



LEYOU TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1089.HK

2020 INTERIM REPORT



Contents

Corporate Information	2
Financial Highlights	3
Management Discussion and Analysis	4
Other Information	15
Interim Condensed Consolidated Financial Statements	
Interim Condensed Consolidated Statement of Profit or Loss	25
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	26
Interim Condensed Consolidated Statement of Financial Position	27
Interim Condensed Consolidated Statement of Changes in Equity	29
Interim Condensed Consolidated Statement of Cash Flows	30
Notes to the Interim Condensed Consolidated Financial Statements	31



Corporate Information

DIRECTORS

Executive Directors

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

Mr. Li Yang (*Deputy Chairman*)

Dr. Alan Chen (*Chief Operating Officer*) (“COO”)
(appointed as COO on 22 April 2020 and
as Executive Director on 29 May 2020)

Mr. Gu Zhenghao

Mr. Cao Bo

Non-executive Director

Mr. Eric Todd

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

Level 32, Wu Chung House,

213 Queen’s Road East,

Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

31/F, Gloucester Tower,

The Landmark, 11 Pedder Street,

Central, Hong Kong

STOCK CODE

1089

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited

Bank of Communications Co., Ltd.

REGISTERED OFFICE

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

Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3201, Tower Two, Lippo Centre,

89 Queensway, Admiralty,

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

3rd Floor, Royal Bank House,

24 Shedden Road, P.O. Box 1586,

Grand Cayman, KY1-1110,

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 54, Hopewell Centre,

183 Queen’s Road East,

Hong Kong

COMPANY WEBSITE

www.leyoutech.com.hk



Financial Highlights

	Six months ended 30 June		
	2020	2019	Change
	US\$'000	US\$'000	%
	(Unaudited)	(Unaudited)	
RESULTS HIGHLIGHTS			
Revenue	90,692	105,671	-14.2%
Gross profit	42,804	63,908	-33.0%
Gross profit margin (%)	47.2%	60.5%	-13.3%
(Loss)/profit for the period attributable to the owners of the Company	(5,788)	9,288	N/A
EBITDA ¹	24,100	37,785	-36.2%
Adjusted EBITDA ²	46,735	43,368	+7.8%
Basic (loss)/earnings per share (US cents)	(0.19)	0.30	N/A
Diluted (loss)/earnings per share (US cents)	(0.19)	0.30	N/A
Dividend per share (US\$)	Nil	Nil	N/A

	As at	As at	Change
	30 June 2020	31 December 2019	
	US\$'000	US\$'000	
	(Unaudited)	(Audited)	
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS			
Total assets	311,130	322,848	-3.6%
Total interest-bearing borrowings ³	28,179	25,772	+9.3%
Net assets	238,444	251,806	-5.3%
Net assets per share (US\$) ⁴	0.08	0.08	-
Current ratio	1.55	1.57	-1.3%
Gearing ratio ⁵	9.1%	8.0%	+1.1%

¹ EBITDA = Earnings before interest income, interest expense, taxation, depreciation and amortisation

² Adjusted EBITDA = EBITDA less impairment losses and equity-settled share-based payment expenses

³ Total interest-bearing borrowings = Bank borrowings + debenture

⁴ Net assets per share (US\$) = Net assets/Total number of shares at the end of the Reporting Period

⁵ Gearing ratio = Total interest-bearing borrowings/Total assets

Management Discussion and Analysis

BUSINESS OVERVIEW

In the first half of 2020, the Coronavirus Disease 2019 (“COVID-19”) pandemic swept across the world, causing unexpected changes to how we live and work. While our major live product *Warframe* remains one of the most popular video games, the operation of Leyou Technologies Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) was also impacted to a certain extent due to the shutdown of our overseas studios, leading to a decline of revenue from its major products during the first half of 2020 as compared to the corresponding period in 2019. The Group’s revenue for the six months ended 30 June 2020 (the “Reporting Period”) was US\$90.7 million (2019: US\$105.7 million), representing a year-on-year decrease of 14.2%. Due to the suspended development of a product, the capitalised development cost of which was recognised as impairment loss during the Reporting Period, our gross profit margin reduced to 47.2% in the first half of 2020 from 60.5% in the first half of 2019, with gross profit down by US\$21.1 million to US\$42.8 million. During the Reporting Period, a consolidated net loss of US\$4.7 million and loss attributable to the owners of the Company of US\$5.8 million were recorded. The Group’s EBITDA was US\$24.1 million, representing a year-on-year decrease of 36.2%. After excluding impairment losses and equity-settled share-based payment expenses, adjusted EBITDA increased by 7.8% to US\$46.7 million during the Reporting Period.

During the Reporting Period, game development and publishing, work-for-hire and other businesses contributed to 81.7%, 18.2% and 0.1% of the revenue of the Group, respectively.

Game Development and Publishing Business

Game development and publishing is the Group’s core business, and our flagship product *Warframe* is the key driver of the Group’s revenue and profit. During the Reporting Period, revenue contributed by the game development and publishing business reduced by US\$17.3 million to US\$74.1 million, representing a year-on-year decrease of 18.9%.

Warframe

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

	Six months ended 30 June		
	2020	2019	Change
Total number of registered users:	61,338	53,119	+15.5%

Warframe is a free-to-play (“F2P”) science fiction-themed multiplayer third-person action game developed and published by one of the Company’s subsidiaries, Digital Extremes Ltd. (“Digital Extremes”), and is currently available on personal computer (“PC”) and consoles (including PlayStation 4, Xbox One and Switch). *Warframe* was first launched in March 2013 and has been operating for over 7 years as of the end of the Reporting Period. Since its initial launch, *Warframe* has been one of the most popular F2P games worldwide. *Warframe* steadily sits amongst the top 10 of all game genres in terms of number of players and playtime on Steam, and earns a 91% positive review score from players. *Warframe* is also one of the top F2P games on PlayStation 4 and Xbox One in terms of revenue on such platforms. The continued success of *Warframe* is attributable to the unique and strong development and publishing capabilities of the Group for F2P online games. The Group provides frequent updates of premium game content for all platforms across the world, offers efficient and timely customer services, helps build a cohesive and passionate player community and facilitates communications between players and the development team through online and offline interactions.



Management Discussion and Analysis

During the Reporting Period, *Warframe* released two major updates including *Operation: Scarlet Spear* and *The Deadlock Protocol*, bringing players new missions and collectibles. It also launched its third game season (i.e. *Nightwave: Series 3*). Due to the COVID-19 pandemic, the annual fan event TennoCon shifted to a live online broadcast and was postponed to 1 August 2020. However, the enthusiasm of *Warframe* fans was not affected at all. TennoCon 2020 was a huge success, driving an increase of concurrent users to a new record high.

The decline in revenue of *Warframe* during the Reporting Period was mainly due to the following factors. On one hand, our content creation pipeline during the COVID-19 pandemic could not fully meet the players' demand for a greater amount of new content. Since the outbreak of the pandemic, home quarantine restrictions have largely increased the free time of entertainment product users, benefiting most games, including premium games offering experiences with a fixed amount of hours, as well as some highly competitive or interactive F2P games. However, as *Warframe* is a content-driven F2P game, the content that could be created within a certain period of time is limited. When users' spare time and their demand for new game content increased, *Warframe*'s competitive advantages over other popular games reduced by a certain degree as the progress of the Group's game development team was inevitably affected by home quarantine measures. Meanwhile, the ambitious update *Empyrean* released in December 2019 fell slightly short of players' expectation due to certain technical issues, thus impacted the revenue of *Warframe* to a certain extent in the first quarter of 2020. The development team released patch updates regarding *Empyrean* in March to enhance and elevate the game experience, which turned out to be very well received by players. In addition, we saw a decrease in revenue in China during the transitional period when new cooperation arrangement with WeGame platform was in discussion.

