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LEYOU TECHNOLOGIES HOLDINGS LIMITED

樂遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1089)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	2016	Change
	RMB'000	RMB'000	%
	(Unaudited)	(Unaudited)	
RESULTS HIGHLIGHTS			
<i>From continuing operations</i>			
Revenue	420,007	391,611	+7%
Gross profit	265,241	256,360	+3%
Gross profit margin (%)	63%	65%	-2%
Profit for the period from continuing operations	19,256	74,206	-74%
<i>From discontinued operations</i>			
Profit/(loss) for the period from discontinued operations	357	(34,891)	N/A
Net profit for the period	19,613	39,315	-50%
<i>From continuing and discontinued operations</i>			
Profit for the period attributable to the owners of the Company	16,812	796	+2,012%
Basic earnings per share (<i>RMB cents</i>)	0.58	0.03	+1,833%
Dividend per share (<i>RMB cents</i>)	Nil	Nil	N/A

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)	Change %
BALANCE SHEET HIGHLIGHTS			
Total assets	1,798,843	1,522,782	+18%
Total interest-bearing borrowings*	37,738	295,143	-87%
Net assets	1,117,295	1,036,658	+8%
Net assets per share (<i>RMB</i>)**	0.38	0.36	+6%
Current ratio	1.61	3.86	-58%
Gearing ratio***	2.1%	19.4%	-17.3%

* *Total interest-bearing borrowings = Bank borrowings + Debenture + Bond*

** *Net assets per share (RMB) = Net assets / Total number of shares at the balance sheet date*

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

The board (the “Board”) of directors (the “Directors”) of Leyou Technologies Holdings Limited (the “Company”) is pleased to present the unaudited condensed interim consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2017. These condensed consolidated interim financial statements have not been audited but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

INTERIM CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
	Notes	(Unaudited)	(Unaudited) (Restated)
Continuing operations			
Revenue	4	420,007	391,611
Cost of sales		<u>(154,766)</u>	<u>(135,251)</u>
Gross profit		265,241	256,360
Other revenue and gains	5	23,473	9,997
Net loss on financial assets at fair value through profit or loss		(41,092)	(44,737)
Selling and distribution expenses		(27,683)	(15,205)
Administrative expenses		(81,781)	(46,129)
Amortisation of intangible assets		(66,324)	(37,026)
Finance costs	6	(18,807)	(5,005)
Other operating expenses		(1,799)	(70)
Equity-settled share-based payment expenses		<u>–</u>	<u>(7,696)</u>
Profit before taxation	9	51,228	110,489
Taxation	7	<u>(31,972)</u>	<u>(36,283)</u>
Profit for the period from continuing operations		<u>19,256</u>	<u>74,206</u>

		Six months ended 30 June	
		2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
<i>Notes</i>		(Unaudited)	(Unaudited)
			(Restated)
Discontinued operations			
Profit/(loss) for the period from discontinued operations			
	<i>8</i>	<u>357</u>	<u>(34,891)</u>
Profit for the period		<u>19,613</u>	<u>39,315</u>
Earnings per share			
From continuing and discontinued operations			
Basic and diluted (<i>RMB cents per share</i>)	<i>10</i>	0.58	0.03
From continuing operations			
Basic and diluted (<i>RMB cents per share</i>)	<i>10</i>	<u>0.57</u>	<u>1.25</u>

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	19,613	39,315
Other comprehensive income for the period, net of income tax:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operation	<u>4,376</u>	<u>71,799</u>
	<u>4,376</u>	<u>71,799</u>
Total comprehensive income for the period	<u>23,989</u>	<u>111,114</u>
Profit for the period attributable to:		
Owners of the Company	16,812	796
Non-controlling interests	<u>2,801</u>	<u>38,519</u>
	<u>19,613</u>	<u>39,315</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	20,990	37,325
Non-controlling interests	<u>2,999</u>	<u>73,789</u>
	<u>23,989</u>	<u>111,114</u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		20,734	15,280
Goodwill		814,644	190,093
Intangible assets		466,297	418,445
Development expenditure		11,557	4,319
Available-for-sale financial assets		–	30,741
		<u>1,313,232</u>	<u>658,878</u>
Current assets			
Inventories		2,462	1,885
Trade receivables	12	93,320	95,343
Deposits paid, prepayments and other receivables		217,011	419,261
Financial assets at fair value through profit or loss		1	249,236
Amount due from a related party		162	–
Tax recoverable		18,218	7,135
Cash and bank balances		43,265	91,044
		<u>374,439</u>	<u>863,904</u>
Assets associate with disposal groups held for sale	13	111,172	–
		<u>485,611</u>	<u>863,904</u>
Current liabilities			
Trade payables	14	11,087	1,871
Accruals and other payables		53,084	53,100
Consideration payable		145,984	–
Bank borrowings		22	–
Deferred revenue		57,679	23,596
Tax payable		28	–
Bond		33,860	145,523
		<u>301,744</u>	<u>224,090</u>
Liabilities associate with disposal groups held for sale	13	165	–
		<u>301,909</u>	<u>224,090</u>
Net current assets		<u>183,702</u>	<u>639,814</u>
Total assets less current liabilities		<u><u>1,496,934</u></u>	<u><u>1,298,692</u></u>

