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LE YOU

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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

RESULTS HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	Change
	US$'000	*US$'000*	*%*
Revenue	**214,235**	227,720	–5.9%
Gross profit	**121,781**	141,487	–13.9%
Gross profit margin *(%)*	**56.8%**	62.1%	–5.3%
(Loss)/profit for the year	**(6,489)**	20,367	N/A
(Loss)/profit for the year attributable to the owners of the Company	**(8,379)**	20,413	N/A
EBITDA[1]	**49,620**	66,982	–25.9%
Adjusted EBITDA[2]	**83,240**	85,293	–2.4%
Basic (loss)/earnings per share *(US cents)*	**(0.27)**	0.67	N/A
Diluted (loss)/earnings per share *(US cents)*	**(0.27)**	0.66	N/A
Dividend per share *(US$)*	**Nil**	Nil	N/A

BALANCE SHEET HIGHLIGHTS

	As at 31 December 2019 *US$'000*	As at 31 December 2018 *US$'000*	Change *%*
Total assets	**322,848**	310,703	+3.9%
Total interest-bearing borrowings[3]	**25,772**	42,868	–39.9%
Net assets	**251,806**	230,742	+9.1%
Net assets per share *(US$)*[4]	**0.08**	0.08	–
Current ratio	**1.57**	1.50	+4.7%
Gearing ratio[5]	**8.0%**	13.8%	–5.8%

[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*

The board (the "Board") of directors (the "Directors") of Leyou Technologies Holdings Limited (the "Company") announces the audited financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

		2019	2018
	Notes	***US$'000***	*US$'000*
Revenue	*4*	**214,235**	227,720
Cost of sales		**(92,454)**	(86,233)
Gross profit		**121,781**	141,487
Other revenue and gains	*5*	**1,221**	8,192
Net loss on financial assets at fair value through profit or loss	*8*	**(1,059)**	(23,743)
Fair value change of contingent consideration payable		**–**	37,424
Amortisation of intangible assets		**(17,366)**	(18,467)
Impairment of intangible assets		**(2,540)**	(4,896)
Impairment of goodwill		**–**	(42,944)
Impairment of property, plant and equipment		**(3,315)**	–
Selling and marketing expenses		**(22,126)**	(13,470)
Administrative expenses		**(49,795)**	(34,553)
Finance costs	*6*	**(2,678)**	(790)
Other operating expenses		**(5,385)**	(13)
Equity-settled share-based payment expenses		**(6,085)**	(4,377)
Profit before taxation	*8*	**12,653**	43,850
Taxation	*7*	**(19,142)**	(23,483)
(Loss)/profit for the year		**(6,489)**	20,367

	Notes	**2019**	2018
		US$'000	*US$'000*
(Loss)/profit for the year attributable to:			
Owners of the Company		**(8,379)**	20,413
Non-controlling interests		**1,890**	(46)
		(6,489)	20,367
(Loss)/earnings per share			
Basic *(US cents per share)*	*10*	**(0.27)**	0.67
Diluted *(US cents per share)*	*10*	**(0.27)**	0.66

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	US$'000	*US$'000*
(Loss)/profit for the year	**(6,489)**	20,367
Other comprehensive income/(loss) for the year, net of income tax:		
Items that will not be reclassified to profit or loss:		
Changes in the fair value of equity investments at fair value through other comprehensive income	**1,000**	1,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**9,695**	(15,265)
Other comprehensive income/(loss) for the year, net of income tax	**10,695**	(14,265)
Total comprehensive income for the year	**4,206**	6,102
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	**2,509**	6,367
Non-controlling interests	**1,697**	(265)
	4,206	6,102

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment		**36,194**	39,945
Goodwill		**79,250**	76,419
Intangible assets		**14,086**	31,516
Development expenditure		**84,667**	48,297
Right-of-use assets		**17,349**	–
Financial assets at fair value through other comprehensive income		**10,100**	9,100
Deferred tax assets		**560**	–
		242,206	205,277
Current assets			
Inventories		**147**	174
Trade receivables	*11*	**22,575**	44,297
Deposits paid, prepayments and other receivables		**20,704**	17,113
Financial assets at fair value through profit or loss		**2,723**	8,522
Tax recoverable		**12,388**	2,662
Cash and bank balances		**22,105**	32,658
		80,642	105,426
Current liabilities			
Trade payables	*12*	**3,498**	2,109
Accruals and other payables		**10,646**	11,146
Bank borrowings	*13*	**25,157**	42,280
Lease liabilities		**5,314**	–
Contract liabilities		**6,751**	14,770
		51,366	70,305
Net current assets		**29,276**	35,121
Total assets less current liabilities		**271,482**	240,398

	Notes	**2019** ***US$'000***	2018 *US$'000*
Equity			
Share capital	*14*	**39,734**	39,345
Reserves		**206,808**	187,830
Equity attributable to owners of the Company		**246,542**	227,175
Non-controlling interests		**5,264**	3,567
Total equity		**251,806**	230,742
Non-current liabilities			
Deferred tax liabilities		**4,814**	9,068
Lease liabilities		**14,247**	–
Debenture		**615**	588
Total non-current liabilities		**19,676**	9,656
Total equity and non-current liabilities		**271,482**	240,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

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 is the parent company and ultimate holding company of the Company.