Despite the abovementioned situation, the development and operating teams have several exciting changes planned, and the management team has full confidence in the continued success of *Warframe*. The most anticipated update is the release of *Heart of Deimos* announced at TennoCon, which will introduce a brand-new *Warframe* customisation system and a new open-world environment that are expected to greatly enhance players' engagement and their enthusiasm towards *Warframe* personalisation. Meanwhile, Digital Extremes and the Chinese distributor of *Warframe* will establish deeper cooperation with the WeGame platform to provide Chinese players with significant content updates, with a view to gradually align the Chinese version of *Warframe* with the international version in terms of update frequency and progress. This will solve a key pain point of Chinese players, significantly improve their game experience, and help drive a significant increase in *Warframe*'s revenue in China. In addition, the factor affecting *Warframe*'s revenue in 2019, namely the decrease in new users due to the upgrade of next-generation consoles in 2020, has been stabilised. Total payment from console users recorded a slight increase during the Reporting Period as compared to that for each of the first and second halves of 2019. Additional traffic from certain next-generation console platforms is expected to generate further growth for *Warframe*.

Telltale Games

The Company's publishing subsidiary, Athlon Games, Inc., took part as a publishing partner in the revival of Telltale Games, a well-known United States of America ("US") game brand that was shut down in 2018, and obtained the exclusive publishing rights of certain games including *Batman* and *The Wolf Among Us*. Following the relaunch and good sales performance of these games in 2019, the sales of these games reached a new height in 2020 benefitting from the implementation of home quarantine policy under COVID-19 outbreak.

Management Discussion and Analysis

Other casual / mid-core games

In addition to *Civilization Online*, one of the Company's development subsidiaries, Guangzhou Radiance Software Technology Co. Ltd. ("Guangzhou Radiance"), has developed or is currently developing several relatively lower budget casual / mid-core games including *Endless World* and *Idle Big Devil*. These products mainly adopt multi-platform strategies, with two of them being launched on Steam already and to be made available on mobile platforms through third-party publishers in the future. In contrast to the Group's main products of high-quality PC and console games which require long research and development cycle and huge investment, the investment in developing casual / mid-core games will speed up the launch timeline of the Group's new games, and will reduce the return cycle of research and development investment, enabling the Group to generate new revenue streams and profit growth.

Endless World and *Idle Big Devil* are F2P idle role-playing games. Currently available on Steam, the two games will also be launched on mobile platforms in future. *Endless World* has received nearly 80% positive review scores from players and was nominated for a 2019 Game of the Year Award (New Release) on Steam. *Idle Big Devil* is still in its early access stage with continuous optimisation, and has achieved a nearly 90% positive review score from players.

Work-for-hire and Other Businesses

The Group's work-for-hire business is mainly contributed by Splash Damage Limited ("Splash Damage"), the Company's subsidiary in the United Kingdom ("UK"). Splash Damage has extensive experience in developing critically acclaimed AAA titles with world-leading publishers and developers and contributes a predictable stream of income to the Group.

During the Reporting Period, the Group's work-for-hire business served multiple customers including Microsoft Game Studios and Google Stadia. The total revenue of this segment was US\$16.6 million, representing a year-on-year increase of 17.1% compared to the first half of 2019. This growth is especially notable as the Group continued to deliver high-quality development work despite the severe constraints on its business and operation imposed by the COVID-19 pandemic. Splash Damage quickly resolved to arrange its development teams to work from home very early in the pandemic, enabling the teams to rapidly adapt to the difficult circumstances thereafter. As a result, the studio continued to operate without any loss in productivity and remained a reliable development partner for its clients.

The Group's work-for-hire projects have not only achieved growth in revenue, but more importantly, further enhanced its popularity and reputation in the industry and among players. Following the impressive launch of *Gears 5* and *Halo Reach* (part of *Halo: The Master Chief Collection*), both of which were developed by Splash Damage in partnership with Microsoft's first party game studios in 2019, *Gears Tactics* was released in April 2020. *Gears Tactics* is a fast-paced, turn-based tactics game based on Microsoft's *Gears of War* universe and one of the flagship titles on Microsoft's Game Pass service for PC. Splash Damage designed and developed *Gears Tactics* as the sole development studio, and the game received an average Metacritic score of 81. Furthermore, Splash Damage announced its partnership with cloud gaming platform Google Stadia in March 2020 and subsequently announced its first Google Stadia exclusive game, *Outcasters*, a fast-paced multiplayer game which aimed to appeal to a broad audience.





Management Discussion and Analysis

Other business mainly included the sale of merchandise goods, which generated revenue of US\$0.1 million (2019: US\$0.2 million) during the Reporting Period.

New Product Line

Concurrent with the persistent quality updates and optimisation of its live games, the Group also attaches great importance to the development of new products, by either creating original intellectual property (“IP”) or working with globally renowned ones. The performance of live games during the Reporting Period has propelled us to invest more resources in the development of new games. The Group strives to create a high-quality product portfolio within the next two years, minimising fluctuation in the Group’s revenue and scale of business.

Guided by the Group’s established strategy in AAA quality F2P online games, the Group launched several large-scale projects in the second half of 2017. By combining the F2P design from Asia with the mature development processes from Western counterparts, the Group dedicated an enormous amount of resources to the research and development of new games. Developing AAA quality game products requires a significant investment of time, human resources and funding. Over the past three years, the Group’s development teams have focused on creating new products and brought multiple new products to the production stage. Meanwhile, the Group regularly reviews development progress of each project and optimises human resources and economic investment to maximise its output. During the Reporting Period, the Group suspended the development of an undisclosed, original F2P online game and realised a financial impairment.

TRANSFORMERS

In 2017, the Group entered into a license agreement with Hasbro Inc. and Hasbro International Inc. (collectively referred as “Hasbro”) and started to develop the game *TRANSFORMERS* alongside with renowned US game developer, Certain Affinity, Inc. (“Certain Affinity”). During the Reporting Period, Certain Affinity completed a development agreement totalling US\$33 million and submitted a satisfactory beta version. Based on this, the Group has decided to grant a further development funding of US\$10 million to Certain Affinity and signed a new supplementary agreement on 6 July 2020. The Group has also invited Splash Damage to join the development of this project. With its proven track record in delivering large scale projects, Splash Damage’s involvement will reduce risk and provides the live operation experience to properly manage the game long term.

Civilization Online

In 2017, the Group and Take Two International GmbH (“Take Two”) entered into an IP agreement, pursuant to which the internal studio of the Group would be responsible for the development of a massively multiplayer online (“MMO”) game product, *Civilization Online*. In 2018, Take Two awarded the global distribution rights of *Civilization Online* (excluding Mainland China) to the Group. The Group therefore became responsible for both the game development and global distribution of *Civilization Online*, since it could leverage its successful experience and unique advantages in multiplayer online games. During the Reporting Period, the team completed the development of all basic systems and moved onto the production stage for both world and quest creations.

Management Discussion and Analysis

The Lord of the Rings

In 2018, the Group secured the IP license for certain *The Lord of the Rings* literary works and prepared to develop a F2P MMO game within *The Lord of the Rings* universe. In 2019, the Group and subsidiaries of Amazon.com, Inc., 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 would separately and exclusively market, publish and operate the game in their respective territories. Driven by Amazon Game Studios, the development of the project has progressed smoothly.

Other new products in pipelines

Apart from the abovementioned projects, the Group has multiple unannounced new F2P game products in various development stages. Each game is developed by different game studios within the Group or in collaboration with other third-party game studios.

MATERIAL TRANSACTIONS AND EVENTS

Termination of major and connected transaction in relation to the cooperative agreement (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 Charles (“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. The parties have subsequently entered into five supplemental agreements to amend certain terms and conditions of the Cooperative Agreement, including but not limited to removing one game from the scope of the cooperation and revising the long stop date.