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Equity		
Share capital	241,579	236,606
Reserves	<u>869,342</u>	<u>791,122</u>
Equity attributable to owners of the Company	1,110,921	1,027,728
Non-controlling interests	<u>6,374</u>	<u>8,930</u>
Total equity	<u>1,117,295</u>	<u>1,036,658</u>
Non-current liabilities		
Deferred tax liabilities	105,609	112,414
Bond	–	145,785
Considerable payable	261,834	–
Debenture	3,856	3,835
Deferred revenue	<u>8,340</u>	<u>–</u>
Total non-current liabilities	<u>379,639</u>	<u>262,034</u>
Total equity and non-current liabilities	<u>1,496,934</u>	<u>1,298,692</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

They have been prepared under the historical cost convention, except for certain financial assets, which are carried at fair value. The condensed consolidated interim financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the Audit Committee.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparing the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2016 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA as discussed below.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

HKAS 7 Amendments	Statement of Cash Flows
HKAS 12 Amendments	Income Taxes
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

3. SEGMENT INFORMATION

During the period ended 30 June 2017, the Group operates in one operating segment which is the business of on-line game operation and retail game development. The segment of trading of electronic products was discontinued during the Reporting Period (“Trading Business”); while the segment of chicken meat, chicken breeds and animal feeds (“Poultry Business”) was discontinued during the prior year and the disposal was completed on 30 September 2016. A single management team reports to the Directors (being the chief operating decision-maker) who comprehensively manage the entire business. Accordingly, the Group does not present separately segment information.

Geographical information

The following table sets out information about the geographical locations of the Group’s revenue from continuing operation from external customers during the Reporting Period. The geographical locations of the customers are determined based on the locations at which the goods were delivered.

Revenue from continuing operation from external customers

	Six months ended 30 June	
	2017	2016
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Canada	375,233	391,611
UK	44,774	—
	<u>420,007</u>	<u>391,611</u>

Other information

Revenue from major products

The Group’s revenue from continuing operation from major products is as follows:

	Six months ended 30 June	
	2017	2016
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Computer and video games	<u>420,007</u>	<u>391,611</u>

4. REVENUE

During the six months ended 30 June 2017 and 2016, the group operates in the operating segment from continuing operations which is the business of on-line game operation and retail game development.

5. OTHER REVENUE AND GAINS

Continuing operations

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Bank interest income	97	305
Exchange gain	–	9,692
Interest income on other receivables	23,361	–
Sundry income	15	–
	<u>23,473</u>	<u>9,997</u>

6. FINANCE COSTS

Continuing operations

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Interest on:		
– Bank borrowings	245	1,364
– Bond	18,385	3,477
– Debenture	177	164
	<u>18,807</u>	<u>5,005</u>

7. TAXATION

Continuing operations

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited) (Restated)
Canadian Corporate Income Tax		
– current period	48,977	58,261
United Kingdom Corporate Income Tax		
– current period	(866)	–
Deferred tax	<u>(16,139)</u>	<u>(21,978)</u>
	<u>31,972</u>	<u>36,283</u>

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI during the Reporting Period (2016: Nil).
- (b) No provision for Hong Kong profits tax has been made as the Group did not have assessable profits subject to Hong Kong profits tax during the Reporting Period (2016: Nil).
- (c) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada are liable to Canada Corporate Income Tax at a tax rate of 26.5% (2016: 26.5%) for the period ended 30 June 2017 and 2016.
- (d) Pursuant to the income tax rules and regulations of United Kingdom, the companies comprising the Group in United Kingdom are liable to United Kingdom Corporate Income Tax at a tax rate of 19% for the three months ended 30 June 2017. The Group take advantage of Video Games Tax Relief which is cultural tax relief of 20% of qualifying expenditure on qualifying video games as certified by the British Film Institute. Qualifying expenditure is 80% of development costs incurred within the European Economic Area.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits for the period would not be distributed in the foreseeable future.

8. DISCONTINUED OPERATIONS

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

On 18 August 2017, the Company entered into a sale and purchase agreement with an independent third party, China RS Group Limited, and agreed to sell the entire issued share capital of Leyou World Limited and its subsidiary (“Leyou World Group”), wholly owned subsidiaries of the Company, at a consideration of approximately RMB78,813,000 (equivalent to HK\$92,400,000). The principal activities of Leyou World Group are engaged in the trading of electronic products in the People’s Republic of China and accordingly the disposal of the Trading Business was treated as discontinued operations in these consolidated financial statements in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

(a) Profit/(loss) from the discontinued operations were as follows:

	Six months ended 30 June 2017 RMB’000 (Unaudited)
Revenue	46,621
Cost of sales	(44,487)
Gross profit	2,134
Administrative expenses	(1,777)
Profit before taxation	357
Taxation	–
Profit for the period	357