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

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
HKAS 19 (Amendments)	Plan Amendments, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

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

(a) Impact on the consolidated financial statements

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

Consolidated statement of financial position (extract)	Carrying amount previously reported at 31 December 2018	Adjustments	Carrying amount under HKFRS 16 at 1 January 2019
	US$'000	*US$'000*	*US$'000*
Non-current assets			
Right-of-use assets	–	18,966	18,966
Total non-current assets	205,277	18,966	224,243
Total current assets	105,426	–	105,426
Current liabilities			
Lease liabilities	–	4,158	4,158
Accruals and other payables	11,146	(1,525)	9,621
Total current liabilities	70,305	2,633	72,938
Net current assets	35,121	(2,633)	32,488
Non-current liabilities			
Lease liabilities	–	16,333	16,333
Total non-current liabilities	9,656	16,333	25,989
Net assets	230,742	–	230,742

(b) HKFRS 16 Leases – Impact of initial application

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

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

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities. The incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 4.3% to 8.4%. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standards:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- excluding initial direct costs for the measurement of the right-for-use asset at the date of initial application, and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying the HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

(i) Former operating leases

HKFRS 16 changes how the Group accounts for leases previously classified as operating leases under HKAS 17, which were off balance sheet.

Applying HKFRS 16, for all leases (except as noted below), the Group:

a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under HKAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under HKFRS 16, right-of-use assets are tested for impairment in accordance with HKAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by HKFRS 16. This expense is presented within 'administrative expenses' in the consolidated statement of profit or loss.

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

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

(ii) Nature of the effect of adoption of HKFRS 16

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied ranged from 4.3% to 8.4%.

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

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

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	*US$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	*(a)*	20,491
Less: Accrual lease liabilities	*(b)*	(1,525)
		18,966

Notes:

(a) The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

(b) These relate to accrued lease liabilities of several operating leases for leases of properties in deferred lease inducement. The carrying amount of the accrued lease liabilities under accruals and other payables as at 1 January 2019 was adjusted to right-of-use assets at transition.

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

	As at 1 January 2019 *US$'000*
Properties	13,891
Office equipment	5,075
Total right-of-use assets	18,966

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

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

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

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

New and amendments to HKFRS in issue but not yet effective

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 3 (Amendments)	Definition of a Business[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[4]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]

[1] *Effective for annual periods beginning on or after 1 January 2020.*

[2] *Effective for business combinations and asset acquisition of which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for annual periods beginning on or after 1 January 2021.*

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020. The Directors anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SEGMENT INFORMATION

During the year ended 31 December 2019, the Group operated in one operating segment which was the business of on-line game operation and retail game development. A single management team reported to the Directors (being the chief operating decision-maker) who comprehensively managed the entire business. Accordingly, the Group has not presented separate segment information.

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the year and the Group's non-current assets. The geographical locations of the customers are determined based on the locations of the principal operations of the subsidiaries.

The Group's non-current assets included property, plant and equipment, goodwill, intangible assets, development expenditure, right-of-use assets, financial assets at fair value through other comprehensive income and deferred tax assets. The geographical locations 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

	2019	2018
	US$'000	*US$'000*
Canada	**174,875**	194,481
United Kingdom ("UK")	**26,524**	33,103
United States of America ("US")	**11,761**	–
The People's Republic of China ("PRC")	**1,075**	136
	214,235	227,720

Non-current assets

	2019	2018
	US$'000	*US$'000*
Canada	**61,785**	64,638
UK	**66,441**	55,664
PRC	**23,046**	3,160
HK	**90,662**	81,810
US	**272**	5
	242,206	205,277

Other information

Revenue from major products

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

	2019	2018
	US$'000	*US$'000*
Computer and video games	**214,235**	227,720

Information about major customers

Revenue from each of the three (2018: four) major customers with whom transactions amounted to 10% or more of the Group's revenue is set out below:

	2019	2018
	US$'000	*US$'000*
Customer A[1]	**67,164**	72,382
Customer B[1]	**49,953**	49,557
Customer C[1]	**27,856**	31,294
Customer D[1, 2]	**–**	24,773

1 *Revenue from game development and publishing*

2 *No information on revenue for the year ended 31 December 2019 is disclosed for this customer since it did not contribute over 10% of the Group's revenue.*

4. REVENUE

	2019	2018
	US$'000	*US$'000*
Game development and publishing	**182,207**	201,909
Work-for-hire	**31,160**	25,488
Sale of merchandise goods	**868**	323
	214,235	227,720
Timing of revenue recognition		
Over time	**201,606**	227,397
At a point in time	**12,629**	323
	214,235	227,720

As at 31 December 2019, the aggregate amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts of game development and publishing is approximately US$6,751,000 (2018: US$14,770,000) and the Group will recognise this revenue in 2020.

