

## **Warchest Limited**

Directors' Report and Financial Statements

Year Ended

31 December 2019

Company Number 07783664



# Warchest Limited

## Company Information

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<b>Directors</b>	A Xu Yiran J Kong R Jolly B J Hopkinson G R Jenkins
<b>Company secretary</b>	B J Hopkinson
<b>Registered number</b>	07783664
<b>Registered office</b>	Royal Court 81 Tweedy Road Bromley Kent BR1 1RG
<b>Independent auditor</b>	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

# Warchest Limited

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# Warchest Limited

## Directors' Report For the year ended 31 December 2019

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The Directors present their report and the financial statements for the year ended 31 December 2019.

### Principal activity

The principal activity of the Company is software publishing and on occasion, the Company undertakes video game development work for fellow group companies where there are sufficient commercial drivers to do so. The Company also processes the Video Games Tax Relief incentive, a scheme which HMRC introduced to promote British heritage in the games industry.

### Directors

The Directors who served during the year were:

A Xu Yiran  
J Kong  
R Jolly  
R A Farrow (resigned 20 March 2019)  
G R Jenkins (appointed 01 October 2019)  
B J Hopkinson (appointed 01 October 2019)

### Events since the end of the year and going concern

Since the year end the Company has been impacted by the recent COVID-19 pandemic and restrictions imposed by governments around the world to travel and working practices.

As set out on page 7 the Company incurred a loss in the year of £4,328,016 (2018: £1,292,978), and has net current liabilities of £15,378,788 (2018: £13,357,980). Within net current liabilities is an amount of £18,662,243 (2018: £31,925,561) owed to a fellow subsidiary undertaking, Splash Damage Limited ("Splash"). Splash has provided a letter of support to the Company confirming its intention not to recall its debt until such a time as the Company is able to repay it without detriment to its ongoing trade and to provide additional working capital funding as necessary for at least the next twelve months from the date of approval of these financial statements.

The Directors have performed an assessment of going concern, giving due consideration to the Company's historical and current trading, together with its forward-looking projections. These forward-looking projections include a cash flow forecast for a period including 12 months from the date of approval of these financial statements. Those cash flow forecasts show that the Company is able to continue to operate within the existing facilities available and without further funding being required, beyond that from Splash in its role as the UK group financier, for the period of the forecasts.

Although there is uncertainty as to the outcome of the COVID-19 situation globally, the fact that the Company was able to quickly adapt and create a new strategy for the year meant the impact to date has been successfully contained. As an example, the Company continued to deliver game development on time. In addition, the Company has not needed to utilise the furlough scheme or had any redundancies as a result of COVID-19.

Based on the above, the Directors consider that the Company will be a going concern for a period of at least 12 months from the date of approval of these financial statements and have therefore prepared the financial statements on a going concern basis.

Whilst the Directors have every reason to believe that this support extended by Splash will be forthcoming, they recognise that the letter of support does not represent a legally binding contract which therefore indicates that a material uncertainty exists which may cast significant doubt over the Company's ability to continue as a going concern. As disclosed in the financial statements of Splash, it is also reliant on support from its ultimate parent entity, Leyou Technologies Holdings Limited, which is also non-binding. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

## **Warchest Limited**

### **Directors' Report (continued) For the year ended 31 December 2019**

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#### **Events since the end of the year and going concern (continued)**

At the date of signing these financial statements, the Company has signed and is in the process of signing further game development work with world class partners, which result in continuous multi-year revenue streams. Accordingly, subsequent to the year end, the Company has continued to proactively repay the balance owed to Splash, utilising revenue received from the new game development agreements. As at 31 July 2020, the balance owed to Splash had been reduced by £2.2m.

#### **Disclosure of information to auditor**

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Auditor**

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

#### **Small companies note**

In preparing this report, the Directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 7/10/2020

and signed on its behalf.