However, after amicable discussions and due consideration of (i) the change of the portfolio of games subject to the cooperation (with the removal of one game); (ii) the changes in costs and benefits to the parties and their respective commercial rationale for entering into the joint arrangement; (iii) the continuing development of the remaining games which have progressed differently from that initially envisaged by the parties due to the non-commencement of the Cooperative Agreement; and (iv) the substantial amount of time elapsed since the entering into of the Cooperative Agreement, the parties have decided not to proceed with the joint arrangement as any further negotiation on the terms of their cooperation of the remaining games would probably be futile and the condition precedent for the Cooperative Agreement to have effect would not likely be satisfied before the long stop date. Accordingly, the Company entered into a termination agreement with MEGA, pursuant to which the parties agreed to terminate the Cooperative Agreement with effect from 26 June 2020.

Further details of the said transaction were set out in the announcements dated 9 November 2018, 12 December 2018, 2 January 2019, 24 January 2019, 20 February 2019, 28 March 2019, 5 June 2019, 31 July 2019, 26 September 2019, 30 December 2019, 27 March 2020 and 26 June 2020.

Events after the Reporting Period

Further details of the events after the Reporting Period are set out in Note 27 of this interim report.



Management Discussion and Analysis

Outlook

The unforeseen pandemic has not materially disrupted the Group's normal working schedule. The worldwide team of the Group quickly adapted during the quarantine period, and has been able to continue delivering work to the desired quality. This is a strong testimony that talent and teams are the Group's most valuable assets. Guided by the strategies to develop and publish high quality games for the global market, the Group's team is familiar with both Chinese and Western game markets, leveraging its AAA quality research and development capabilities as well as global layout and connection. The Group is committed to launching more high-quality new games in near term, enriching its product line and further improving its profitability, thus bringing better returns to its shareholders.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by 14.2%, from US\$105.7 million for the six months ended 30 June 2019 to US\$90.7 million for the six months ended 30 June 2020, primarily due to the decline in revenue from *Warframe*, market competition and reduced number of new console players. Such decrease was partially offset by an increase in work-for-hire segment revenue.

Gross Profit

Our total gross profit decreased by 33.0%, from US\$63.9 million for the six months ended 30 June 2019 to US\$42.8 million for the six months ended 30 June 2020 and the gross profit margin significantly decreased from 60.5% for the six months ended 30 June 2019 to 47.2% for the six months ended 30 June 2020, primarily due to the impairment of development expenditure of US\$10.9 million during the Reporting Period (2019: Nil).

Other Revenue and Gains

Other revenue and gains significantly increased by 6.2 times, from US\$0.9 million for the six months ended 30 June 2019 to US\$6.3 million for the six months ended 30 June 2020, primarily due to net exchange gain of US\$6.0 million recorded during the Reporting Period (2019: net exchange loss of US\$4.4 million included in other operating expenses). Such increase was partially offset by a decrease in interest income on bank deposits by US\$0.5 million.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 14.6%, from US\$6.2 million for the six months ended 30 June 2019 to US\$5.3 million for the six months ended 30 June 2020. The decrease in selling and marketing expenses was in line with the decrease in the revenue during the Reporting Period.

Administrative Expenses

Administrative expenses slightly increased by 1.3%, from US\$19.8 million for the six months ended 30 June 2019 to US\$20.1 million for the six months ended 30 June 2020. Administrative expenses primarily consist of staff costs and legal fees and depreciation. The increase was primarily driven by greater staff costs and legal expenses for different ongoing projects.

Amortisation of Intangible Assets

Amortisation of intangible assets decreased by 3.7%, from US\$8.7 million for the six months ended 30 June 2019 to US\$8.4 million for the six months ended 30 June 2020, primarily as a result of impairment of intangible assets made in the second half of 2019.

Management Discussion and Analysis

Finance Costs

Finance costs decreased by 22.3%, from US\$1.3 million for the six months ended 30 June 2019 to US\$1.0 million for the six months ended 30 June 2020, primarily as a result of a reduction in average bank borrowings as compared to 2019.

Equity-settled Share-based Payment Expenses

Equity-settled share-based payment expenses increased significantly by 54.3%, from US\$2.5 million for the six months ended 30 June 2019 to US\$3.9 million for the six months ended 30 June 2020, primarily due to the grant of share options by the Company under its share option scheme in May and June 2019 which resulted in less amortisation charges in the first half of 2019.

Taxation

Taxation decreased by 13.9%, from US\$10.7 million for the six months ended 30 June 2019 to US\$9.2 million for the six months ended 30 June 2020, which was in line with the decline in revenue during the Reporting Period.

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 2020, property, plant and equipment amounted to US\$31.7 million (31 December 2019: US\$36.2 million). The decrease was mainly attributable to the depreciation and impairment loss which amounted to US\$1.1 million and US\$4.6 million, respectively, during the Reporting Period.

Goodwill

Goodwill was allocated to cash-generating units ("CGU(s)") in Canada, UK and People's Republic of China ("PRC"). As at 30 June 2020, goodwill amounted to US\$74.9 million (31 December 2019: US\$79.2 million). The decrease was mainly attributable to the exchange alignment of US\$4.3 million during the Reporting Period.

Intangible Assets

Intangible assets comprise brand name, completed game, game engine, game under development and trademark. As at 30 June 2020, intangible assets amounted to US\$5.0 million (31 December 2019: US\$14.1 million). The significant decrease was mainly attributable to amortisation of intangible assets amounting to US\$8.4 million during the Reporting Period.

Development Expenditure

Development expenditure represents payment to independent video game developers payable under development agreements and expenditure from development activities. As at 30 June 2020, development expenditure amounted to US\$86.4 million (31 December 2019: US\$84.7 million). The slight increase was mainly due to the continuous involvement of several new projects of US\$19.6 million. Such increase was partially offset by an impairment loss of development expenditure of US\$10.9 million and the amortisation recognised in profit or loss of US\$6.4 million during the Reporting Period.



Management Discussion and Analysis

Financial Assets at Fair Value through Other Comprehensive Income

As at 30 June 2020, financial assets at fair value through other comprehensive income amounted to US\$9.5 million (31 December 2019: US\$10.1 million). The decrease was mainly due to the change in fair value of financial assets at fair value through other comprehensive income of US\$0.6 million during the Reporting Period.

Financial Assets at Fair Value through Profit or Loss

As at 30 June 2020, financial assets at fair value through profit or loss amounted to US\$1.5 million (31 December 2019: US\$2.7 million). The decrease in financial assets at fair value through profit or loss during the Reporting Period was mainly attributable to fair value loss of US\$1.2 million.

Trade Receivables

As at 30 June 2020, trade receivables amounted to US\$19.2 million (31 December 2019: US\$22.6 million). The decrease was in line with the decline in business activities during the Reporting Period.

Bank Borrowings

At 30 June 2020, the Group had bank borrowings of US\$27.5 million (31 December 2019: US\$25.2 million). The bank borrowings were secured by (i) leasehold land and buildings, being the Group's office premises located in Hong Kong and included in property, plant and equipment with carrying amount of US\$25.6 million (31 December 2019: US\$30.3 million); and (ii) a corporate guarantee given by a subsidiary of the Company for an amount of up to US\$25 million (31 December 2019: US\$25 million). The slight increase was due to the drawdown of a revolving bank loan and offset by repayments of term loan and mortgage loan during the Reporting Period.

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 2020, deferred tax liabilities amounted to US\$3.2 million (31 December 2019: US\$4.8 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 to meet 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 2020, cash and bank balances amounted to US\$40.6 million (31 December 2019: US\$22.1 million), which were denominated in United States Dollars ("US\$"), Canadian Dollars ("CAD"), British Pound ("GBP"), Renminbi ("RMB") and Hong Kong dollars ("HK\$").

Management Discussion and Analysis

Interest-bearing Borrowings and Gearing Ratio

As at 30 June 2020, the total amount of interest-bearing borrowings was US\$28.2 million (31 December 2019: US\$25.8 million). The slight increase was mainly attributable to the drawdown of a revolving bank loan and offset by repayments of term loan and mortgage loan during the Reporting Period. Details of the Group's bank borrowings, including the maturity profile, currency and interest rate, are set out in Note 19 to the interim condensed consolidated financial statements.

As at 30 June 2020, the gearing ratio of the Group was 9.1% (31 December 2019: 8.0%). The gearing ratio was calculated by dividing total interest-bearing borrowings by total assets of the Group.