All work-for-hire service are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. OTHER REVENUE AND GAINS

	2019	2018
	US$'000	*US$'000*
Interest income on bank deposits	**702**	695
Net exchange gain	**–**	6,299
Sundry income	**519**	1,198
	1,221	8,192

6. FINANCE COSTS

	2019	2018
	US$'000	*US$'000*
Interest on:		
– Bank borrowings	**1,554**	734
– Lease liabilities	**1,068**	–
– Debenture	**56**	53
– Shareholder's loan	**–**	3
	2,678	790

7. TAXATION

	2019	2018
	US$'000	*US$'000*
Canada corporate income tax		
– current year	**23,255**	29,055
UK corporate income tax		
– current year	**1,047**	(2,662)
HK incorporate income tax		
– current year	**2**	–
Deferred tax		
– current year	**(5,162)**	(2,910)
Income tax expense	**19,142**	23,483

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group was not subject to any income tax in the Cayman Islands and BVI during the reporting period (2018: Nil).

(b) On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK$2,000,000 of profits 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 the PRC were liable to PRC Enterprise Income Tax ("EIT") at a tax rate of 25% for the years ended 31 December 2019 and 2018.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in Canada were liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the years ended 31 December 2019 and 2018.

(e) Pursuant to the income tax rules and regulations of UK, the companies comprising the Group in UK were liable to UK CIT at a tax rate of 19% for the years ended 31 December 2019 and 2018. The Group took advantage of Video Games Tax Relief which provides 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 rate of 21% for the years ended 31 December 2019 and 2018.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2019 would not be distributed in the foreseeable future (2018: Nil).

8. PROFIT BEFORE TAXATION

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

	2019	2018
	US$'000	*US$'000*
Equity-settled share-based payment expenses	**7,723**	4,377
Less: Capitalised in development expenditure	**(1,638)**	–
	6,085	4,377
Staff costs including Directors' remuneration	**29,634**	24,121
Retirement schemes benefits	**2,271**	1,291
Total staff costs	**37,990**	29,789
Depreciation charges		
– Owned property, plant and equipment	**2,234**	1,523
– Right-of-use assets	**4,920**	–
Amortisation of intangible assets	**17,366**	18,467
Amortisation of development expenditure[1]	**10,471**	3,048
Total depreciation and amortisation	**34,991**	23,038
Cost of inventories recognised as expenses	**312**	181
Auditors' remuneration		
– Audit service	**218**	223
– Other service	**38**	20
Operating lease rental expenses	**–**	2,799
Expenses relating to short-term leases	**1,054**	–
Net loss on disposal of property, plant and equipment	**17**	–
Net exchange loss/(gain)[2]	**5,365**	(6,299)
Impairment of intangible assets	**2,540**	4,896
Impairment of development expenditure[1]	**7,675**	4,360
Impairment of property, plant and equipment	**3,315**	–
Reversal of allowance for expected credit loss recongised in respect of trade receivables[3]	**(4)**	–
Allowance for expected credit loss recognised in respect of trade receivables[3]	**6,930**	1,379
Allowance for expected credit loss recognised in respect of deposits and other receivables[3]	**7,079**	3,298

[1] *Included in cost of sales in the consolidated statement of profit or loss.*

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

[3] *Included in administrative expenses in the consolidated statement of profit or loss.*

Net loss on financial assets at fair value through profit or loss:

	2019	2018
	US$'000	*US$'000*
Proceeds on sales	**4,910**	–
Less: Cost of sales	**(5,110)**	–
Net realised loss on financial assets at fair value through profit or loss	**(200)**	–
Unrealised loss on financial assets at fair value through profit or loss	**(859)**	(23,743)
Net loss on financial assets at fair value through profit and loss	**(1,059)**	(23,743)

9. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

10. (LOSS)/EARNINGS PER SHARE

	2019	2018
	US$'000	*US$'000*
(Loss)/earnings		
(Loss)/profit attributable to owners of the Company for the purpose of calculating basic (loss)/earnings per share	**(8,379)**	20,413

Weighted average number of ordinary shares

During the years ended 31 December 2019 and 2018, the weighted average number of ordinary shares used as denominator in calculating (loss)/earnings per share was as follows:

	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**3,070,581**	3,067,831
Effect of dilutive potential ordinary shares:		
– Share options *(Note)*	**–**	22,783
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**3,070,581**	3,090,614

Note:

The diluted loss per share is the same as the basic loss per share for the year ended 31 December 2019 because the effect of the Company's share options during the year were anit-dilutive.

The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercised price lower than the average market price during the year ended 31 December 2018 and with the adjustment for the share options lapsed or exercised.

