounted operating lease commitments as at 1 January 2019	(2,406)
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 and low-value assets	(1,422)
Lease liabilities as at 1 January 2019	20,491
Lease liabilities recognised as at 1 January 2019	
Of which are:	
Current lease liabilities	4,158
Non-current lease liabilities	16,333
	20,491

The recognised right-of-use assets related to the following types of assets:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 1 January 2019 US\$'000 (Unaudited)
Properties	14,357	13,891
Office equipment	4,271	5,075
Total right-of-use assets	18,628	18,966

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(b) Nature of the effect of adoption of HKFRS 16: (Continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the Annual Report 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Interim Results

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (Continued)

(b) *Nature of the effect of adoption of HKFRS 16: (Continued)*

Summary of new accounting policies (Continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

(c) *Amounts recognised in the interim condensed consolidated statement of financial position:*

	Right-of-use assets	Lease liabilities
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
As at 1 January 2019	18,966	20,491
Additions	1,584	1,584
Depreciation charge (Note 8)	(2,155)	–
Interest expense (Note 6)	–	486
Payments	–	(2,588)
Exchange alignment	233	291
As at 30 June 2019	18,628	20,264

Interim Results

3. SEGMENT INFORMATION

During the period ended 30 June 2019, 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 external customers during the Reporting Period and the Group's non-current assets. The geographical locations of the customers are determined based on the locations of the principal operations of the subsidiaries.

The Group's non-current assets included property, plant and equipment, goodwill, intangible assets, development expenditure, right-of-use assets and financial assets at fair value through other comprehensive income. The geographical location of property, plant and equipment and right-of-use assets are based on the physical location of the asset under consideration. In the case of goodwill, intangible assets, development expenditure and financial assets at fair value through other comprehensive income, they are based on the location of operations to which these assets are allocated.

Revenue from external customers

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Canada	89,733	87,056
UK	12,028	20,824
US	3,590	–
PRC	320	–
	105,671	107,880

Non-current assets

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
	Canada	69,686
UK	65,067	55,664
PRC	15,733	7,310
HK	89,809	77,660
US	365	5
	240,660	205,277

Interim Results

3. SEGMENT INFORMATION (CONTINUED)

Other information

Revenue from major products

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

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Computer and video games	105,671	107,880

4. REVENUE

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Game development and publishing	91,357	95,934
Work-for-hire	14,140	11,738
Game-hosting and support services	–	83
Sale of merchandise goods	174	125
	105,671	107,880
Timing of revenue recognition		
Over time	105,497	107,755
At a point in time	174	125
	105,671	107,880

As at 30 June 2019, 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\$7,300,000 and the Group is to recognise 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.

Interim Results

5. OTHER REVENUE AND GAINS

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Interest income on bank deposits	610	129
Net exchange gain	–	3,266
Sundry income	263	122
	873	3,517

6. FINANCE COSTS

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Interest on:		
– Bank borrowings	799	66
– Lease liabilities (Note 2(c))	486	–
– Debenture	27	26
– Shareholder's loan	–	3
	1,312	95

7. TAXATION

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Canada corporate income tax expense		
– current period	13,355	14,945
UK corporate income tax credit		
– current period	(218)	(1,391)
Deferred tax		
– current period	(2,393)	(2,880)
	10,744	10,674

Interim Results

7. TAXATION (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 (2018: Nil).
- (b) 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 on the qualifying group entity will be taxed at 8.25%, the 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 (2018: Nil).
- (c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in PRC are liable to PRC Enterprise Income Tax at a tax rate of 25% for the periods ended 30 June 2019 and 2018.
- (d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada are liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the periods ended 30 June 2019 and 2018.
- (e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK are liable to United Kingdom CIT at a tax rate of 19% for the periods ended 30 June 2019 and 2018. 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 federal corporate tax at a tax rate of 21% for the periods ended 30 June 2019 and 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 30 June 2019 would not be distributed in the foreseeable future (31 December 2018: Nil).