**R Jolly**  
Director

# **Warchest Limited**

## **Directors' Responsibilities Statement For the year ended 31 December 2019**

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The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Warchest Limited

## Independent Auditor's Report to the Members of Warchest Limited

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### Opinion

We have audited the financial statements of Warchest Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to note 2.3, which indicates the Directors' considerations over going concern, in particular that the Company is reliant on additional financial support a fellow subsidiary undertaking, Splash Damage Limited, who in turn is reliant on its ultimate parent entity for additional support, all of which is not legally binding. As stated in note 2.3, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# **Warchest Limited**

## **Independent Auditor's Report to the Members of Warchest Limited (continued)**

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### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

### **Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



# Warchest Limited

## Independent Auditor's Report to the Members of Warchest Limited (continued)

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### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Nick Poulter** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
Guildford  
United Kingdom

Date: 7/10/2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Warchest Limited

## Statement of Comprehensive Income For the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover		1,741,574	16,804,573
Cost of sales		(255,615)	(10,148,625)
<b>Gross profit</b>		<b>1,485,959</b>	<b>6,655,948</b>
Other income	4	611,859	1,349,621
Administrative expenses		(7,295,508)	(5,315,138)
Impairment of intangible asset	10	-	(6,840,245)
Gain on disposal of intangible asset	10	185,954	-
<b>Operating loss</b>		<b>(5,011,736)</b>	<b>(4,149,814)</b>
Finance income	8	110,566	224,385
Finance costs		(1,575)	-
<b>Loss before tax</b>		<b>(4,902,745)</b>	<b>(3,925,429)</b>
Tax on loss	9	574,729	2,632,451
<b>Loss for the financial year</b>		<b>(4,328,016)</b>	<b>(1,292,978)</b>

There was no other comprehensive income for 2019 (2018: £Nil).

The notes on pages 10 to 26 form part of these financial statements.

**Warchest Limited**  
Registered number: 07783664


**Statement of Financial Position**  
**As at 31 December 2019**

	Note	2019 £	2019 £	2018 £	2018 £
<b>Fixed assets</b>					
Intangible assets	10		56,652		2,363,860
			<u>56,652</u>		<u>2,363,860</u>
<b>Current assets</b>					
Debtors: amounts falling due after more than one year	12	252,917	-		
Debtors: amounts falling due within one year	12	3,619,177		19,477,592	
Cash and cash equivalents	13	11,204		84,624	
		<u>3,883,298</u>		<u>19,562,216</u>	
Creditors: amounts falling due within one year	14	(19,262,086)		(32,920,196)	
<b>Net current liabilities</b>			<u>(15,378,788)</u>		<u>(13,357,980)</u>
<b>Total assets less current liabilities</b>			<u>(15,322,136)</u>		<u>(10,994,120)</u>
<b>Net liabilities</b>			<u>(15,322,136)</u>		<u>(10,994,120)</u>
<b>Capital and reserves</b>					
Called up share capital	16		1		1
Share premium account	17		55,594		55,594
Profit and loss account	17		(15,377,731)		(11,049,715)
			<u>(15,322,136)</u>		<u>(10,994,120)</u>

The Company's financial statements have been prepared in accordance with the provisions applicable to entities subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

7/10/2020



**R Jolly**  
Director

The notes on pages 10 to 26 form part of these financial statements.

# Warchest Limited

## Statement of Changes in Equity For the year ended 31 December 2019

	Called up share capital	Share premium account	Profit and loss account	Total shareholder' s deficit
	£	£	£	£
<b>At 1 January 2018</b>	<b>1</b>	<b>55,594</b>	<b>(9,756,737)</b>	<b>(9,701,142)</b>
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(1,292,978)	(1,292,978)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(1,292,978)</b>	<b>(1,292,978)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 1 January 2019</b>	<b>1</b>	<b>55,594</b>	<b>(11,049,715)</b>	<b>(10,994,120)</b>
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(4,328,016)	(4,328,016)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(4,328,016)</b>	<b>(4,328,016)</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2019</b>	<b>1</b>	<b>55,594</b>	<b>(15,377,731)</b>	<b>(15,322,136)</b>

The notes on pages 10 to 26 form part of these financial statements.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 1. General information

Warchest Limited is a private company limited by shares incorporated in England and Wales under the Companies Act. The address of the registered office is given on the Company Information page. The nature of the Company's operations and its principal activities are set out in the Directors' report.

### 2. Accounting policies

#### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

#### 2.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.3 Going concern

Since the year end the Company has been impacted by the recent COVID-19 pandemic and restrictions imposed by governments around the world to travel and working practices.

As set out on page 7 the Company incurred a loss in the year of £4,328,016 (2018: £1,292,978), and has net current liabilities of £15,378,788 (2018: £13,357,980). Within net current liabilities is an amount of £18,662,243 (2018: £31,925,561) owed to a fellow subsidiary undertaking, Splash Damage Limited ("Splash"). Splash has provided a letter of support to the Company confirming its intention not to recall its debt until such a time as the Company is able to repay it without detriment to its ongoing trade and to provide additional working capital funding as necessary for at least the next twelve months from the date of approval of these financial statements.