11. TRADE RECEIVABLES

	2019	2018
	US$'000	*US$'000*
Trade receivables	**22,646**	45,670
Less: Allowance for expected credit loss	**(71)**	(1,373)
	22,575	44,297

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

	2019	2018
	US$'000	*US$'000*
Within 30 days	**18,668**	32,022
31 days to 60 days	**1,988**	3,706
61 days to 180 days	**1,553**	8,563
Over 180 days	**366**	6
	22,575	44,297

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

As at the end of reporting period, an impairment loss of trade receivables of US$6,930,000 (2018: US$1,379,000) was recognised during the year ended 31 December 2019.

12. TRADE PAYABLES

	2019	2018
	US$'000	*US$'000*
Trade payables	**3,498**	2,109

The ageing analysis of trade payables presented based on invoice date is as follows:

	2019	2018
	US$'000	*US$'000*
Within 30 days	**2,392**	1,660
31 days to 90 days	**775**	394
91 days to 180 days	**327**	1
Over 180 days	**4**	54
	3,498	2,109

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

13. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	2019	2018
	US$'000	*US$'000*
Secured:		
– Term loan *(Note (a))*	**12,527**	20,754
– Mortgage loans *(Note (b))*	**12,630**	13,225
– Revolving loan *(Note (c))*	**–**	8,301
	25,157	42,280

As at 31 December 2019, the bank borrowings were repayable as follows:

	2019	2018
	US$'000	*US$'000*
Within 1 year or on demand	**25,157**	42,280

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

	2019	2018
	US$'000	*US$'000*
HK dollars	**12,630**	21,526
US dollars	**12,527**	20,754
	25,157	42,280

Notes:

The secured bank borrowings were secured by leasehold land and buildings included in property, plant and equipment with carrying amounts of US$30,337,000 (2018: US$33,996,000) and a corporate guarantee given by a subsidiary of the Company for an amount up to US$25,000,000 (2018: 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 consolidated statement of financial position. The term loan carries interest at Hong Kong Interbank Offer Rate ("HIBOR") plus 3.9%. The effective interest rate as at 31 December 2019 ranged from 4.9% to 6.4% per annum (2018: 4.9% to 6.0%).

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 draw down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2019, none of the covenants relating to draw down facilities had been breached (2018: Nil).

(b) Mortgage loans

The mortgage loans carry interest at HIBOR plus 1.2%. The effective interest rate as at 31 December 2019 ranged from 2.20% to 3.73% per annum (2018: 2.40%).

(c) Revolving loan

On 26 November 2018, the Company entered into a revolving loan facility of up to HK$65,000,000 (equivalent to approximately US$8,333,000) for a term of one year. The revolving loan was intended for general corporate funding purposes of the Company. The revolving loan carries interest at HIBOR plus 0.9%. The effective interest rate as at 31 December 2019 ranged from 1.92% to 3.60% per annum (2018: 2.58%). As at 31 December 2019, the Company had fully repaid the banking facilities (2018: the Company had fully utilised the banking facilities).

14. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares	
		HK$'000	*US$'000*
Authorised:			
As at 1 January 2018 ordinary shares of HK$0.1 each	4,000,000,000	400,000	51,600
Increase in authorised share capital *(Note (a))*	6,000,000,000	600,000	77,400
As at 31 December 2018, 1 January 2019 and 31 December 2019	**10,000,000,000**	**1,000,000**	**129,000**
Issued and fully paid:			
As at 1 January 2018 ordinary shares of HK$0.1 each	3,070,910,000	307,091	39,597
Share repurchased and cancelled *(Note (b))*	(19,715,000)	(1,972)	(252)
As at 31 December 2018 and 1 January 2019	3,051,195,000	305,119	39,345
Subscription of shares *(Note (c))*	30,500,000	3,050	389
As at 31 December 2019	**3,081,695,000**	**308,169**	**39,734**

Notes:

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

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

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

15. EVENTS AFTER THE REPORTING PERIOD

(a) Impact of COVID-19 on the Group

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global business environment. Up to the date of this announcement, COVID-19 has not resulted in material impact to the Group. Amid the development and spread of COVID-19 subsequent to the date of this announcement, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

(b) Memorandum of Understanding in relation to Possible Share Disposal

On 29 November 2019, the Company announced that it has been informed by Mr. Yuk Kwok Cheung Charles ("Mr. Yuk"), the controlling shareholder (as defined in the Listing Rules) of the Company, that Mr. Yuk and his wholly-owned companies, Port New Limited and Novel New Limited (the "Selling Shareholders") entered into a memorandum of understanding ("MOU") with iDreamSky Technology Holdings Limited, an independent third party ("the Potential Purchaser") in relation to a proposed sale by the Selling Shareholders to the Potential Purchaser of a total of 2,132,694,522 shares in the issued share capital of the Company, representing approximately 69.20% of the issued share capital of the Company as at the date of this announcement (the "Possible Share Disposal").

Pursuant to the MOU, among other matters, the Potential Purchaser was granted an exclusivity period of 21 days from the date of the MOU (which period may be extended to such later date as the Selling Shareholders and the Potential Purchaser may agree) (the "Exclusivity Period"), and it was the intention of the Selling Shareholders and the Potential Purchaser to enter into a formal agreement in relation to the Possible Share Disposal on or before the expiry of the Exclusivity Period (or such later date as the Selling Shareholders and the Potential Purchaser may agree). On 12 March 2020, the parties have agreed to extend the Exclusivity Period to 15 April 2020.