Interim Results

8. PROFIT BEFORE TAXATION

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

	Notes	Six months ended 30 June	
		2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Staff costs including directors' remuneration		13,544	10,873
Equity-settled share-based payment expenses		2,524	2,383
Contributions to retirement schemes		435	623
Total staff costs		16,503	13,879
Depreciation of property, plant and equipment	11	1,052	712
Depreciation of right-of-use assets	2(c)	2,155	–
Amortisation of intangible assets	13	8,707	9,535
Amortisation of development expenditure*	14	4,195	130
Total depreciation and amortisation		16,109	10,377
Net realised loss on financial assets at fair value through profit or loss		55	–
Net unrealised loss on financial assets at fair value through profit or loss		766	21,817
Net loss on financial assets at fair value through profit or loss		821	21,817
Cost of inventories recognised as expenses		98	63
Operating lease rental expenses		–	1,500
Expense relating to short-term leases and leases of low-value assets		477	–
Net exchange loss/(gain)**		4,381	(3,266)
Net loss on disposal of property, plant and equipment		7	419
Reversal of allowance for expected credit loss recognised in respect of trade receivables ***	15	(3)	–
Allowance for expected credit loss recognised in respect of deposits and other receivables ***		3,062	–

* Included in cost of sales in the interim condensed consolidated statement of profit or loss.

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

*** Included in administrative expenses in the interim condensed consolidated statement of profit or loss.

Interim Results

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Earnings		
Profit attributable to owners of the Company for the purpose of calculating earnings per share	9,288	12,600

Weighted average number of ordinary shares

During the periods ended 30 June 2019 and 2018, the weighted average number of ordinary shares used as denominator in calculating earnings per share was as follows:

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	3,059,283	3,070,910
Effect of dilutive potential ordinary shares:		
– Share options (Note)	38,685	4,152
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	3,097,968	3,075,062

Note:

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the periods ended 30 June 2019 and 2018, together with the adjustment for the share options lapsed or exercised.

10. DIVIDENDS

No dividends were declared during the period ended 30 June 2019 (2018: Nil).

Interim Results

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and equipment	Motor vehicles	Total
	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)
Cost				
As at 1 January 2019	34,069	11,335	93	45,497
Additions	–	748	–	748
Disposals	–	(29)	–	(29)
Exchange alignment	80	357	–	437
As at 30 June 2019	34,149	12,411	93	46,653
Accumulated depreciation				
As at 1 January 2019	73	5,460	19	5,552
Charge for the period (Note 8)	251	792	9	1,052
Written back on disposals	–	(17)	–	(17)
Exchange alignment	1	175	–	176
As at 30 June 2019	325	6,410	28	6,763
Net carrying amount				
As at 30 June 2019 (unaudited)	33,824	6,001	65	39,890
As at 31 December 2018 (audited)	33,996	5,875	74	39,945

Note:

As at 30 June 2019 and 31 December 2018, all of the Group's leasehold land and buildings have been pledged to secure banking facilities of the Group.

Interim Results

12. GOODWILL

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Cost		
At the beginning of the period/year	119,363	127,641
Exchange alignments	1,183	(8,278)
At the end of the period/year	120,546	119,363
Accumulated impairment loss		
At the beginning of the period/year	42,944	–
Impairment loss recognised during the period/year	–	42,944
Exchange alignments	34	–
At the end of the period/year	42,978	42,944
Net carrying amount at the end of period/year	77,568	76,419

Allocation of goodwill to CGUs

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Digital Extremes: Computer and video games CGU in Canada.
- Splash Damage Group: Computer and video games CGU in the UK.
- Guangzhou Radiance Software Technology Co. Ltd. (“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.

Interim Results

12. GOODWILL (CONTINUED)

Allocation of goodwill to CGUs (Continued)

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

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Digital Extreme	28,151	27,041
Splash Damage Group	92,024	91,952
Guangzhou Radiance	371	370
	120,546	119,363

13. INTANGIBLE ASSETS

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Cost		
At the beginning of the period/year	103,770	110,822
Additions	403	1,029
Exchange alignment	1,643	(8,081)
At the end of the period/year	105,816	103,770
Accumulated amortisation and impairment		
At the beginning of the period/year	72,254	52,909
Charge for the period/year (Note 8)	8,707	18,467
Impairment during the period/year	–	4,896
Exchange alignment	796	(4,018)
At the end of the period/year	81,757	72,254
Net carrying amount at the end of period/year	24,059	31,516