The Directors have performed an assessment of going concern, giving due consideration to the Company's historical and current trading, together with its forward-looking projections. These forward-looking projections include a cash flow forecast for a period including 12 months from the date of approval of these financial statements. Those cash flow forecasts show that the Company is able to continue to operate within the existing facilities available and without further funding being required, beyond that from Splash in its role as the UK group financier, for the period of the forecasts.

Although there is uncertainty as to the outcome of the COVID-19 situation globally, the fact that the Company was able to quickly adapt and create a new strategy for the year meant the impact to date has been successfully contained. As an example, the Company continued to deliver game development on time. In addition, the Company has not needed to utilise the furlough scheme or had any redundancies as a result of COVID-19.

Based on the above, the Directors consider that the Company will be a going concern for a period of at least 12 months from the date of approval of these financial statements and have therefore prepared the financial statements on a going concern basis.

Whilst the Directors have every reason to believe that this support extended by Splash will be forthcoming, they recognise that the letter of support does not represent a legally binding contract which therefore indicates that a material uncertainty exists which may cast significant doubt over the Company's ability to continue as a going concern. As disclosed in the financial statements of Splash, it is also reliant on support from its ultimate parent entity, Leyou Technologies Holdings Limited, which is also non-binding. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

#### 2.4 Adoption of new and revised standards

##### IFRS 16 and IFRIC 23

There are no material adjustments required to be made to the Company's financial statements as a result of the application of IFRS 16 and IFRIC 23.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. There was no impact recognised as at 1 January 2019.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.5 Turnover

Under IFRS 15, the Company recognises revenue when (or as) a performance obligation is satisfied, when services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a service that is distinct or a series of services that are substantially the same.

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

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

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

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

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

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

#### (a) Contract work

For contract work, advances received from publishers are recognised as revenue based on the percentage of completion basis. Contractual amounts are received upon successful completion of contractual milestones. Contract execution payments, received in advance of services being rendered at the beginning of each contract, are recognised as deferred income. Royalties are received from publishers on a quarterly basis after the launch of the product, to the extent that the Company is entitled in accordance with the contracts with the respective customers.

#### (b) Licence income and royalties

Licence fees received before the launch of the games are recognised as deferred revenue and subsequently recognised as revenue on a straight-line basis over the contract term.

Royalties are calculated monthly based on a pre-determined percentage of net sales of credits of the licensed operators

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.6 Intangible assets

##### Trademarks

Trademarks are recorded at cost less accumulated amortisation and any related government assistance. Amortisation of intangible assets is calculated over their estimated useful lives of ten years using the straight-line method. Provision is made for any impairment.

##### Game development

Development costs that are directly attributable to the design and testing of identifiable and unique games controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic future benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing games and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Costs associated with maintaining the games are recognised as an expense as incurred. No amortisation is provided for games under development until completion. Amortisation commences when construction-in-progress is transferred to intangible assets and ready for their intended use. Game intellectual properties are amortised using the straight-line method over their useful lives of the games of not more than 6 years.



# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of comprehensive income during the relevant periods in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Office equipment	- 4 years
Computer equipment	- 2 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

#### 2.8 Impairment of fixed assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

#### 2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### 2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.11 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

##### Financial assets

The Company classifies all of its financial assets as loans and receivables at amortised cost. The Company classifies all of its financial assets as loans and receivables at amortised cost.

##### Loans and receivables

Loans and receivables at amortised costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. The expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flow that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, the expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining useful life of the exposure, irrespective of the timing of the default.

For trade debtors, the Company applies the simplified approach in calculating expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.11 Financial Instruments (continued)

##### Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

##### At amortised cost

Financial liabilities at amortised cost including trade creditors and amounts owed to group undertakings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of financial position.

#### 2.12 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.13 Foreign currency translation

##### Functional and presentation currency

The Company's functional and presentational currency is GBP.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

#### 2.14 Finance costs

Finance costs are charged to the Statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 2. Accounting policies (continued)

#### 2.15 Pensions

##### Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

#### 2.16 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

#### 2.17 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

In assessing any uncertainty over income tax treatments, the Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by the Company in its income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

In preparing these financial statements, the Directors have had to make the following judgements:

#### **Impairment**

Determine whether there are indicators of impairment of the Company's intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and the expected future financial performance of the asset.