			Six months ended 30 June 2016 Total RMB'000 (Unaudited)
	Poultry Business RMB'000	Trading Business RMB'000	
Revenue	585,105	53,293	638,398
Cost of sales	<u>(549,132)</u>	<u>(49,139)</u>	<u>(598,271)</u>
Gross profit	35,973	4,154	40,127
Other revenue and gains	4,154	198	4,352
Change in fair value less costs to sell of biological assets	(10,639)	–	(10,639)
Net loss on financial assets at fair value through profit or loss	(10,341)	–	(10,341)
Fair value of agricultural product on initial recognition	54,288	–	54,288
Reversal of fair value of agricultural product due to hatch and disposals	(50,982)	–	(50,982)
Selling and distribution expenses	(16,882)	–	(16,882)
Administrative expenses	(20,259)	(2,512)	(22,771)
Finance cost	(7,568)	–	(7,568)
Other operating expenses	<u>(12,998)</u>	<u>–</u>	<u>(12,998)</u>
Profit/(loss) before taxation	(35,254)	1,840	(33,414)
Taxation	<u>(1,477)</u>	<u>–</u>	<u>(1,477)</u>
Profit/(loss) for the period	<u><u>(36,731)</u></u>	<u><u>1,840</u></u>	<u><u>(34,891)</u></u>

- (b) Profit/(loss) before taxation from discontinued operations is arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	–	(17)
Staff cost	429	39,903
Contributions to retirement schemes	33	3,476
Depreciation of property, plant and equipment	38	13,851
Depreciation of investment property	–	17
Amortisation of prepaid lease payment	–	715
Operating lease rental expenses	193	655
Net loss on financial assets at fair value through profit or loss	–	10,341
	<u>–</u>	<u>10,341</u>

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

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(272)	(31,223)
Net cash inflow from investing activities	1	7,470
Net cash outflow from financing activities	–	(646)
	<u>–</u>	<u>(646)</u>
Net decrease in cash and bank balances	<u>(271)</u>	<u>(24,399)</u>

9. PROFIT FOR THE PERIOD

Continuing operations

Profit for the period has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Staff costs including directors' remuneration	32,025	9,862
Contributions to retirement schemes	257	138
Total staff costs	32,282	10,000
Depreciation of property, plant and equipment	923	2,728
Amortisation of development expenditure	–	792
Amortisation of intangible assets	66,324	37,026
Total depreciation and amortisation	67,247	40,546
Net realised loss/(gain) on financial assets at fair value through profit or loss	41,092	(2,883)
Unrealised loss on financial assets at fair value through profit or loss	–	47,620
Net loss on financial assets at fair value through profit or loss	41,092	44,737
Operating lease rental expenses	7,781	4,740

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Continuing and discontinued operations

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)

Profit

Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	16,812	796
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2017
'000

2016
'000

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,886,585	2,868,480
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Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence for both of the reporting periods.

Continuing operations

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
		(Restated)

Profit attributable to owners of the Company for the purpose of calculating basic earnings per share	16,812	796
Add: Loss/(profit) for the period from discontinued operations	(357)	34,891

Profit for the purpose of basic earnings per share from continuing operations	16,455	35,687
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The denominators used are the same as those detailed above for both basic and diluted earnings per share.

Diluted earnings per share from continuing operations for the six months ended 30 June 2017 and 2016 was the same as basic earnings per share. The effects of the Company's outstanding share option was anti-dilutive.

Discontinued operations

For the six months ended 30 June 2017, basic earnings per share for discontinued operations attributable to the owners of the Company is RMB0.01 cents per share, based on profit for the period of RMB357,000.

For the six months ended 30 June 2016, basic loss per share for discontinued operations attributable to the owners of the Company is RMB1.22 cents per share, based on loss for the period of RMB34,891,000.

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

Diluted earnings/(loss) per share from discontinued operations for the six months ended 30 June 2017 and 2016 was the same as basic earnings/(loss) per share. The effects of the Company's outstanding share option was anti-dilutive.

11. DIVIDENDS

No dividends were declared during the six months ended 30 June 2017 (2016: Nil).

12. TRADE RECEIVABLES

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Trade receivables	<u>93,320</u>	<u>95,343</u>

The Group normally allows a credit period ranging from 7 to 70 days. The ageing analysis of trade receivables, net of impairment is as follows:

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Within 30 days	70,909	84,555
31 to 60 days	11,568	10,519
61 to 180 days	10,842	249
Over 180 days	<u>1</u>	<u>20</u>
	<u>93,320</u>	<u>95,343</u>

13. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 9 August 2017, the Company has entered into a partnership interest purchase agreement with an independent third party and agreed to sell the entire available-for-sale financial assets (“AFS Financial Assets”) at a consideration of approximately RMB30,368,000 (equivalent to HK\$34,316,000). AFS Financial Assets, which are expected to be sold within one year, have been classified as disposal groups held for sale and are presented separately in the consolidated statement of financial position.

On 18 August 2017, the Company has entered into a sale and purchase agreement with an independent third party, China RS Group Limited, and agreed to sell the entire issued share capital of Leyou World Group at a consideration of approximately RMB78,813,000 (equivalent to HK\$92,400,000). The assets and liabilities of Leyou World Group, which are expected to be sold within one year, have been classified as disposal groups held for sale and are presented separately in the consolidated statement of financial position.