Interim Results

13. INTANGIBLE ASSETS (CONTINUED)

The economic useful life of recognised intangible assets are as follows:

Intangible assets	Useful economic life
Brand name	10 years
Completed game	3-5 years
Game engine	3-5 years
Game under development	3-5 years
Trademark	10 years

Cost of intangible assets:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Brand name	9,592	9,584
Completed game	65,247	62,676
Game engine	11,891	11,422
Game under development	18,967	19,972
Trademark	119	116
	105,816	103,770

Interim Results

14. DEVELOPMENT EXPENDITURE

Development expenditure represents payment to independent video game developers under development agreements. The Group entered into written agreements to provide the independent video game developer with advance payments for development of video games on both PC and console platforms in exchange of exclusive publishing rights to the game.

The movements of development expenditure during the period/year are as follows:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
At the beginning of the period/year	48,297	12,364
Additions	26,593	43,601
Amortisation recognised during the period/year (Note 8)	(4,195)	(3,048)
Impairment during the period/year*	–	(4,360)
Exchange alignment	420	(260)
At the end of the period/year	71,115	48,297

Note:

* 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.

15. TRADE RECEIVABLES

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Trade receivables	45,815	45,670
Less: Allowance for credit loss (Note)	(1,370)	(1,373)
	44,445	44,297

Note:

The reversal of allowance for credit loss of US\$3,000 (2018: Nil) has been credited to the interim condensed consolidated statement of profit or loss during the Reporting Period (Note 8).

Interim Results

15. TRADE RECEIVABLES (CONTINUED)

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

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Within 30 days	36,410	32,022
31 days to 60 days	466	3,706
61 days to 180 days	363	8,563
Over 180 days	7,206	6
	44,445	44,297

The trade receivables are denominated in US\$, Canadian Dollars ("CAD"), HK Dollars ("HK\$") and British Pound ("GBP").

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Held for trading:		
– Listed equity securities in HK (Note (a))	612	1,333
Interest rate swap (Note (b))	123	127
Equity accumulator contract in Canada (Note (c))	2,129	4,662
Derivative financial instruments, at fair value (Note (d))	2,200	2,400
	5,064	8,522

Notes:

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

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

Interim Results

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Note: (Continued)

(b) Interest rate swap

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 21.

The notional amount of the outstanding interest rate swap contracts as at 30 June 2019 was HK\$130,041,600 (31 December 2018: HK\$189,586,800).

(c) Equity accumulator contract in Canada

On 20 November 2018, the Group has entered into a prepaid range bonus accumulator contract 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 US\$ and less than or equal to CAD1.3800 per US\$ ("the Bonus Payout Range"), the counterparty shall receive the US\$ repayment amount plus the guaranteed payment amount; (ii) within the Bonus Payout Range, the Group will receive the US\$ 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.

(d) Derivative financial instruments, fair value

Pursuant to sale and purchase agreement in Certain Affinity, the Group was granted with a call option ("Call Option"), whereby the Group has the discretion to acquire the remaining equity interest in Certain Affinity at a consideration of US\$1, which is exercisable within 3 months following the receipt of Certain Affinity's audited financial statements for the year ending 31 December 2020. As at 30 June 2019 and 31 December 2018, the fair values of the Call Option were US\$2,200,000 and US\$2,400,000, respectively, which was determined by an independent valuer based on binomial option pricing model. The key inputs into the model for the value of the Call Option are as follows:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
80% of equity value (US\$'000)	41,924	40,666
Maturity	2.0 years	2.5 years

Interim Results

17. TRADE PAYABLES

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Trade payables	4,642	2,109

The ageing analysis of trade payables is as follows:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Within 30 days	4,141	1,660
31 days to 90 days	382	394
91 days to 180 days	119	1
Over 180 days	-	54
	4,642	2,109

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

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18. BANK BORROWINGS

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Secured:		
Term loan (Note (a))	16,645	20,754
Mortgage loan (Note (b))	12,924	13,225
Revolving loan (Note (c))	8,320	8,301
	37,889	42,280

The bank borrowings were repayable as follows:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Within 1 year or on demand	37,889	42,280

The carrying amounts of the bank borrowings are denominated in the following currencies:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
HK Dollars	21,244	21,526
US Dollars	16,645	20,754
	37,889	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\$33,824,000 (31 December 2018: US\$33,996,000) and a corporate guarantee given by a subsidiary of the Group for an amount up to US\$25,000,000 (31 December 2018: US\$25,000,000).