Up to the date of this announcement, negotiations are still in progress and the Company will make further announcement(s) to keep shareholders and potential investors of the Company informed of new developments regarding the Possible Share Disposal as and when appropriate.

Further details of the Possible Share Disposal 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 and 12 March 2020.

16. COMPARATIVES

The Group has initially applied HKFRS 16 at 1 January 2019. Under the transition method, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

BUSINESS OVERVIEW

In 2019, the Group witnessed a certain decline in results when compared to the previous year. Total revenue for the year was US$214.2 million, representing a year-on-year decrease of 5.9%. The decrease was due to a drop in the game development and publishing segment revenue from US$201.9 million in 2018 to US$182.2 million in 2019. The decline was partially offset by an increase in work-for-hire segment revenue. Gross profit margin reduced from 62.1% in 2018 to 56.8% in 2019, and gross profit decreased by US$19.7 million year-on-year to US$121.8 million. Such decrease in gross profit margin was mainly attributable to the increase in labour costs for game development and impairment of development expenditure. The Group's EBITDA was US$49.6 million (2018: US$67.0 million), representing a year-on-year decrease of 25.9%. It was mainly because of the drop in gross profit and increase in selling and marketing expenses and net exchange loss. After excluding impairment losses and equity-settled share-based payment expenses, adjusted EBITDA only reduced slightly by 2.4% to US$83.2 million in 2019. Nevertheless, owing to the impact of non-recurring items, loss attributable to the owners of the Company of US$8.4 million was recorded during the reporting period. During the reporting period, game development and publishing, work-for-hire and other businesses contributed 85.1%, 14.5% and 0.4% of total revenue to the Group, respectively.

Game Development and Publishing Business

The game development and publishing business is currently the Group's main source of revenue. As at 31 December 2019, this segment covered several free-to-play ("F2P") online games distributed globally, as well as a series of new products in development. In terms of financial results, the revenue and profit of this segment were mainly contributed by *Warframe*, a flagship product of the Group.

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

	Year ended 31 December		
	2019	2018	Change
	(in thousands, unless otherwise stated)		
Total number of registered users	**57,465**	48,094	+19.5%

Warframe

Warframe is a F2P science fiction-themed multiplayer third-person action game available on PC and consoles (including PlayStation 4, Xbox One and Switch). The game is developed and published by one of the Group's subsidiaries, Digital Extremes Ltd. ("Digital Extremes"). It was first launched in March 2013 and celebrated its sixth anniversary during the reporting period. Since its initial launch, *Warframe* has been one of the most popular F2P properties worldwide, and has been striking new highs each year. *Warframe* steadily sits amongst the top 10 of all game genres in terms of the number of players and playtime on Steam, and has a 92% positive review score from players. *Warframe* is also one of the top F2P games on PlayStation 4 and Xbox One in terms of revenue. The consistent 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, offering efficient and timely customer services, helping build a cohesive, passionate gamer community and facilitating communications between gamers and the development team through online and offline interactions.

During the reporting period, the revenue of *Warframe* reduced by 12.2% year-on-year, mainly driven by three reasons. Firstly, large-scale AAA games with themes and gameplay similar to *Warframe* were launched and endorsed by reputable game studios and publishing companies. The strong market promotion of these highly competitive new products inevitably diverted market attention from *Warframe* to a certain extent. Secondly, with the next-generation consoles to be released by the end of 2020, sales of current models have been declining, which contributed to a reduced number of new console players. Thirdly, due to the size and scale of development work related to *Empyrean*, a milestone content update for *Warframe*, the update cadence was temporarily affected and less new game content was released during the reporting period. Nevertheless, the Company believes that *Warframe* demonstrates a strong edge in the highly competitive gaming market. As the game will remain a popular F2P online game, the abovementioned factors are likely to be fleeting. Meanwhile, the management is proactively responding to the above hindrances. On one hand, the Group increased the frequency of its game updates, and further optimised the marketing channel and direction to boost product exposure. On the other hand, the Group was preparing to expand *Warframe* to more platforms, such as the next-generation consoles and other devices, to hedge the risk of contracting new users on consoles. The Group is confident that *Warframe* will enter into a new stage of development, after overcoming these temporary setbacks.

In 2019, *Warframe* adhered to its strategy in content updates. Subsequent to the successful release of *Plains of Eidolon* in 2017 and *Fortuna* in 2018, the Group launched *Empyrean*, another milestone content update for *Warframe*. The launch of *Empyrean* embarked the interstellar exploration in the *Warframe* world. *Warframe's* team has been devoting tremendous efforts in refining the concept idea and enriching the gameplay. Similar to the addition of open world environments, *Empyrean* will become another pillar of the *Warframe* experience which further expands the possibilities for players and future development. Upon winning the Steam Platinum Best-selling Game (12 games with the highest annual total revenues) and the Games with Highest Simultaneous Online Users (6 games with the highest numbers of simultaneous online users) in both 2017 and 2018, *Warframe* won these two top titles in 2019 again, the only non-Valve (Steam's developer) F2P online game with such accolades on Steam.