SEGMENTAL INFORMATION

Details of segmental information are set out in Note 3 to the interim condensed consolidated financial statements.

PROSPECT

As demonstrated in the section headed "Business Overview" in this interim report, the Company will devote its efforts to achieving the goals set by the Board and the management.

OTHER INFORMATION

Human Resources

As at 30 June 2020, the Group had 1,045 employees (31 December 2019: 1,046).

Staff Costs

Total staff costs, including directors' emoluments, amounted to US\$20.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: US\$17.1 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.

The employees of the Company'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.



Management Discussion and Analysis

The employees of the Company's subsidiaries which operate in Canada may make voluntary contributions to the Registered Retirement Savings Plan. These 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 Company's subsidiaries which operate in UK pay fixed contributions into a separate entity. These 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 Company's subsidiaries in the US participated in the tax-qualified defined contribution plan under section 401(k) scheme of the Internal Revenue Code of the US covering all of its eligible employees in the US who participate in the plan and contribute a portion of their compensation on a pre-income tax basis up to a limit specified by law. The Group's contribution to the plan is based on the percentage of employee contribution from the individual employee's monthly basic salary. Under this plan, these subsidiaries 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 Company's subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. These 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 of the Company ("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 408,859,122 share options.

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.

Management Discussion and Analysis

Foreign Exchange Risk

The Group's main operations are in Canada, UK, PRC (including Hong Kong) 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 will 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 interim condensed consolidated financial statements.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the six months ended 30 June 2020, the Group did not have other plans for material investments and capital assets.

PLEDGE OF ASSETS

As at 30 June 2020, bank borrowings of the Group with carrying amount of US\$27.5 million (31 December 2019: US\$25.2 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 Company.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 30 June 2020, the Group had capital commitments of US\$93.5 million (31 December 2019: US\$97.0 million).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

Other Information

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

As at 30 June 2020, the interests and short positions of the directors of the Company (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 of the Company	Nature of interests	Number of shares held	Number of underlying shares held under equity derivatives	Total number of shares interested	Approximate percentage of total issued share capital of the Company
Mr. Xu Yiran	Beneficial owner	–	29,246,800 (L)	29,246,800 (L)	0.95%
Mr. Gu Zhenghao	Beneficial owner	–	29,246,800 (L)	29,246,800 (L)	0.95%
Mr. Li Yang	Beneficial owner and interest of controlled corporation	2,895,000 (L) (Note)	12,750,000 (L)	15,645,000 (L)	0.51%

Abbreviation:

"L" stands for long position

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 2020, none of the Directors or chief executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified 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 2020, the interests and short positions of the persons (other than the Directors and 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 under Section 336 of the SFO or as otherwise notified 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)	66.78%
Novel New Limited (Note 1)	Beneficial owner	74,100,000 (L)	–	74,100,000 (L)	2.40%
Mr. Yuk (Note 1)	Interest of controlled corporation	1,613,994,522 (L)	518,700,000 (L)	2,132,694,522 (L)	69.18%
Kingston Finance Limited (Note 2)	Security interest in shares	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.95%
Ample Cheer Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.95%
Best Forth Limited (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.95%
Mrs. Chu Yuet Wah (Note 2)	Interest of controlled corporation	1,539,894,522 (L)	–	1,539,894,522 (L) (Note 3)	49.95%
LaGuardia Venture Limited (Note 4)	Beneficial owner	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.82%
	Beneficial owner	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.82%



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)	16.82%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.82%
Giant Investment(HK) Limited (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.82%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.82%
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)	16.82%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.82%
Mr. Shi Yuzhu (Note 4)	Interest of controlled corporation	518,700,000 (L)	–	518,700,000 (L) (Note 5)	16.82%
	Interest of controlled corporation	–	518,700,000 (S)	518,700,000 (S) (Note 5)	16.82%

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: 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, a former non-executive Directors, is one of the two directors of Port New Limited.

Note 2: Kingston Finance Limited, a company incorporated in Hong Kong, is wholly owned by Ample Cheer Limited, a company incorporated in the British Virgin Islands. Ample Cheer Limited is controlled as to 80% by Best Forth Limited and 20% by Insight Glory Limited. Each of Best Forth Limited and Insight Glory Limited is a company incorporated in the British Virgin Islands and is wholly controlled 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 ("LaGuardia") is wholly controlled by Alpha Frontier Limited ("Alpha"), which Alpha is held as to 42.04% by Chongqing Cibi Business Information Consultancy Co., Ltd.* (重慶賜比商務信息諮詢有限公司) ("Chongqing Cibi"), 32.95% by Hazlet Global Limited ("Hazlet"), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓊逸互聯網科技合夥企業(有限合夥)), 10.87% by Shanghai Lingyi Internet Technology Partnership (Limited Partnership)* (上海瓊熠互聯網科技合夥企業(有限合夥)) and 3.27% by Chongqing Jiezi Business Information Consultancy Partnership (Limited Partnership)* (重慶傑資商務信息諮詢合夥企業(有限合夥)) respectively. Chongqing Cibi is a company controlled by Mr. Shi Yuzhu (史玉柱). The de facto controller of Hazlet is Ms. Shi Jing (史靜), who is the daughter of Mr. Shi Yuzhu. Hazlet is a person acting in concert with Chongqing Cibi. Mr. Shi Yuzhu is the de facto controller of LaGuardia and Alpha.

* For identification purposes only

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 2020, the number of issued shares was 3,082,934,197 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 2020, no person (other than the Directors and 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 as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.



Other Information

SHARE OPTIONS SCHEME

The Company adopted the Share Option Scheme on 25 August 2017. The terms of the Share Option Scheme are in accordance with the provision of Chapter 17 of the Listing Rules. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 25 August 2017.

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

Details of the movement in the share options granted under the Share Option Scheme during the six months ended 30 June 2020 are as follows:

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2020	Number of share options			Outstanding as at 30 June 2020
					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				71,243,600	–	–	–	71,243,600

Other Information

SHARE OPTIONS SCHEME (CONTINUED)

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2020	Number of share options			Outstanding as at 30 June 2020
					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	–	(1,150,000)	–	28,096,791
	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 (b))	HK\$2.50	41,849,987	–	–	(600,000)	41,249,987
	2 May 2019	2 May 2021 to 2 November 2022 (Note (b))	HK\$2.80	41,849,987	–	–	(933,332)	40,916,655
	2 May 2019	2 May 2022 to 2 November 2022 (Note (b))	HK\$3.10	41,850,026	–	–	(933,336)	40,916,690
	20 May 2019	20 May 2020 to 20 November 2022	HK\$2.50	2,011,938	–	(89,197)	(118,641)	1,804,100
	20 May 2019	20 May 2021 to 20 November 2022	HK\$2.80	2,011,938	–	–	(671,575)	1,340,363
	20 May 2019	20 May 2022 to 20 November 2022	HK\$3.10	2,011,945	–	–	(671,571)	1,340,374
	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				249,573,021	–	(1,239,197)	(3,928,455)	244,405,369



Other Information

SHARE OPTIONS SCHEME (CONTINUED)

Grantees	Date of grant of share options	Exercise period	Exercise price of share options	Outstanding as at 1 January 2020	Number of share options			Outstanding as at 30 June 2020
					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				96,740,400	–	–	–	96,740,400
Total				417,557,021	–	(1,239,197)	(3,928,455)	412,389,369

Other Information

SHARE OPTIONS SCHEME (CONTINUED)

Notes:

- (a) The share options were vested upon grant.
- (b) 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.
- (c) The exercise price of the share options was subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.
- (d) The market price of shares on 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.
- (e) Save as disclosed above, no option under the Share Option Scheme was outstanding, granted, exercised, cancelled or lapsed during the Reporting Period.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

As at 30 June 2020, Mr. Yuk, the controlling shareholder of the Company, has pledged 1,539,894,522 ordinary shares in the issued share capital of the Company to Kingston Finance Limited. To the best of the knowledge of the Directors, such shares were not pledged to secure the Company's debts or to secure guarantees or other support of its obligations.