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18. BANK BORROWINGS (CONTINUED)

Notes: (Continued)

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 interim condensed 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 30 June 2019 was ranged from approximately 4.9% to 6.3% per annum (31 December 2018: ranged from approximately 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 30 June 2019, none of the covenants relating to draw down facilities had been breached (31 December 2018: None).

(b) Mortgage loans

The mortgage loans carry interest at HIBOR plus 1.2%. The effective interest rate as at 30 June 2019 was approximately 3.2% per annum (31 December 2018: approximately 2.4% 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 30 June 2019 was approximately 2.9% per annum (31 December 2018: approximately 2.6% per annum). As at 30 June 2019 and 31 December 2018, the Company had fully utilised the banking facilities.

(d) The carrying amount of bank borrowings approximates to their fair values.

19. DEBENTURE

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Unsecured debenture of 5%	601	588

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

The debenture bears an interest of 5% (31 December 2018: 5%) per annum, unsecured and repayable on 19 January 2021. The effective interest rate of the debenture is approximately 9.4% (31 December 2018: 9.4%).

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20. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of ordinary shares		Share premium
		HK\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)
Authorised:				
As at 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, 1 January 2019 and 30 June 2019	10,000,000,000	1,000,000	129,000	–
Issued and fully paid:				
As at 1 January 2018 ordinary shares of HK\$0.1 each	3,070,910,000	307,091	39,597	172,829
Share repurchased and cancelled (Note (b))	(19,715,000)	(1,972)	(252)	(4,849)
Transaction costs on repurchases of shares (Note (b))	–	–	–	(21)
Balance as at 31 December 2018 and 1 January 2019	3,051,195,000	305,119	39,345	167,959
Subscription of shares (Note (c))	30,500,000	3,050	389	8,746
Balance as at 30 June 2019	3,081,695,000	308,169	39,734	176,705

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 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.
- (c) On 25 April 2019, the Company issued 30,500,000 ordinary shares under subscription and at the subscription price of HK\$2.35 per share. Among the gross proceeds of US\$9,135,000, US\$389,000 and US\$8,746,000 were credited to the share capital account and share premium account, respectively.

Interim Results

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value hierarchy

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2019 (Unaudited)

	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	612	2,252	2,200	5,064
Financial assets at fair value through other comprehensive income	-	-	9,400	9,400
	612	2,252	11,600	14,464

As at 31 December 2018 (Audited)

	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

Interim Results

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of Level 3 fair value measurements of financial assets

	For the six months ended 30 June 2019 US\$'000 (Unaudited)	For the year end 31 December 2018 US\$'000 (Audited)
At the beginning of the period/year	11,500	10,000
Fair value (loss)/gain in profit or loss	(200)	500
Fair value gain in other comprehensive income	300	1,000
At the end of the period/year	11,600	11,500

The above fair value gain included in the interim condensed consolidated statement of profit or loss for the period related to investment in financial assets at fair value through profit or loss held at the end of the Reporting Period.

Reconciliation of Level 3 fair value measurements of financial liability

	For the six months ended 30 June 2019 US\$'000 (Unaudited)	For the year end 31 December 2018 US\$'000 (Audited)
At the beginning of the period/year	-	51,882
Settlement during the period/year	-	(14,609)
Fair value gain in profit or loss	-	(37,424)
Exchange alignment	-	151
At the end of the period/year	-	-