Looking ahead to 2020, content updates for *Warframe* in the story quest *The New War* and another open world are planned to be launched in 2020. Besides, we will have further content updates of *Empyrean*, and optimise the beginner guidance process and beginner's level. 2020 will be another prospering year for *Warframe*, and more plans will be announced to players in TennoCon in July 2020.

Telltale Games

The Group's publishing subsidiary, Athlon Games, took part as a publishing partner in the revival of Telltale Games, a well-known US game brand shut down in 2018, and obtained the exclusive publishing rights of certain games, including *Batman* and *The Wolf Among Us*. As the narrative games returned to the market with high profile in 2019, the Group was honoured to participate in this meaningful deal, and launched *Batman: Shadows Edition* in late 2019, extending the popularity of this IP product.

Endless World

Endless World is a F2P idle role-playing game (RPG) on the Steam platform developed and published by the Group. Despite paltry marketing efforts, *Endless World* received nearly 80% positive review score from players and ranked among Top Sellers, and was thereby elected 2019 Game of the Year Award (New Release) on Steam.

New Product Line

Concurrent with the persistent quality updates and optimisation of our existing games, the Group also attaches great importance to the development of new products, by either creating original IPs or working with globally renowned ones. The Group boasts a high-caliber game design team which understands well both the fun elements brought by social interactions in video games and the healthy monetisation through game as a service (GaaS), and draws the successful design and operational experience of *Warframe* from the European and American mainstream game market, combining the Group's experienced teams with strong research and development capabilities in China, to make smooth progress in the development of new game products.

During the reporting period, the Group and Amazon Game Studios entered into an agreement to co-develop and co-publish a F2P massively multiplayer online game based on *The Lord of the Rings*. Combining the huge organic traffic of popular IP, strategic partnership with international internet titan, with the Group's leading game development and publishing capabilities, the Group is capable to maximise the success rate of turning the new product into a blockbuster. As at 31 December 2019, besides *The Lord of the Rings*, the Group had *Transformers, Civilization Online* and multiple unannounced new products in various development stages which were progressing well. Some of these products have entered the final stage of development and are expected to be launched in 2020.

Work-for-hire and Other Businesses

During the reporting period, the Group's work-for-hire business (being mainly Splash Damage), recorded a total revenue of US$31.2 million, an increase of 22.3% compared to 2018. After the changes in the senior management team at the end of 2018 and early 2019, the studio adopted a more pragmatic management style with a greater focus on exceptional production quality. Two high quality releases launched throughout the year: *Gears 5*, co-developed by Splash Damage for Xbox Game Studios, earned a 9.0 review from IGN.com; the studio also brought *Halo: Reach* to Xbox Game Studios' *The Master Chief Collection*, which went on to achieve a score of 9.5 from IGN.com. The highly anticipated *Gears Tactics*, developed by Splash Damage for Xbox Game Studios, will be launched on 28 April 2020.

While both results and reputation were improved, this segment also had success in business development. During the reporting period, the Group won multiple new deals, achieving steady revenue growth for the business. As at 31 December 2019, the Group had a number of new business deals on hand, which will bring stable cash income to the Group.

Other businesses mainly include the sale of merchandise goods, which generated revenue of US$0.9 million during the reporting period (2018: US$0.3 million).

Critical Accounting Estimates and Judgements

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

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

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

Environmental, Social and Governance

For the year ended 31 December 2019, the Group has made continuous efforts and investment in minimising risks associated with environmental, social and governance ("ESG") factors, improving employee well-being and contributing back to the community. No non-compliance in relation to the ESG aspects was recorded. Engagement with internal and external stakeholders has resulted in raised concerns on material issues, which included: intellectual property rights, customer data protection, employment, anti-corruption and labour standards. These aspects had been strictly managed by the Group. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders for advancing its ESG management.

Events after the Reporting Period

Further details of the events after the reporting period are set out in Note 15 to the consolidated financial statements.

Outlook

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

FINANCIAL REVIEW

Revenue

Our total revenue decreased by 5.9%, from US$227.7 million for the year ended 31 December 2018 to US$214.2 million for year ended 31 December 2019, primarily due to decline in revenue from *Warframe*, primarily due to market competition and reduced number of new console players, such decline was partially offset by an increase in work-for-hire segment revenue.