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

ISSUE OF EQUITY SECURITIES

During the Reporting Period, the Company has not conducted any equity fund raising activity.

ADVANCE TO AN ENTITY

On 15 October 2017, the Company and Certain Affinity, a video game development studio based in the US owned as to 20% by the Company, entered into a game development agreement (the "Game Development Agreement"), pursuant to which Certain Affinity should develop and produce for the Company the Game based on certain IP, including the *TRANSFORMERS* property (the "Game") and the Company should provide Certain Affinity with an interest-free loan facility (the "Loan"), which was essentially the development budget for the Game, in the amount of up to US\$15 million to pay for costs and expenses incurred in connection with the provision of the development services relating to the Game.



Other Information

ADVANCE TO AN ENTITY (CONTINUED)

On 7 January 2019, by an amendment agreement entered into among the Company, Certain Affinity and Mr. Hoberman who was the founder, President and controlling shareholder of Certain Affinity, the maximum principal amount of the Loan increased from US\$15 million to US\$33 million. The Loan continued 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 reason for the increase in the principal amount of the Loan was to enable Certain Affinity to develop and produce the Game with richer content and prepare to make the Game available on PC.

By another amendment agreement dated 6 July 2020 entered into between the Company and Certain Affinity, the maximum principal amount of the Loan further increased from US\$33 million to approximately US\$43 million. With the second increase in the principal amount of the Loan, Certain Affinity would be able to start volume production towards a higher-quality open beta version of the Game.

As at 30 June 2020 and as at the date of this interim report, the Loan exceeded 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules. Further details of the Loan and the subsequent amendment agreements were set out in the announcements of the Company dated 16 October 2017, 7 January 2019 and 6 July 2020.

Save as disclosed above, as at 30 June 2020, no other advance to an entity which exceeded 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules has been made.

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 contained in Appendix 14 of the Listing Rules (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 five 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 exacting than the required standard set out in the Model Code. The Company has made specific enquiries of all Directors and all the Directors confirmed that they have complied with the Model Code and the required standards of the Company's code of conduct regarding securities transactions by Directors during the Reporting Period.

DISCLOSURE ON CHANGES IN THE INFORMATION OF DIRECTORS IN ACCORDANCE WITH RULE 13.51(B)(1) OF THE LISTING RULES

In March 2020, Mr. Eric Todd, a non-executive Director, was appointed as a director of Tech Pro Technology Development Limited (previous Stock Code: 3823; delisted now).

In June 2020, Mr. Kwan Ngai Kit ("Mr. Kwan"), an independent non-executive Director, was appointed as a reviewer for reviewing and judging the Best Corporate Awards of the Hong Kong Institute of Certified Public Accountants. Moreover, in July 2020, Rare Earth Magnesium Technology Group Holdings Limited (Stock Code: 601), in which Mr. Kwan serves as an independent non-executive director, has appointed "light touch" joint provisional liquidators for a possible debt restructuring.

In July 2020, Mr. Chan Chi Yuen, an independent non-executive Director, resigned as an independent non-executive director of Asia Energy Logistics Group Limited (Stock Code: 351).

In August 2020, Mr. Li Yang, the deputy chairman and an executive Director, was appointed as an executive director of CT Environmental Group Limited (Stock Code: 1363).

AUDIT COMMITTEE

The Company established the audit committee ("Audit Committee") with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review the Company's financial information and oversee the Company's financial reporting process, risk management and internal control systems. The unaudited interim condensed consolidated results of the Group for the six months ended 30 June 2020 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. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and the Company's internal control with members of the senior management.

INTERIM DIVIDEND

The Board has resolved not to declare payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

Hong Kong, 21 August 2020



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 2020

	Notes	Six months ended 30 June	
		2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Revenue	4	90,692	105,671
Cost of sales		(47,888)	(41,763)
Gross profit		42,804	63,908
Other revenue and gains	5	6,251	873
Net loss on financial assets at fair value through profit or loss	8	(1,200)	(821)
Amortisation of intangible assets	8, 13	(8,386)	(8,707)
Impairment of property, plant and equipment	8, 11	(4,594)	–
Selling and marketing expenses		(5,315)	(6,222)
Administrative expenses		(20,095)	(19,831)
Finance costs	6	(1,020)	(1,312)
Other operating expenses		–	(4,390)
Equity-settled share-based payment expenses	8	(3,894)	(2,524)
Profit before taxation	8	4,551	20,974
Taxation	7	(9,246)	(10,744)
(Loss)/profit for the period		(4,695)	10,230
(Loss)/profit for the period attributable to:			
Owners of the Company		(5,788)	9,288
Non-controlling interests		1,093	942
		(4,695)	10,230
(Loss)/earnings per share			
Basic (US cents per share)	9	(0.19)	0.30
Diluted (US cents per share)	9	(0.19)	0.30

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 2020

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
(Loss)/profit for the period	(4,695)	10,230
Other comprehensive (loss)/income 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	(600)	300
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operation	(12,281)	6,041
Other comprehensive (loss)/income for the period	(12,881)	6,341
Total comprehensive (loss)/income for the period	(17,576)	16,571
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	(18,493)	15,748
Non-controlling interests	917	823
	(17,576)	16,571

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 2020

	Notes	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	31,683	36,194
Goodwill	12	74,901	79,250
Intangible assets	13	4,985	14,086
Development expenditure	14	86,444	84,667
Right-of-use assets	15	14,682	17,349
Financial assets at fair value through other comprehensive income		9,500	10,100
Deferred tax assets		525	560
		222,720	242,206
Current assets			
Inventories		153	147
Trade receivables	16	19,198	22,575
Deposits paid, prepayments and other receivables		20,752	20,704
Financial assets at fair value through profit or loss	17	1,522	2,723
Tax recoverable		6,197	12,388
Cash and bank balances		40,588	22,105
		88,410	80,642
Current liabilities			
Trade payables	18	3,440	3,498
Accruals and other payables		13,188	10,646
Bank borrowings	19	27,548	25,157
Lease liabilities		5,066	5,314
Contract liabilities		7,748	6,751
		56,990	51,366
Net current assets		31,420	29,276
Total assets less current liabilities		254,140	271,482

Interim Results

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

	Notes	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Equity			
Share capital	21	39,750	39,734
Reserves		192,513	206,808
Equity attributable to owners of the Company		232,263	246,542
Non-controlling interests		6,181	5,264
Total equity		238,444	251,806
Non-current liabilities			
Deferred tax liabilities		3,174	4,814
Lease liabilities		11,891	14,247
Debenture	20	631	615
Total non-current liabilities		15,696	19,676
Total equity and non-current liabilities		254,140	271,482

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 2020

	Share capital US\$'000	Share premium' US\$'000	Capital reserve' US\$'000	Exchange reserve' US\$'000 (Note (a))	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 2019 (audited)	39,345	167,969	(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 (loss)/income 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
As at 1 January 2020 (audited)	39,734	176,705	(437)	8,136	2,000	(47,911)	23,746	44,569	246,542	5,264	251,806
(Loss)/profit for the period	-	-	-	-	-	-	-	(5,788)	(5,788)	1,093	(4,695)
Exchange differences on translating foreign operations and other comprehensive income/(loss) for the period	-	-	-	(12,105)	(600)	-	-	-	(12,705)	(176)	(12,881)
Total comprehensive (loss)/income for the period	-	-	-	(12,105)	(600)	-	-	(5,788)	(18,493)	917	(17,576)
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	3,903	-	3,903	-	3,903
Exercise of share options (Note 21(b))	16	395	-	-	-	-	(100)	-	311	-	311
Lapse of share option	-	-	-	-	-	-	(177)	177	-	-	-
As at 30 June 2020 (unaudited)	39,750	177,100	(437)	(3,969)	1,400	(47,911)	27,372	38,958	232,263	6,181	238,444

* These reserve accounts comprise the consolidated reserve of US\$192,513,000 (31 December 2019: US\$206,808,000) 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) 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 2020