	As at 30 June 2017		
	AFS Financial Assets RMB'000	Leyou World Group RMB'000	Total RMB'000 (Unaudited)
Available-for-sale financial assets	30,368	–	30,368
Property, plant and equipment	–	107	107
Trade receivables	–	32,274	32,274
Deposits paid, prepayments and other receivables	–	48,112	48,112
Tax recoverable	–	44	44
Cash and bank balances	–	267	267
Total assets associated with the disposal group	30,368	80,804	111,172
Accruals and other payables	–	(165)	(165)
Total liabilities associated with the disposal group	–	(165)	(165)
Net assets of the disposal group	30,368	80,639	111,007

14. TRADE PAYABLES

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Trade payables	11,087	1,871

The ageing analysis of trade payables are as follows:

	As at 30 June 2017 <i>RMB'000</i> (Unaudited)	As at 31 December 2016 <i>RMB'000</i> (Audited)
Within 30 days	8,439	1,370
31 to 90 days	1,763	496
91 to 180 days	885	–
Over 180 days	–	5
	11,087	1,871

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

15. ACQUISITION OF SUBSIDIARIES

Splash Damage Limited, Fireteam Limited and Warchest Limited (namely “Splash Damage Group”)

On 1 July 2016, Radius Maxima Limited (“Radius Maxima”), an indirectly wholly-owned subsidiary of the Company, has entered into an equity transfer agreement and the supplemental agreement in relation to the acquisition of the entire equity interest of Splash Damage Group from Paul Wedgwood. Further details of the said transaction were set out in the announcements of the Company dated 3 July 2016 and 26 September 2016, respectively, and the circular of the Company dated 22 February 2017. The said acquisition was duly approved by the shareholders of the Company in an extraordinary general meeting on 9 March 2017. This transaction was completed on 31 March 2017, and accordingly, Splash Damage Group since then become wholly-owned subsidiaries of Radius Maxima. Further details of the said transaction were set out in the announcement of the Company dated 31 March 2017.

The purchase consideration of RMB743,003,000 (equivalent to approximately US\$108,945,000), which comprised advance payment and deferred payment in a total of RMB310,191,000 (equivalent to approximately US\$45,000,000), adjustment payment of RMB63,327,000 (equivalent to approximately US\$9,356,000) and earn-out consideration of RMB369,485,000 (equivalent to approximately US\$54,589,000). The earn-out consideration consisted of the payments during the years ending 2017, 2018 and 2019, and shall not exceed RMB724 million (equivalent to approximately US\$105 million). As at 30 June 2017, a total of RMB335,185,000 (equivalent to approximately US\$48,619,000) has been paid as purchase consideration.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follow:

	Fair value recognised on acquisition RMB '000
Net assets acquired:	
Property, plant and equipment	850
Intangible assets	95,611
Trade receivables	24,062
Deposits paid, prepayments and other receivables	8,849
Amount due from a related party	6
Tax recoverable	15,922
Cash and bank balances	54,206
Trade payables	(985)
Accruals and other payables	(63,841)
Tax payable	(1,850)
Bank borrowings	(34)
Deferred tax liabilities	(12,425)
	120,371
Goodwill arising on acquisition	622,632
Total consideration	<u>743,003</u>
Satisfied by:	
Cash	335,185
Consideration payable (current)	145,984
Consideration payable (non-current)	261,834
	<u>743,003</u>
Net cash outflow arising on acquisition:	
Consideration paid in cash	(335,185)
Less: Cash and bank balances acquired	54,206
	<u>(280,979)</u>

Acquisition-related costs of RMB20,134,000 have been charged to administrative expenses in the consolidated statement of profit or loss during the period ended 30 June 2017.

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

16. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Memorandum of Understanding in Relation to a proposed acquisition

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

Pursuant to the MOU, the Vendor will obtain necessary approval for the sale of the Sale Shares as soon as practicable. Upon such approvals being obtained, the parties shall negotiate and agree on the terms of the proposed transaction during a period of 6 months thereafter (“Exclusivity Period”). During the Exclusivity Period, the Vendor agrees not to sell the Sale Shares or any portion thereof to any third party, negotiate or engage in discussion in any form regarding the sale of the Sale Shares or any portion thereof or provide any information regarding the Target Company and/or subsidiaries to any third party who may be interested in purchasing the Sale Shares or any portion thereof (unless otherwise agreed by the parties).

Further details of the said transaction were set out in the announcement of the Company dated 14 July 2017.

- (b)** On 31 July 2017, the Company entered into an investment agreement (the “Investment Agreement”) with Guangzhou Radiance Software Technology Co. Ltd. (廣州榮端軟件科技有限公司) (“Guangzhou Radiance”) and the current sole shareholder of Guangzhou Radiance, pursuant to which the Company has conditionally agreed to designate a wholly-owned foreign enterprise to be established in the People’s Republic of China (the “PRC”) by the Company (the “PRC Subsidiary”) to invest an amount of Renminbi equivalent to US\$1 million for the equity interest in Guangzhou Radiance (the “Proposed Investment”). Upon completion of the Proposed Investment, the PRC Subsidiary will hold 51% of the entire issued share capital of Guangzhou Radiance as enlarged by the Proposed Investment and Guangzhou Radiance will become an indirect non-wholly-owned subsidiary of the Company.