Revenue by Nature of Business

The following table sets out the breakdown of the Group's revenue by nature of business for the years ended 31 December 2019 and 2018, respectively:

	2019	2018
	US$'000	*US$'000*
Game development and publishing	**182,207**	201,909
Work-for-hire	**31,160**	25,488
Sale of merchandise goods	**868**	323
	214,235	227,720

Revenue by Geographical Market

The following table sets forth a breakdown of the Group's revenue by geographical market based on the locations of the principal operations of the subsidiaries for the years ended 31 December 2019 and 2018, respectively:

	2019	2018
	US$'000	*US$'000*
Canada	**174,875**	194,481
UK	**26,524**	33,103
US	**11,761**	–
PRC	**1,075**	136
	214,235	227,720

Gross Profit

The Group's total gross profit decreased by 13.9%, from US$141.5 million for the year ended 31 December 2018 to US$121.8 million for the year ended 31 December 2019, and the gross profit margin decreased from 62.1% for the year ended 31 December 2018 to 56.8% for the year ended 31 December 2019, primarily due to the increase in direct labour costs for game development and impairment of development expenditure.

Other Revenue and Gains

Other revenue and gains decreased by 85.1%, from US$8.2 million for the year ended 31 December 2018 to US$1.2 million for the year ended 31 December 2019, primarily due to net exchange loss was recorded during the year ended 31 December 2019 (2018: net exchange gain of US$6.3 million).

Selling and Marketing Expenses

Selling and marketing expenses increased by 64.3%, from US$13.5 million for the year ended 31 December 2018 to US$22.1 million for the year ended 31 December 2019, which was mainly driven by the increased marketing activities to further promote the brand awareness of *Warframe* and *Endless World*.

Administrative Expenses

Administrative expenses increased by 44.1%, from US$34.6 million for the year ended 31 December 2018 to US$49.8 million for the year ended 31 December 2019. Administrative expenses primarily consist of staff costs, legal fee, impairment loss and depreciation. The increase was primarily driven by greater staff costs and impairment losses on trade and other receivables.

Amortisation of Intangible Assets

Amortisation of intangible assets decreased by 6.0%, from US$18.5 million for the year ended 31 December 2018 to US$17.4 million for the year ended 31 December 2019, primarily as a result of impairment of intangible assets of US$2.5 million during the year ended 31 December 2019.

Impairment of Intangible Assets

Impairment of intangible assets for the year ended 31 December 2019 amounted to US$2.5 million (2018: US$4.9 million), which was mainly due to the underperformance of a developed game.

Finance Costs

Finance costs increased significantly by 2.4 times, from US$0.8 million for the year ended 31 December 2018 to US$2.7 million for the year ended 31 December 2019, primarily as a result of interest on bank borrowings drawdown during the second half of 2018. Finance costs included interests on bank borrowings of US$1.6 million (2018: US$0.7 million) and interest on lease liabilities in respect of the adoption of HKFRS 16 of US$1.1 million (2018: Nil), which was made effective at the beginning of 2019.

Equity-settled Share-based Payment Expenses

Equity-settled share-based payment expenses increased by 39.0%, from US$4.4 million for the year ended 31 December 2018 to US$6.1 million for the year ended 31 December 2019, primarily as the Company granted 154,479,884 share options under the share option scheme during the year.

Taxation

Taxation decreased by 18.5%, from US$23.5 million for the year ended 31 December 2018 to US$19.1 million for the year ended 31 December 2019.

Financial Positions

Property, Plant and Equipment

Property, plant and equipment comprise mainly the Group's leasehold land and buildings, office equipment and motor vehicles. As at 31 December 2019, property, plant and equipment amounted to US$36.2 million (2018: US$39.9 million). The decrease was mainly attributable to the depreciation and impairment loss amounted to US$2.2 million and US$3.3 million, respectively, during the year.

Goodwill

Goodwill was allocated to cash-generating units in Canada, UK and PRC. As at 31 December 2019, goodwill amounted to US$79.3 million (2018: US$76.4 million). The increase was mainly attributable to the exchange alignment during the year.

Intangible Assets

Intangible assets comprise brand name, completed game, game engine, game under development and trademark. As at 31 December 2019, intangible assets amounted to US$14.1 million (2018: US$31.5 million). The significant decrease was mainly attributable to amortisation of intangible assets amounted to US$17.4 million during the year.

Development Expenditure

Development expenditure represents payment to independent video game developers under development agreements. As at 31 December 2019, development expenditure amounted to US$84.7 million (2018: US$48.3 million). The significant increase was mainly due to the continuous involvement of several projects under development during the year.

Financial Assets at Fair Value Through Other Comprehensive Income

As at 31 December 2019, financial assets at fair value through other comprehensive income amounted to US$10.1 million (2018: US$9.1 million). The increase was mainly due to the change in the fair value of financial assets at fair value through other comprehensive income during the year.

Financial Assets at Fair Value Through Profit or Loss

As at 31 December 2019, financial assets at fair value through profit or loss amounted to US$2.7 million (2018: US$8.5 million). The decrease in financial assets at fair value through profit or loss during the year was mainly attributable to disposal of financial assets and fair value loss.

Trade receivables

As at 31 December 2019, trade receivables amounted to US$22.6 million (2018: US$44.3 million). The significant decrease was in line with business activities during the fourth quarter of current year.