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Operating activities		
Cash from operation	46,514	42,129
Interest paid	(569)	(842)
Tax paid	(1,239)	(16,530)
Net cash generated from operating activities	44,706	24,757
Investing activities		
Purchase of property, plant and equipment	(1,279)	(748)
Purchase of intangible assets	(1)	(403)
Other cash flows arising from investing activities	(18,916)	(31,252)
Net cash used in investing activities	(20,196)	(32,403)
Financing activities		
Repayment of bank borrowings	(5,802)	(4,490)
Proceeds from bank borrowings	8,075	–
Issue of shares	–	9,135
Repayment of lease liabilities	(3,131)	(2,588)
Exercise of share options	311	–
Net cash (used in)/generated from financing activities	(547)	2,057
Net increase/(decrease) in cash and bank balances	23,963	(5,589)
Cash and bank balances at the beginning of the period	22,105	32,658
Effect of foreign exchange rate changes, net	(5,480)	2,934
Cash and bank balances at the end of the period	40,588	30,003

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 2020

1. BASIS OF PREPARATION

Leyou Technologies Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 22 February 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Suite 3201, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong (“HK”), respectively. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Directors consider that Port New Limited, a company incorporated in the British Virgins Island (“BVI”), is the parent company and ultimate holding company of the Company.

The interim condensed consolidated financial statements for the Reporting Period 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.

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 2019 as contained in the Company’s Annual Report 2019 (the “Annual Report 2019”).

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.

Interim Results

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 2019, 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.

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time for the financial period beginning on or after 1 January 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of Business
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform

Early adoption of amendments to HKFRSs

The following amendments to HKFRSs, which is applicable to the Group but are not yet effective for the current year, have been early adopted in current year:

HKFRS 16 (Amendments)	COVID-19 Related Rent Concession
-----------------------	----------------------------------

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

Amendments to HKFRS 16 COVID-19 Related Rent Concession

The Group has elected the practical expedient to apply amendments to HKFRS 16 to account for any change in lease payments resulting from the rent concession occurring as a direct consequence of the COVID-19 pandemic.

The Group has applied the practical expedient to rent concession that meet all of the following conditions:

- a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- c) there is no substantive change to other terms and conditions of the lease.

The rent concession recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30 June 2020 amounted to US\$104,000 (2019: Nil).



Interim Results

3. SEGMENT INFORMATION

During the Reporting Period, 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, financial assets at fair value through other comprehensive income and deferred tax assets. 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, financial assets at fair value through other comprehensive income and deferred tax assets, they are based on the location of operations to which these assets are allocated.

Revenue from external customers

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Canada	72,968	89,733
UK	15,156	12,028
US	1,588	3,590
PRC	980	320
	90,692	105,671

Non-current assets

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
	Canada	53,321
UK	60,709	66,441
PRC	22,797	23,046
HK	85,751	90,662
US	142	272
	222,720	242,206

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	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Computer and video games	90,692	105,671

4. REVENUE

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Game development and publishing	74,084	91,357
Work-for-hire	16,555	14,140
Sale of merchandise goods	53	174
	90,692	105,671
Timing of revenue recognition		
Over time	89,051	101,907
At a point in time	1,641	3,764
	90,692	105,671

As at 30 June 2020, 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 US\$7,748,000 (31 December 2019: US\$6,751,000) and the Group will recognise this revenue in the future.

All work-for-hire service contracts 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	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Interest income on bank deposits	72	610
Net exchange gain	5,990	–
Sundry income	189	263
	6,251	873

6. FINANCE COSTS

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Interest on:		
– Bank borrowings	527	799
– Lease liabilities	464	486
– Debenture	29	27
	1,020	1,312

7. TAXATION

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Canada corporate income tax expense		
– current period	11,350	13,355
UK corporate income tax credit		
– current period	(695)	(218)
Deferred tax		
– current period	(1,409)	(2,393)
	9,246	10,744

Interim Results

7. TAXATION (CONTINUED)

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group was not subject to any income tax in the Cayman Islands and BVI during the Reporting Period (2019: 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 gazetted on the following day. Under the two-tiered profits tax rate regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.
- (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 six months ended 30 June 2020 and 2019.
- (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 six months ended 30 June 2020 and 2019.
- (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 six months ended 30 June 2020 and 2019. 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 six months ended 30 June 2020 and 2019.

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 2020 would not be distributed in the foreseeable future (31 December 2019: Nil).



Interim Results

8. PROFIT BEFORE TAXATION

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

	Notes	Six months ended 30 June	
		2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
Staff costs including directors' remuneration		14,959	13,523
Equity-settled share-based payment expenses		3,894	2,524
Contributions to retirement schemes		1,236	1,007
Total staff costs		20,089	17,054
Depreciation of property, plant and equipment	11	1,105	1,052
Depreciation of right-of-use assets	15	2,665	2,155
Amortisation of intangible assets	13	8,386	8,707
Amortisation of development expenditure ¹	14	6,445	4,195
Total depreciation and amortisation		18,601	16,109
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		1,200	766
Net loss on financial assets at fair value through profit or loss		1,200	821
Cost of inventories recognised as expenses		36	98
Expense relating to short-term leases		674	477
Net exchange (gain)/loss ²		(5,990)	4,381
Net loss on disposal of property, plant and equipment		–	7
Impairment of development expenditure ¹	14	10,922	–
Impairment of property, plant and equipment	11	4,594	–
Reversal of allowance for expected credit loss recognised in respect of trade receivables ³		–	(3)
Allowance for expected credit loss recognised in respect of deposits and other receivables ³		3,225	3,062

¹ Included in cost of sales in the interim condensed consolidated statement of profit or loss.

² Included in (other revenue and gains)/other operating expenses in the interim condensed consolidated statement of profit or loss.

³ Included in administrative expenses in the interim condensed consolidated statement of profit or loss.

Interim Results

9. (LOSS)/EARNINGS PER SHARE

	Six months ended 30 June	
	2020 US\$'000 (Unaudited)	2019 US\$'000 (Unaudited)
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company for the purpose of calculating (loss)/earnings per share	(5,788)	9,288

Weighted average number of ordinary shares

During the six months ended 30 June 2020 and 2019, the weighted average number of ordinary shares used as denominator in calculating (loss)/earnings per share was as follows:

	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	3,081,902	3,059,283
Effect of dilutive potential ordinary shares:		
– Share options (Note)	–	38,685
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	3,081,902	3,097,968

Note:

For the six months ended 30 June 2020, the effects of the Company's outstanding share options were anti-dilutive and therefore the diluted loss per share are the same as the basic loss per share.

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 six months ended 30 June 2019, together with the adjustment for the share options lapsed or exercised.

10. DIVIDENDS

No dividends were declared during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).



Interim Results

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Office equipment	Motor vehicles	Total
	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)	US\$'000 (Unaudited)
Cost				
As at 1 January 2020	34,257	13,076	94	47,427
Additions	–	1,279	–	1,279
Disposals	–	(47)	–	(47)
Exchange alignment	160	(530)	–	(370)
As at 30 June 2020	34,417	13,778	94	48,289
Accumulated depreciation and impairment				
As at 1 January 2020	3,920	7,275	38	11,233
Provided for the period (Note 8)	265	831	9	1,105
Impairment during the period (Note 8) (Note (b))	4,594	–	–	4,594
Eliminated on disposals	–	(24)	–	(24)
Exchange alignment	18	(320)	–	(302)
As at 30 June 2020	8,797	7,762	47	16,606
Net carrying amount				
As at 30 June 2020 (unaudited)	25,620	6,016	47	31,683
As at 31 December 2019 (audited)	30,337	5,801	56	36,194

Notes:

- (a) As at 30 June 2020 and 31 December 2019, all of the Group's leasehold land and buildings have been pledged to secure banking facilities of the Group.
- (b) Due to the significant decrease in comparable selling price of properties, the Group recognised an impairment related to leasehold land and buildings amounting to US\$4,594,000 during the six months ended 30 June 2020 (year ended 31 December 2019: US\$3,315,000).