#### **Key sources of estimation uncertainty:**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- **Provision for impairment of trade and intra-group receivables**  
Impairment of trade and intra-group receivables is made based on an assessment of the recoverability of the receivables. Provision is made in accordance with the expected credit loss model of IFRS 9. The calculation of expected credit losses requires management's judgement and estimates. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, and the amount of impairment provision or write-back of provision for trade and intra-group receivables in the period in which such estimate has been changed.
- **Revenue recognition**  
The timing of revenue recognition is dependant upon the measurement of the percentage of completion in respect to the performance obligations stipulated by the specific contract. The percentage of completion is estimated with reference to the proportion of the task deemed to be completed as at the year end, with reference made to the milestones stipulated in the contracts. Furthermore, management must make estimates as to the allocation of the transaction price across the performance obligations, and judgements as to if these performance obligations represent separable or bundled obligations, to which the percentage of completion is then applied.
- **Recoverability of deferred tax assets**  
A deferred tax asset has been recognised to the extent that management believe it is probable to be recovered. For further details, please refer to note 9

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 4. Other operating income

	2019 £	2018 £
Management recharges	611,859	773,941
Realised gain on contract renegotiation	-	575,680
	<u>611,859</u>	<u>1,349,621</u>

During the prior year, a royalty agreement was renegotiated on more favourable terms, resulting in a release of liabilities due to the Statement of comprehensive income.

### 5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2019 £	2018 £
Fees for the audit of the Company	24,688	18,000
Fees for non-audit services	34,100	28,456
	<u>58,788</u>	<u>46,456</u>

### 6. Employees

The average monthly number of employees, including the Directors, during the year was as follows:

	2019 No.	2018 No.
HR/Finance/Media staff	<u>15</u>	<u>16</u>

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 7. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	227,880	283,922
Company contributions to defined contribution pension schemes	10,373	17,946
	<u>238,253</u>	<u>301,868</u>

The highest paid Director received remuneration of £183,378 (2018 - £155,992).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £8,060 (2018 - £9,194).

During the year, retirement benefits were accruing to two Directors (2018 - two) in respect of a defined contribution pension scheme.

### 8. Interest receivable

	2019 £	2018 £
Other interest receivable	110,566	217,822
Statutory interest on tax receivable	-	6,563
	<u>110,566</u>	<u>224,385</u>

### 9. Taxation

	2019 £	2018 £
<b>Corporation tax</b>		
Current tax on losses for the year	(321,812)	(2,915,229)
Adjustments in respect of previous periods	-	282,778
<b>Total current tax</b>	<u>(321,812)</u>	<u>(2,632,451)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(252,917)	-
<b>Taxation on loss on ordinary activities</b>	<u>(574,729)</u>	<u>(2,632,451)</u>

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 9. Taxation (continued)

#### Factors affecting tax credit for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	<b>(4,902,745)</b>	(3,925,429)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	<b>(931,522)</b>	(745,832)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	170	8,270
Gains not subject to corporation tax	<b>(35,322)</b>	-
Group relief surrendered	<b>687,746</b>	-
Video game development tax profit adjustment	<b>(388,477)</b>	(2,079,592)
Adjustments to tax charge in respect of prior periods	<b>65,737</b>	262,138
Deferred tax not recognised	-	664,690
Tax rate changes	<b>26,939</b>	(742,125)
<b>Total tax credit for the year</b>	<b>(574,729)</b>	(2,632,451)

#### Factors that may affect future tax charges

At 31 December 2019, available tax losses amounted to approximately £6.1m (2018: £12.9m) which at a corporate tax rate of 17% (2018: 17%) amounts to a deferred tax asset of £1.0m (2018: £2.2m). The losses relating to periods post April 2017 have been recognised on the basis that these can be recovered via group relief, against taxable profits generated by other subsidiary undertakings. The losses relating to periods prior to April 2017 have not been recognised due to the uncertainty over the period in which they would be realised.

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. Deferred taxes are calculated based on the rates enacted in respect of future periods as at the reporting date.



# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 10. Intangible assets

	Game development £	Trademarks £	Total £
<b>Cost</b>			
At 1 January 2019	18,892,651	75,519	18,968,170
Additions	13,240,161	4,899	13,245,060
Disposals	(32,132,812)	-	(32,132,812)
At 31 December 2019	-	80,418	80,418
<b>Amortisation</b>			
At 1 January 2019	16,588,375	15,935	16,604,310
Charge for the year	-	7,831	7,831
On disposals	(16,588,375)	-	(16,588,375)
At 31 December 2019	-	23,766	23,766
<b>Net book value</b>			
At 31 December 2019	-	56,652	56,652
At 31 December 2018	2,304,276	59,584	2,363,860

At each year end management assesses each of the intangible assets for indicators of impairment. Where indicators of impairment are observed, the recoverable value of the underlying asset is assessed. Following this process, an impairment charge of £Nil (2018: £6,840,245) was recognised in the Statement of comprehensive income.

During the current year, all game development intangible assets were sold to a fellow subsidiary undertaking, Splash Damage Limited.

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 11. Tangible fixed assets

	Office equipment £	Computer equipment £	Total £
<b>Cost</b>			
At 1 January 2019	416	52,324	52,740
Disposals	(416)	(52,324)	(52,740)
At 31 December 2019	-	-	-
At 1 January 2019	416	52,324	52,740
Disposals	(416)	(52,324)	(52,740)
At 31 December 2019	-	-	-
<b>Net book value</b>			
At 31 December 2019	-	-	-
At 31 December 2018	-	-	-

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 12. Debtors

	2019 £	2018 £
<b>Due after more than one year</b>		
Deferred tax asset	252,917	-
	<u>252,917</u>	<u>-</u>
<b>Due within one year</b>		
Trade debtors	-	5,786,235
Amounts owed by group undertakings	380,846	8,282,398
Other debtors	1,337	5,200
Prepayments and accrued income	-	17,923
Corporation tax recoverable	3,236,994	5,385,836
	<u>3,619,177</u>	<u>19,477,592</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

The impairment loss recognised in the year in respect of bad and doubtful debts was £5,417,883 (2018: £1,120,716).

### 13. Cash and cash equivalents

	2019 £	2018 £
Cash at bank and in hand	11,204	84,624
	<u>11,204</u>	<u>84,624</u>

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

### 14. Creditors: Amounts falling due within one year

	2019 £	2018 £
Trade creditors	26,442	28,764
Amounts owed to group undertakings	19,130,206	32,659,516
Other taxation and social security	48,023	32,741
Other creditors	6,531	8,349
Accruals and deferred income	50,884	190,826
	<u>19,262,086</u>	<u>32,920,196</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

#### Security:

The Company has a mortgage debenture over its assets, however no debt is secured as at the year end (2018 - £nil).

### 15. Deferred taxation

	2019 £
At beginning of year	-
Credited to profit or loss	252,917
<b>At end of year</b>	<u><b>252,917</b></u>

The deferred tax asset is made up as follows:

	2019 £	2018 £
Available losses	<u>252,917</u>	<u>-</u>

### 16. Share capital

	2019 £	2018 £
<b>Allotted, called up and fully paid</b>		
1,085,150 (2018 - 1,085,150) Ordinary shares of £0.000001 each	<u>1</u>	<u>1</u>

# Warchest Limited

## Notes to the Financial Statements For the year ended 31 December 2019

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### 17. Reserves

The Company has the following reserves:

#### Share premium account

The share premium reserve relates to amounts paid for share capital in excess of nominal value.

#### Profit and loss account

The profit and loss account represents cumulative profits and losses net of dividends paid and other adjustments.

### 18. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £76,164 (2018 - £59,727). Contributions totalling £6,325 (2018: £Nil) were payable to the fund at the reporting date and are included in creditors.

### 19. Events after the reporting period

Since the year end the Company has been impacted by the recent COVID-19 pandemic and restrictions imposed by governments around the world to travel and working practices.

The impact of this has been considered in the context of going concern within note 2.3.

### 20. Related party transactions

The Company has taken advantage of the exemption conferred by FRS 101 section 8.k not to disclose transactions with Leyou Holdings Technologies Limited or other wholly owned subsidiaries within the Group.

There have been no transactions with other related parties.

### 21. Controlling party

The Company's immediate parent undertaking is Radius Maxima Limited, a company incorporated in the UK.

The Company's ultimate parent undertaking of the smallest and largest group for which consolidated accounts are prepared is Leyou Technologies Holdings Limited, a company incorporated in the Cayman Islands and listed on the Hong Kong Stock Exchange. These consolidated financial statements are available from [leyoutech.com.hk](http://leyoutech.com.hk).

In the opinion of the Directors, Leyou Technologies Holdings Limited is the Company's ultimate parent company and the majority shareholder Mr K C C Yuk is the ultimate controlling party.