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

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

- (c) On 3 August 2017, the Company has entered into a digital license agreement (“License Agreement”) with Hasbro Inc. and Hasbro International, Inc. (collectively, “Hasbro”) pursuant to which, among others, Hasbro has granted the Company and the Company has accepted the right and license to use certain intellectual property (namely the TRANSFORMERS property, including associated logos, copyrights and characters and their respective likenesses sometimes referred to as “TRANSFORMERS GENERATIONS”) for the purpose of development, marketing, advertising, sale and distribution of licensed games through prescribed distribution channels (including ecommerce sites and services including, but not limited to, Steam (operated by Valve Corporation), PlayStation Store (operated by Sony Interactive Entertainment LLC), Xbox Live Arcade (operated by Microsoft Corporation), Amazon, and other sites and channels consented to by Hasbro). Under the terms of the License Agreement: (i) the license shall be effective over the period commencing 3 August 2017 ending on 31 December 2024, and shall may be extended for up to 36 months depending on certain pre-negotiated performance thresholds being met; and (ii) the license granted extends worldwide (except for Japan).

Further details of the said transaction were set out in the announcement of the Company dated 3 August 2017.

- (d) On 8 August 2017, the Company announced that an extraordinary general meeting (“EGM”) would be held on 25 August 2017 for approving the termination of the existing share option scheme (“Existing Share Option Scheme”) adopted by the Company on 17 December 2010 and the simultaneous adoption of the new share option scheme (“New Share Option Scheme”) to (i) reflect the change of the Company’s name and principal place of business in Hong Kong; (ii) reflect the current provisions of the Listing Rules, such as replacing references to “price sensitive information” with “inside information”; (iii) remove references to the initial public offering of the shares which became obsolete; and (iv) simplify the language and improve the presentation of the scheme rules. Save as disclosed above, there is no material difference between the terms of the Existing Share Option Scheme and the New Share Option Scheme. On 25 August 2017, an ordinary resolution was passed for the approval of the New Share Option Scheme at the EGM.

Further details of the said transaction were set out in the announcement and circular of the Company dated 8 August 2017 and poll results of EGM were set out in the announcement of the Company dated 25 August 2017.

- (e) On 9 August 2017, the Company has entered into a partnership interest purchase agreement with an independent third party and agreed to sell the entire AFS Financial Assets at a consideration of approximately RMB30,368,000 (equivalent to HK\$34,316,000).

Further details of the said transaction were set out in note 13 to this announcement.

- (f) On 18 August 2017, the Company has entered into a sale and purchase agreement with an independent third party, China RS Group Limited, and agreed to sell the entire issued share capital of Leyou World Group at a consideration of approximately RMB78,813,000 (equivalent to HK\$92,400,000).

Further details of the said transaction were set out in note 13 to this announcement and in the announcement of the Company dated 18 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Since the Group entered the gaming industry in 2015, it has acquired Digital Extremes Limited (“Digital Extremes”), a Canadian successful online game developer and operator, which paved the way for the Group’s rise as a star in the video game sector. In the first half of 2017, the Group completed the acquisition of Splash Damage Limited, Fireteam Limited and Warchest Limited (namely “Splash Damage Group”), another world-class video gaming studio in the United Kingdom (“UK”), marking a new milestone in our development (“Acquisition”). As a result of the Acquisition, the Group owned a number of new businesses, namely the entrusted game development business, a number of self-owned IP game products and the game service platform business with substantial backlog orders and steady cash flow, which promoted diversity of income sources and created new profit growth drivers.

Leveraging the extensive experience and outstanding strengths in developing and operating free-to-play online games, the Group has rapidly developed into a promising player in the highly competitive gaming market. With gaming studios and regional offices in the UK, Canada, the USA, Hong Kong and Mainland China, we serve players from over 110 countries around the world.

The Group’s flagship game, Warframe, has accomplished excellent achievements in the world free-to-play online game market for four consecutive years, especially in the latest generation of console platform, it has become one of the first high-end free-to-play online games. Warframe has achieved excellent results in the global market. On the Steam platform for PC, Warframe still ranks among the top three free-to-play online games. The Group will continue to deploy resources to this game and is confident that it will bring continuous success of the Group.

Thanks to the steady revenue stream from Warframe and revenue contribution from Splash Damage Group, the Group’s revenue from continuing operation saw a year-on-year growth of 7% to RMB420 million during the six months ended 30 June 2017 (the “Reporting Period”). In addition to the Group managed to maintain its gross profit margin at a steady level of 63% and generated a gross profit of RMB265 million.

During the Reporting Period, the Group has incurred several major expenses including net loss on financial assets at fair value through profit or loss of RMB41 million, selling and distribution expenses of RMB28 million, administrative expenses of RMB82 million, amortisation of intangible assets of RMB66 million and finance costs of RMB19 million. Accordingly, the net profit from continuing operating was RMB19.2 million. Together with profit from discontinued operation of RMB0.4 million, the Group has recorded net profit of RMB19.6 million for the Reporting Period, representing 50% year-on-year decline compared with the corresponding period in 2016.

Looking ahead, as the aforesaid major expenses will not recur or are expected to be substantially reduced, as the major expenses during the Reporting Period were mainly attributable to (i) the completion of Acquisition, (ii) the substantial repayment of interest-bearing bond, and (iii) the Group only held minimal financial assets at fair value through profit or loss at the end of Reporting Period and the Group is not intended to trade any financial assets at fair value through profit or loss in the near term. Taking into the above factors, these expenses will be substantially decreased from the second half of 2017 onwards.

The Group will continue to deploy resources to develop online games by leveraging our world-class game development capability. At the same time, we will continue to seize the opportunity to develop new strategic business and cultivate new growth drivers, thereby maximising shareholders' value.