Interim Results

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial assets			
Financial assets at fair value through profit or loss			
– Listed equity securities in HK 30 June 2019: US\$612,000 31 December 2018: US\$1,333,000	Level 1	Quoted price in active market	• NA
– Interest rate swap 30 June 2019: US\$123,000 31 December 2018: US\$127,000	Level 2	Monte Carlo Simulation – Cap rate (4% per annum) – Floating rate (1.3%)	• NA
– Equity accumulator contract in Canada 30 June 2019: US\$2,129,000 31 December 2018: US\$4,662,000	Level 2	Monte Carlo Simulation – Risk-free rate (2.57%) – Volatility (6.92%)	• NA
– Derivative financial instruments outside HK 30 June 2019: US\$2,200,000 31 December 2018: US\$2,400,000	Level 3	Binomial option pricing model	<ul style="list-style-type: none"> • Risk-free rate (1.76%) (31 December 2018: 2.47%): 1% increase/(decrease) in risk-free rate would have no material impact on the fair value • Volatility (22%) (31 December 2018: 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

Interim Results

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial assets at fair value through other comprehensive income			
– Unlisted equity securities outside HK 30 June 2019: US\$9,400,000 31 December 2018: US\$9,100,000	Level 3	Discounted cash flow method	<ul style="list-style-type: none"> Discount for credit risk (17%) (31 December 2018: 18%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US\$600,000)/US\$800,000 (31 December 2018: (US\$600,000)/US\$800,000) 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

22. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim condensed consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of the Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions:

Name of company/party	Nature of transactions	Relationship	Six months ended 30 June	
			2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Cindic Holdings Limited ("Cindic Holdings")	Rental paid	Common shareholder in a related company (Note (a))	–	183
Mr. Yuk Kwok Cheung Charles ("Mr. Yuk")	Interest expense	Controlling shareholder of the Company (Note (b))	–	3

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22. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions: (Continued)

Notes:

- (a) The ultimate beneficial owner of Cindic Holdings is Ms. Wu Laam Anne, who is the wife of Mr. Yuk, the substantial shareholder of the Company.
- (b) On 18 March 2018, Mr. Yuk provided a HK\$200 million revolving loan facility to the Company which is unsecured and charged with interest at 3% per annum. The final repayment date of the loan and all other sums owing to Mr. Yuk was 18 March 2019. The Company had repaid all outstanding amount owed to Mr. Yuk under the facility during the six months ended 30 June 2018.

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

(b) The outstanding balances with related parties at the end of the Reporting Period are as follows:

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Amounts due from the directors of the subsidiaries (Note)	55	142

Note:

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

Interim Results

23. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

The Group is the lessee in respect of a number of properties and items of office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in Note 2.

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2018 US\$'000 (Audited)
Within one year	5,724
In the second to fifth years, inclusive	13,953
After the fifth year	4,642
	24,319

24. COMMITMENTS

	As at 30 June 2019 US\$'000 (Unaudited)	As at 31 December 2018 US\$'000 (Audited)
Commitments for: – development expenditure	72,825	43,353

Interim Results

25. SEASONALITY

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

26. EVENTS AFTER THE REPORTING PERIOD

Co-development of the Lord of the Rings Game with Amazon Game Studios

The Company and the subsidiaries of Amazon.com, Inc. have entered into a co-development agreement whereby the Group and Amazon Game Studios would co-develop and publish a F2P MMO game based on *The Lord of the Rings* (the "Game").

Under the co-development agreement, the parties will separately and exclusively market, publish and operate the Game in their respective territories. The Company will manage the marketing and operation of the Game in Mainland China, Hong Kong, Macau and Taiwan, while Amazon Game Studios will manage such aspects of the Game in the rest of the world.

Further details of the above transaction were set out in the announcement of the Company dated 10 July 2019.

Second supplemental agreement in respect of major and connected transaction in relation to the Cooperative Agreement

On 31 July 2019, the Company and MEGA entered into a second supplemental cooperative agreement to amend certain terms and conditions of the Cooperative Agreement as follows:

- (1) the relevant long stop date will be revised from 30 September 2019 to 30 November 2019 or such other date as the Company and MEGA may agree in writing; and
- (2) the entering into of the definitive agreement on certain video games as agreed (the "Definitive Agreement") will be postponed from a date falling on or before 31 July 2019 to a date falling on or before 30 September 2019 or such other date as the Company and MEGA may agree in writing.

Prior to the entry into of the Definitive Agreement, save for the above, all other terms and conditions of the Cooperative Agreement (as supplemented and amended from time to time) remain unchanged and in full force and effect.

Further details of the above were set out in the announcement of the Company dated 31 July 2019.

27. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of Directors on 23 August 2019.