Recoverable amount has been determined by fair value less cost to disposal. In determining the fair value of relevant properties, the Group engaged an independent external professional valuer to perform the valuation. The fair value of the owned properties was determined based on the market comparable approach that reflects recent transaction price of similar properties.

Interim Results

12. GOODWILL

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Cost		
At the beginning of the period/year	123,646	119,363
Exchange alignments	(7,067)	4,283
At the end of the period/year	116,579	123,646
Accumulated impairment loss		
At the beginning of the period/year	44,396	42,944
Exchange alignments	(2,718)	1,452
At the end of the period/year	41,678	44,396
Net carrying amount at the end of period/year	74,901	79,250

Allocation of goodwill to cash-generating units ("CGU(s)")

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

- Digital Extremes Ltd. and its subsidiary ("Digital Extremes"): Computer and video games CGU in Canada.
- Splash Damage Limited, Warchest Limited and Fireteam Limited ("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 cash-generating units ("CGU(s)") (Continued)

The net carrying amount of goodwill was allocated to CGU as follows:

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Digital Extreme	26,978	28,221
Splash Damage Group	47,563	50,665
Guangzhou Radiance	360	364
	74,901	79,250

13. INTANGIBLE ASSETS

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Cost		
At the beginning of the period/year	107,550	103,770
Additions	1	1,343
Exchange alignment	(4,903)	2,437
At the end of the period/year	102,648	107,550
Accumulated amortisation and impairment		
At the beginning of the period/year	93,464	72,254
Charge for the period/year (Note 8)	8,386	17,366
Impairment during the period/year*	–	2,540
Exchange alignment	(4,187)	1,304
At the end of the period/year	97,663	93,464
Net carrying amount at the end of period/year	4,985	14,086

* As a result of the under-performance of a developed game, the Directors determine the recoverable amount of the developed game was minimal, an impairment of intangible assets of US\$2,540,000 was recognised during the year ended 31 December 2019.

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 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Brand name	9,302	9,908
Completed game	62,529	65,410
Game engine	11,396	11,920
Game under development	19,301	20,185
Trademark	120	127
	102,648	107,550



Interim Results

14. DEVELOPMENT EXPENDITURE

Development expenditure represents payment to independent video game developers payable under development agreements and expenditure from development activities. 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 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
At the beginning of the period/year	84,667	48,297
Additions*	19,641	54,032
Amortisation recognised during the period/year (Note 8)	(6,445)	(10,471)
Impairment during the period/year (Note 8)**	(10,922)	(7,675)
Exchange alignment	(497)	484
At the end of the period/year	86,444	84,667

Notes:

* Included in additions, there are equity-settled share-based expenses capitalised of approximately US\$799,000 (year ended 31 December 2019: US\$1,638,000) and others addition of approximately US\$18,842,000 (year ended 31 December 2019: US\$52,394,000).

** 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\$10,922,000 was recognised during the six months ended 30 June 2020 (year ended 31 December 2019: US\$7,675,000).

Interim Results

15. RIGHT-OF-USE ASSETS

The Group as lessee

	Properties leased for own use	Equipment leased for own use	Total
	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 January 2020	12,445	4,904	17,349
Additions	158	706	864
Depreciation charge during the period (Note 8)	(1,495)	(1,170)	(2,665)
Exchange alignment	(568)	(298)	(866)
As at 30 June 2020	10,540	4,142	14,682

Notes:

- For both periods, the Group leases various offices equipment and properties for its operations. Lease contracts are entered into for fixed term of 2 years to 10 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.
- The Group has options to purchase certain equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.
- At 30 June 2020, the Group is committed to US\$353,000 for short-term leases (31 December 2019: US\$378,000).
- The total cash outflow for leases amount to US\$3,131,000 for the six months ended 30 June 2020 (year ended 31 December 2019: US\$5,370,000).
- The Company has no expense relating to lease of low-value assets during the six months ended 30 June 2020 (year ended 31 December 2019: Nil).

16. TRADE RECEIVABLES

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Trade receivables	19,265	22,646
Less: Allowance for credit loss*	(67)	(71)
	19,198	22,575

Note:

- * No reversal of allowance for credit loss (2019: US\$3,000) has been credited to the interim condensed consolidated statement of profit or loss during the six months ended 30 June 2020 (Note 8).



Interim Results

16. 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 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Within 30 days	17,775	18,668
31 days to 60 days	–	1,988
61 days to 180 days	1,423	1,553
Over 180 days	–	366
	19,198	22,575

The trade receivables are denominated in US\$, CAD, RMB and GBP.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Held for trading:		
– Listed equity securities in HK (Note (a))	–	–
Derivative financial instruments, at fair value (Note (b))	1,400	2,600
Interest rate swap (Note (c))	122	123
	1,522	2,723

Notes:

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

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

Interim Results

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

Notes: (Continued)

(b) Derivative financial instruments, fair value

Pursuant to sale and purchase agreement in Certain Affinity, the Group was granted with a call option ("Call Option"), whereby the Group has the discretion to acquire the remaining equity interest in Certain Affinity, 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 2020 and 31 December 2019, the fair values of the Call Option were US\$1,400,000 and US\$2,600,000, 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 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
80% of equity value (US\$'000)	42,152	44,961
Maturity	1.0 years	1.5 years

(c) 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 22.

The notional amount of the outstanding interest rate swap contracts as at 30 June 2020 was HK\$189,586,800 (31 December 2019: HK\$189,586,800).

18. TRADE PAYABLES

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Trade payables	3,440	3,498



Interim Results

18. TRADE PAYABLES (CONTINUED)

The ageing analysis of trade payables is as follows:

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Within 30 days	2,523	2,392
31 days to 90 days	844	775
91 days to 180 days	47	327
Over 180 days	26	4
	3,440	3,498

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

19. BANK BORROWINGS

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Secured:		
Term loan (Note (a))	8,396	12,527
Mortgage loan (Note (b))	12,354	12,630
Revolving loan (Note (c))	6,798	–
	27,548	25,157

The bank borrowings were repayable as follows:

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Within 1 year or on demand	27,548	25,157

Interim Results

19. BANK BORROWINGS (CONTINUED)

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

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
HK Dollars	19,152	12,630
US Dollars	8,396	12,527
	27,548	25,157

Notes:

The secured bank borrowings were secured by leasehold land and buildings included in property, plant and equipment with carrying amounts of US\$25,620,000 (31 December 2019: US\$30,337,000) and a corporate guarantee given by a subsidiary of the Company for an amount up to US\$25,000,000 (31 December 2019: US\$25,000,000).

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 2020 ranged from 4.5% to 6.4% per annum (31 December 2019: 4.9% to 6.4% 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 2020, none of the covenants relating to draw down facilities had been breached (31 December 2019: None).

(b) Mortgage loans

The mortgage loans carry interest at HIBOR plus 1.2%. The effective interest rate as at 30 June 2020 ranged from 2.3% to 3.9% per annum (31 December 2019: 2.2% to 3.7% 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 2020 ranged from 2.0% to 3.1% per annum (31 December 2019: 1.9% to 3.6% per annum). As at 31 December 2019, the Company had fully repaid the banking facilities.

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

Interim Results

20. DEBENTURE

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Unsecured debenture of 5%	631	615

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 2019: 5%) per annum, unsecured and repayable on 19 January 2021. The effective interest rate of the debenture is approximately 9.4% (31 December 2019: 9.4%).