Our core strategy

We noticed that mobile gaming, as an emerging product type, recorded an exponential growth in market size in the past decade. As the numbers of users and active devices reached their peak, the traditional mobile game market slowed down and saturated in recent years. Players' pursuit of gaming entertainment with higher quality, bigger screen, better features and more immersive experience is reflected in the consumer psychology and market demand. On one hand, the vibrant development of mobile games has resulted in more gamers in the gaming industry as a whole, and gamers who are no longer satisfied with the gaming experience on small screens will in turn pursue games that offer better experience; on the other hand, the improvement of virtual reality (VR) technology and processing power of mobile device will lead to the development of gaming products towards higher quality, bigger screen and better immersive experience in the future.

Based on the current analysis and understanding of the gaming market, we expect growing demand for products with higher quality in the global gaming market. Since more and more players will try out games that are played on big screens, the development and publishing of high-quality blockbuster games will be our main direction of future development.

Multiplayer online games and the multiplayer mode in traditional single-player games have become the most important niche markets in the gaming industry. As evidenced by the notable expansion of the market size, games that support interaction among players enjoy far higher user satisfaction and loyalty than those that only allow human-computer interaction. Moreover, free-to-play online games that charge for optional in-game items have dominated the world's mobile gaming market as well as the regional gaming markets in China and South Korea, which are only second to the markets in Europe, the USA and Japan. This demonstrated the superiority and universality of the sales model and game developers are increasingly aware that the model comprising live interaction among players and ever-changing and updating gaming experience is more effective than the traditional one-off sales model.

Meanwhile, we discovered that with regard to big screen games, online games, especially free-to-play online games that charge for optional in-game items, took up a small proportion of major regional markets in the world, with the exception of certain Asian markets. In particular, there is a huge market for console games. Thus, we will increase our investment in this aspect: on one hand, we attach great importance to the endogenous growth of the Company. We have gradually established a highly professional game planning and operation team at the headquarter level and further integrated resources from the acquisition of overseas gaming companies. These measures have started to generate synergy within the Group and formed development pipelines of various high-quality self-developed games. On the other hand, following the successful acquisition of Digital Extremes and Splash Damage Group, in 2015 and the first half of 2017, respectively, we will continue to identify outstanding game development team around the world and join hands with such teams through merger, acquisition, equity investment and joint developments. Leveraging the experience and strengths in online game design, we will continue to enhance our capability and scale of game development. Furthermore, we will seek cooperation with owners of world-known brands, for the purposes of strengthening the reserve of game development content and increasing the chance of developing a successful game by capitalizing their brand recognition. The above strategies will improve the Company's capability in developing high-quality games, allowing us to roll out more online game products to major world market so as to garner market recognition. As a result, the Company will continue to strive to become a leading top-notch gaming company in the world that focuses on multiplayer online games as its core products.

Overall business development and outlook

During the Reporting Period, assets acquired by the Group, including Digital Extremes and Splash Damage Group, recorded steady growth. For details of their development, please refer to the respective descriptions at the later section of this announcement. Adhering to the above core strategy, the Group has carried out several initiatives at the global level, which include identifying world-class partners, investing in and developing high quality projects, and seeking more investment or merger, aiming at integrating with its existing business to boost the overall capabilities of the Group in game design and development, operation and profitability. Achievements in the first half of 2017 include the establishment of our Guangzhou research and development center for the large-scale free-to-play online game development plan which targets the global PC and console market. The project, which was recently announced, acquired the official exclusive rights of two world-class IPs, namely “Civilisation Online”(文明Online) and “Transformer Online”(變形金剛Online) through investments and merger and licence acquisition. Meanwhile, the Group has also set up the Beijing headquarter and the core game analyst team, design team, operation support team, business and investment team. We recruited a number of experienced consultants in the industry in order to strengthen core competitiveness, integration capability and management capability. Looking ahead to the Group’s business development in the second half of 2017, we will continue to expand our partnership base, reinforce the building of the core team and provide more support to all investees and acquirees and contracted projects. We are of the view that the successful commencement of these projects will provide the Group with excellent products that help secure market share in the global top online game industry. In view of these positive factors, we believe that the Group has built a good foundation for business growth in the coming years.

Digital Extremes

Digital Extremes is principally engaged in the development and operation of online games. Its core product, Warframe, is a world-acclaimed hit game.

Warframe is a free-to-play science fiction-themed multiplayer third-person shooter game available on PC and consoles. During the first half of 2017, Warframe reached its fourth anniversary and still outperformed other games and still ranked the top 3 most popular free-to-play game and top 10 most-played games in all genre in terms of hours of playing on the Steam platform. Meanwhile, it keeps breaking records of core operational statistics. The long term success of Warframe is attributable to the unique and outstanding online operational capability of the Group designed for free-to-play online games, which provides stable, frequent and synchronised update of premium game content to all platforms across the world, offers premium customer service, helps build a cohesive gamer community and facilitates communication and exchange between players and the development team through online and offline interactive activities. Based on the operational statistics, the number of registered players of Warframe grew by 3.6 million players to a total of 31.8 million players during the first half of 2017. The number of monthly active users (“MAU”) increased to approximately 2.2 million players, up 1% as compared to the corresponding period in 2016. Meanwhile, the average revenue per user (“ARPU”) remained stable. In terms of game development and update, the Warframe development team has made constant effort in incorporating new elements and technology. It is expected that Plains of Eidolon, which is the biggest update so far, will be launched in the second half of 2017. Introducing the brand new open world mode, the update rocked the whole world following the release of the trailer and the number of active users hit a record high after the news went viral. The official release of the update in the second half of the year is likely to bring long term positive effect to sustain the success of the game.