Bank borrowings

As at 31 December 2019, the Group had bank borrowings of US$25.2 million (2018: US$42.3 million). The bank borrowings were secured by leasehold land and buildings as the Group's office premises are located in Hong Kong, and were included in property, plant and equipment with carrying amount of US$30.3 million (2018: US$34.0 million) and a corporate guarantee given by a subsidiary of the Group for an amount up to US$25 million (2018: US$25 million). The significant decrease was due to repayment of bank borrowings during the year.

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. As at 31 December 2019, deferred tax liabilities amounted to US$4.8 million (2018: US$9.1 million). The decrease in deferred tax liabilities was in line with amortisation of intangible assets during the year.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

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

As at 31 December 2019, cash and bank balances amounted to US$22.1 million (2018: US$32.7 million), which were denominated in US$, CAD, GBP, Renminbi ("RMB") and HK$. The decrease in cash and bank balances was mainly due to the increase in development expenditure and repayment of bank borrowings during the year.

Interest-bearing Borrowings and Gearing Ratio

As at 31 December 2019, the total amount of interest-bearing borrowings was US$25.8 million (2018: US$42.9 million). The significant decrease was mainly attributable to repayment of bank borrowings during the year.

As at 31 December 2019, the gearing ratio of the Group was 8.0% (2018: 13.8%). The gearing ratio was calculated by dividing total interest-bearing borrowings by total assets of the Group as at 31 December 2019.

SEGMENTAL INFORMATION

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

PROSPECT

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

OTHER INFORMATION

Human Resources

As at 31 December 2019, the Group had 1,046 employees (2018: 889).

Staff Costs

Total staff costs, including directors' emoluments, amounted to US$38.0 million for the year ended 31 December 2019 (2018: US$29.8 million). All members of the Group are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered.

Retirement Costs Benefits

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

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

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

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

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

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

Share Option Scheme

The share option scheme was adopted for a period of 10 years on, and commenced from, 25 August 2017. Details of the rules of the share option scheme were set out in the circular of the Company dated 8 August 2017. As at the date of this announcement, the total number of outstanding share options granted under the share option scheme was 415,607,021 share options.

FOREIGN EXCHANGE RISK

The Group's main operations are in Canada, UK, PRC (including HK) 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 could differ from the expectations on which management's estimates are based, resulting in the recognition and measurement of amounts materially different from those estimated by management in the consolidated financial statements.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the year ended 31 December 2019, the Group did not have other plans for material investments and capital assets.

PLEDGE OF ASSETS

As at 31 December 2019, bank borrowings of the Group with carrying amount of US$25.2 million (2018: US$42.3 million) were secured under a mortgage arrangement over the Group's office premises located in Hong Kong and a corporate guarantee given by a subsidiary of the Group.

CONTRACTUAL AND CAPITAL COMMITMENTS

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

As at 31 December 2019, the Group had capital commitments of US$97.0 million (2018: US$43.4 million).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, redeemed or sold interest in any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has all along been committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the year ended 31 December 2019.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2019, the Company was in compliance with all code provisions set out in the CG Code except for the deviation as explained below:

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

Save as aforesaid, in the opinion of the Directors, the Company has met all the code provisions set out in the CG Code during the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Upon specific enquiries of all Directors of the Company, each of them confirmed that they complied with the required standards set out in the Model Code for the year ended 31 December 2019.

FINAL DIVIDEND

The Board did not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

The annual general meeting is scheduled to be held on Thursday, 21 May 2020 (the "AGM"). A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 15 May 2020.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process together with risk management and internal control system of the Group. The Audit Committee comprises three independent non-executive Directors of the Company, namely Mr. Hu Chung Ming (as chairman), Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit. The Audit Committee has reviewed the annual results announcement and the audited consolidated financial statements of the Group for the year ended 31 December 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with members of the senior management and the Company's auditor. Based on the review and discussions with the management, the Audit Committee was satisfied that the Group's audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2019. The consolidated financial statements of the Group have been audited by the Company's auditor, in accordance with International Standards on Auditing.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to be the amounts set out in the Group's consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on this announcement.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.leyoutech.com.hk). The 2019 annual report of the Company will be published on the above websites and despatched to shareholders in due course.

APPRECIATION

On behalf of the Company, we would like to express our sincere gratitude to all the users of our games. We would also like to thank all our employees and management team for demonstrating the Group's core values in their everyday work, and executing the Group's strategy with professionalism, integrity and dedication. We are also thankful for the continued support and trust from our shareholders and stakeholders.

On behalf of the Board
Leyou Technologies Holdings Limited
Xu Yiran
Chairman and Chief Executive officer

Hong Kong, 25 March 2020

As at the date of this announcement, the Board comprises Mr. Xu Yiran (Chairman and Chief Executive Officer), Mr. Li Yang (Deputy Chairman), Mr. Gu Zhenghao and Mr. Cao Bo as executive Directors, Mr. Eric Todd as non-executive Directors, and Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Kwan Ngai Kit as independent non-executive Directors.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.