21. 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:				
Balance as at 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	10,000,000,000	1,000,000	129,000	–
Issued and fully paid:				
As at 1 January 2019 ordinary shares of HK\$0.1 each	3,051,195,000	305,119	39,345	167,959
Subscription of shares (Note (a))	30,500,000	3,050	389	8,746
Balance as at 31 December 2019 and 1 January 2020	3,081,695,000	308,169	39,734	176,705
Issue of shares upon exercise of share options (Note (b))	1,239,197	124	16	395
Balance as at 30 June 2020	3,082,934,197	308,293	39,750	177,100

Notes:

- (a) 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.
- (b) During the six months ended 30 June 2020, the Company issued 1,239,197 (year ended 31 December 2019: Nil) shares of the Company for proceeds of US\$311,000 (year ended 31 December 2019: Nil), as a result of exercise of share options with the weighted average exercise price of US\$0.25 (equivalent to HK\$1.95) per share. Among the proceeds of US\$311,000 (year ended 31 December 2019: Nil), US\$16,000 (year ended 31 December 2019: Nil) were credited to the share capital account and the balance of US\$295,000 (year ended 31 December 2019: Nil) were credited to the share premium account during the Reporting Period.

Interim Results

22. 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 value 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 2020 (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	–	122	1,400	1,522
Financial assets at fair value through other comprehensive income	–	–	9,500	9,500
	–	122	10,900	11,022

As at 31 December 2019 (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	–	123	2,600	2,723
Financial assets at fair value through other comprehensive income	–	–	10,100	10,100
	–	123	12,700	12,823

Interim Results

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of Level 3 fair value measurements of financial assets

	For the six months ended 30 June 2020 US\$'000 (Unaudited)	For the year end 31 December 2019 US\$'000 (Audited)
At the beginning of the period/year	12,700	11,500
Fair value (loss)/gain in profit or loss	(1,200)	200
Fair value (loss)/gain in other comprehensive income	(600)	1,000
At the end of the period/year	10,900	12,700

The above fair value (loss)/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.

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial assets			
Financial assets at fair value through profit or loss			
– Derivative financial instruments outside HK 30 June 2020: US\$1,400,000 31 December 2019: US\$2,600,000	Level 3	Binomial option pricing model	<ul style="list-style-type: none"> • Risk-free rate (0.15%) (31 December 2019: 1.58%): 1% increase/(decrease) in risk-free rate would have no material impact on the fair value • Volatility (27%) (31 December 2019: 23%): 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
– Interest rate swap 30 June 2020: US\$122,000 31 December 2019: US\$123,000	Level 2	Monte Carlo Simulation – Cap rate (4% per annum) – Floating rate (1.3%)	<ul style="list-style-type: none"> • NA

Interim Results

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of Level 3 fair value measurements of financial assets (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 2020: US\$9,500,000 31 December 2019: US\$10,100,000	Level 3	Discounted cash flow method	<ul style="list-style-type: none"> Discount for credit risk (14%) (31 December 2019: 16%): 1% increase/(decrease) in discount rate would result in (decrease)/increase in fair value by (US\$900,000)/US\$1,100,000 (31 December 2019: (US\$800,000)/US\$900,000) 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

23. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim condensed consolidated financial statements, the Group did not enter into transactions with related parties during the Reporting Period (2019: Nil)

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:

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

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Amounts due from the directors of the subsidiaries (Note)	18	631

Note:

Save for the amount of US\$583,000 due from a director of a subsidiary as at 31 December 2019 which is interest-bearing and on normal commercial terms, the amounts due from the directors of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. During the Reporting Period, the interest-bearing portion was fully repaid.



Interim Results

24. MAJOR NON-CASH TRANSACTIONS

During the Reporting Period, the Group entered into new lease agreements for the use of leased properties and equipments for fixed terms of 2 years to 10 years. On the lease commencement, the Group recognised approximately US\$864,000 (31 December 2019: US\$2,815,000) of right-of-use assets and approximately US\$864,000 (31 December 2019: US\$2,815,000) of lease liabilities.

25. COMMITMENTS

	As at 30 June 2020 US\$'000 (Unaudited)	As at 31 December 2019 US\$'000 (Audited)
Commitments for:		
– development expenditure	93,484	97,005

26. 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.

27. EVENTS AFTER THE REPORTING PERIOD

(a) Termination of the memorandum of understanding in relation to the possible sale of certain or all of the issued share capital of the Company in which Mr. Yuk is interested; and Privatization Exclusivity Agreement

The Company has announced that it had been informed by Mr. Yuk that on 29 April 2020, Mr. Yuk and his wholly-owned companies, Port New Limited and Novel New Limited (together with Port New Limited, the “Selling Shareholders”) entered into a memorandum of understanding (the “New MOU”) with Diandian Interactive Holding regarding the possible sale of certain or all of the issued share capital of the Company in which Mr. Yuk was interested. The Board has been informed by the Selling Shareholders that on 9 July 2020, the Selling Shareholders and Mr. Yuk entered into a termination deed with Diandian Interactive Holding, pursuant to which the parties have agreed to terminate the new MOU as the parties were unable to reach agreement on the terms of the formal sale and purchase agreement. The Board considered that the termination of the New MOU had no material adverse impact on the business operation and financial position of the Group.

On 10 July 2020, Mr. Yuk and the Company entered into an exclusivity agreement (the “Privatization Exclusivity Agreement”) with Tencent Mobility Limited, a wholly-owned subsidiary of Tencent Holdings Limited, a company whose shares are listed on the Stock Exchange (Stock Code: 700) regarding a possible acquisition and privatization of the Company (the “Possible Privatization”). As at the date of this interim report, negotiations are still in progress and there is no certainty (a) as to the terms of the Possible Privatization; and (b) that the Possible Privatization will proceed or that it will result in a binding agreement. There is no assurance that any negotiations mentioned herein will either materialise or eventually be consummated and the negotiations may or may not lead to a possible acquisition and privatization of the Company.

Interim Results

27. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(a) Termination of the memorandum of understanding in relation to the possible sale of certain or all of the issued share capital of the Company in which Mr. Yuk is interested; and Privatization Exclusivity Agreement (Continued)

Further details of the New MOU and its termination and the Possible Privatization were set out in the announcements of the Company dated 20 September 2019, 16 October 2019, 13 November 2019, 22 November 2019, 29 November 2019, 9 December 2019, 20 December 2019, 3 January 2020, 13 January 2020, 22 January 2020, 30 January 2020, 17 February 2020, 10 March 2020, 12 March 2020, 9 April 2020, 4 May 2020, 19 May 2020, 17 June 2020, 9 July 2020, 10 July 2020, 14 July 2020, 15 July 2020, 16 July 2020, 17 July 2020, 20 July 2020, 21 July 2020, 22 July 2020, 28 July 2020, 31 July 2020, 4 August 2020, 5 August 2020, 6 August 2020, 7 August 2020, 10 August 2020, 11 August 2020 and 12 August 2020.

(b) Second amendment agreement in relation to the provision of loan for game development

On 15 October 2017, the Company and Certain Affinity, a video game development studio based in the US owned as to 20% by the Company, entered into a game development agreement (the "Game Development Agreement"), pursuant to which Certain Affinity should develop and produce for the Company the Game based on certain IP, including the *TRANSFORMERS* property (the "Game") and the Company should provide Certain Affinity with an interest-free loan facility (the "Loan"), which was essentially the development budget for the Game, in the amount of up to US\$15 million to pay for costs and expenses incurred in connection with the provision of the development services relating to the Game.

On 7 January 2019, by an amendment agreement entered into among the Company, Certain Affinity and Mr. Hoberman who was the founder, President and controlling shareholder of Certain Affinity, the maximum principal amount of the Loan increased from US\$15 million to US\$33 million. The Loan continued 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 reason for the increase in the principal amount of the Loan was to enable Certain Affinity to develop and produce the Game with richer content and prepare to make the Game available on PC.

By another amendment agreement dated 6 July 2020 entered into between the Company and Certain Affinity, the maximum principal amount of the Loan further increased from US\$33 million to approximately US\$43 million. With the second increase in the principal amount of the Loan, Certain Affinity would be able to start volume production towards a higher-quality open beta version of the Game.

As at 30 June 2020 and as at the date of this interim report, the Loan exceeded 8% under the assets ratio defined under Rule 14.07(1) of the Listing Rules. Further details of the Loan and the subsequent amendment agreements were set out in the announcements of the Company dated 16 October 2017, 7 January 2019 and 6 July 2020.

28. 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 21 August 2020.