Besides, Digital Extremes is also committed to new product development and has increased up the related investment in the first half of 2017. Currently, its development pipeline includes the following game products, which we hope will deliver new surprises to the operating results in 2018:

- The Amazing Eternals, a free-to-play first-person shooter game that combines card game and strategy game, with a key focus on eSports. The game is in the process of Closed Alpha testing and the official beta version is expected to be released online in the near future;
- a free-to-play action MMO, which is planned to commence into Closed Alpha testing in 2017 and is expected to be released online in 2018.

Splash Damage Group

Splash Damage Group is a gaming studio with world-class game development capability. It is principally engaged in the entrusted game development business, self-owned IP game business and game service platform business. The Group has completed the Acquisition as at 31 March 2017.

Entrusted game development business

As at 30 June 2017, the Group had a number of backlog orders. Given that such orders will continue to bring fixed cash income until 2019 and certain orders contain profit sharing provisions that may potentially deliver more revenue in the future, we are of the view that this business segment will generate stable revenue and cash flow stream to the Group.

Self-owned IP game business

Dirty Bomb is a fast-paced first-person shooter game and is a free-to-play PC game released on the Steam platform. In the second quarter of 2017, the Group and Nexon, the former publisher of Dirty Bomb, reached an agreement to reclaim the publishing right of the game and acquire full control over its development and operation. Subsequently, the Group increased resources invested to Dirty Bomb: from April to June 2017, the game released three massive updates successively and offered new maps, heroes and gears, along with more online campaign and promotion. The above measures resulted in an explosive growth of operating revenue in the short term: as compared with April 2017, the turnover in June 2017 doubled. In addition, the improvement of gaming experience also boosted the reputation of the game and player satisfaction, with its net promoter score (NPS) on Steam surged from 71 in April to 84 in June.

The development and operation team of Dirty Bomb is expected to undergo major expansion and enhancement, so as to get ready for the official release of the game in March 2018 (Open Beta testing has not commenced yet). Given the on-going update and optimization of the game, coupled with more promotion and sales campaign to be carried out (including the promotion in August 2017 in Gamescom exhibition in Germany), the Group expects a significant increase in the revenue from Dirty Bomb, making it our next flagship product after Warframe.

Apart from that, Splash Damage Group is developing several new games. It is worth noting that, a third-person survival horror shooter game masterpiece is in the preliminary development stage and is expected to start generating revenue in as early as 2018.

FINANCIAL REVIEW

1. Revenue

Continuing Operations – Computer and Video Gaming Business

Our total revenue increased by 7%, from RMB392 million for the six months ended 30 June 2016 to RMB420 million for the six months ended 30 June 2017, primarily due to the steady growth from gaming business, especially the contribution from Splash Damage Group, another world-class video gaming studio in the UK which joined our Group as a result of Acquisition of Splash Damage Group on 31 March 2017.

Discontinued Operations – Poultry and Trading Business

Revenue from Trading Business was RMB47 million for the six months ended 30 June 2017.

Revenue from Poultry Business and Trading Business was RMB638 million for the six months ended 30 June 2016. The disposal of Poultry Business was completed on 30 September 2016.

2. Gross Profit

Continuing Operations – Computer and Video Gaming Business

Our total gross profit increased by 3%, from RMB256 million for the six months ended 30 June 2016 to RMB265 million for the six months ended 30 June 2017, primarily due to the steady growth of the gaming business.

Discontinued Operations – Poultry and Trading Business

Gross profit from Trading Business was RMB2 million for the six months ended 30 June 2017.

Gross profit from Poultry Business and Trading Business was RMB40 million for the six months ended 30 June 2016. The disposal of Poultry Business was completed on 30 September 2016.

3. Other Revenue and Gains

Other revenue and gains increased by 135%, from RMB10 million for the six months ended 30 June 2016 to RMB23 million for the six months ended 30 June 2017, primarily as a result of the increase in interest income on other receivables.

4. Selling and Distribution Expenses

Selling and distribution expenses increased by 82%, from RMB15 million for the six months ended 30 June 2016 to RMB28 million for the six months ended 30 June 2017, which was line in with the steady revenue growth of our gaming business and promotional activities for computer and video games.

5. Administrative Expenses

Administrative expenses increased by 77%, from RMB46 million for the six months ended 30 June 2016 to RMB82 million for the six months ended 30 June 2017, primarily due to the legal and professional fees of the Acquisition amounted to RMB20 million. As the Acquisition was completed on 31 March 2017, no further legal and professional fees will be incurred in the second half of 2017.

6. Amortisation of Intangible Assets

Amortisation of intangible assets increased by 79%, from RMB37 million for the six months ended 30 June 2016 to RMB66 million for the six months ended 30 June 2017, primarily as a result of the steady growth of business and increased amortisation of intangible assets since the Acquisition.

7. Finance Costs

Finance costs increased by 276%, from RMB5 million for the six months ended 30 June 2016 to RMB19 million for the six months ended 30 June 2017, primarily as a result of the fixed coupon redeemable bond in the principal amount of approximately RMB291,484,000 (equivalent to approximately USD42 million) issued on 6 May 2016, the Group has to bear interest for six months during the Reporting Period, whereas the Group bore interest for approximately 2 months during corresponding period in 2016. As the Group has repaid approximately RMB257,448,000 (equivalent to approximately

USD37 million) of the principal amount during the Reporting Period, the finance costs from the aforesaid interest-bearing bond will be substantially reduced in the second half of 2017.

8. Taxation

Taxation decreased by 12%, from a tax expense of RMB36 million for the six months ended 30 June 2016 to RMB32 million for the six months ended 30 June 2017.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

The Group generally finances its operations with internally generated cash flow and bank facilities for its capital requirements.

As at 30 June 2017, cash and bank balances amounted to RMB44 million (31 December 2016: RMB91 million), of which were denominated in Renminbi, Hong Kong dollars, United States Dollars (“USD”) and Canadian Dollars (“CAD”). The decrease in cash and bank balances was mainly due to funding of Acquisition and repayment of interest-bearing bond.

Interest-bearing borrowings

As at 30 June 2017, the total amount of interest-bearing borrowings were RMB38 million (31 December 2016: RMB295 million). The decrease in interest-bearing borrowings was mainly due to the repayment of RMB257,448,000 (equivalent to approximately US\$37 million) of the principal amount of its interest-bearing bond during the Reporting Period. The aforesaid Group’s bond was repayable within one year, denominated in USD with and had an effective interest rate at 13.7% (31 December 2016: 13.7%).

Gearing Ratio

As at 30 June 2017, the gearing ratio of the Group was 2.1% (31 December 2016: 19.4%). This was calculated by dividing total interest-bearing borrowings by the total assets of the Group as at 30 June 2017. The significant improvement in the gearing ratio was mainly due to the repayment of interest bearing bond during the Reporting Period, which proves the healthy financial position of the Group.

FOREIGN EXCHANGE RISK

The Group's main operations are in Canada and UK. Most of the assets, income, payment and cash balances are denominated in CAD, USD and British Pound ("GBP"). The Group has not entered into any foreign exchange hedging arrangement. The Directors consider that exchange rate fluctuation has no significant impact on the Group's performance.

MATERIAL ACQUISITIONS OF SUBSIDIARIES

The acquisition by Radius Maxima, an indirectly held subsidiary of the Company, of the entire issued share capital of Splash Damage Group from Paul Wedgwood was approved on 9 March 2017 by the shareholders of the Company. Splash Damage Group since then become wholly-owned subsidiaries of Radius Maxima. The Acquisition of Splash Damage Group was completed on 31 March 2017.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 30 June 2017, the Group had operating lease commitments of RMB81 million (31 December 2016: RMB90 million).

As at 30 June 2017, the Group had capital commitments of RMB 23 million (31 December 2016: RMB15 million).

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

HUMAN RESOURCES

As at 30 June 2017, the Group had 534 employees (31 December 2016: 294). Employee costs, including directors' emoluments, amounted to RMB32 million (30 June 2016: RMB53 million) for the six months ended 30 June 2017. All of the Group members are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered. The Group operates a defined contribution mandatory provident fund retirement benefits for its employees in Hong Kong and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC.

The Company also adopted a share option scheme on 11 January 2011. As at 31 December 2016, the Company had already granted an aggregate of 129,600,000 share options to certain eligible participants with the exercise price of HK\$1.2 per share.

During the Reporting Period, 56,200,000 share options have been exercised and the remaining 73,400,000 share options have been cancelled in accordance with Rule 13 of the Code on Takeover and Mergers (“Takeovers Code”) upon the mandatory cash offer made by the offeror, Port New Limited, in exchange for cash of HK\$0.4 each.

Further details of the mandatory cash offer were set out in the circular of the Company dated on 2 June 2017.

After the Reporting Period, the Company also adopted a new share option scheme (“New Share Option Scheme”) with a scheme mandate to issue up to 292,468,000 shares, representing 10% of shares in issue as at the adoption of New Share Option Scheme. The resolution for the adoption of New Option Scheme has been passed at the extraordinary general meeting on 25 August 2017. Up to the approval date of these financial statements, no share options has been granted under the New Option Scheme.

Further details of the New Share Option Scheme were set out in the circular and announcement of the Company dated 8 August 2017 and 25 August 2017 respectively.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES

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

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the relevant code provisions (the “Code Provision(s)”) set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules, except for Code Provisions A.4.1 and D.1.4 as explained below.

* *For identification purpose only*

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The unaudited consolidated results for the six months ended 30 June 2017 has been reviewed by the Audit Committee which comprises Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit, all being independent non-executive Directors.

INTERIM DIVIDEND

The Board has resolved not to declare payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

Hong Kong, 30 August 2017

As at the date of this announcement, the executive Directors are Mr. Lin Qinglin, Mr. Wu Shiming, Mr. Gu Zhenghao and Mr. Xu Yiran; the non-executive Director is Mr. Eric Todd and the independent non-executive Directors are Mr. Hu Chung Ming; Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit.