Warchest Limited

Directors' Report and Financial Statements

Year Ended

31 December 2017

Company Number 07783664

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Warchest Limited

Company Information

Directors	P Wedgwood R Farrow A Xu Yiran J Kong R Jolly
Company secretary	R Farrow
Registered number	07783664
Registered office	Royal Court 81 Tweedy Road Bromley Kent BR1 1RG
Independent auditors	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 2017

The Directors present their report and the financial statements for the year ended 31 December 2017.

Change of accounting period

Following the successful completion of the sale to Leyou Technologies Holdings Limited in the prior period, the Company's year end was changed from 31 March to 31 December to align the year end with the rest of the Group. As such, the current financial statements are for a year to 31 December 2017 whereas the audited comparatives presented in these financial statements are for the period covering 9 months to 31 December 2016.

Principal activity

The principal activity of the Company is software publishing. Occasionally the Company also undertakes video game development work for fellow group companies where there are sufficient commercial drivers to do so.

Directors

The Directors who served during the year were:

P Wedgwood
R Farrow
A Xu Yiran (appointed 30 June 2017)
J Kong (appointed 30 June 2017)
R Jolly
H Wang (appointed 31 March 2017, resigned 30 June 2017)
K Law (appointed 31 March 2017, resigned 30 June 2017)

Going concern

The Company trades closely and also operates a funding arrangement with fellow group companies, Splash Damage Limited and Fireteam Limited. The purpose is to ensure working capital demands are met within the Group's facility.

Currently the Company owes Splash Damage Limited £20,072,811 and Fireteam Limited £688,811. The Directors feel confident that this balance will be settled within the foreseeable future. Comfort has been sought from Splash Damage Limited and Fireteam Limited that these balances will not need to be repaid for a period of at least 12 months from the date of signing this report or until such time as sufficient funds are available. Specifically, a letter of support has been obtained from Splash Damage Limited and Fireteam Limited for at least 12 months from the date of signing these accounts. Further support has been provided from the ultimate parent Leyou Technologies Holdings Limited.

The rate of growth in this sector of the market has been very strong and this is expected to continue. The Directors have prepared forecasts which indicate that the Company has adequate resources to continue in operational existence for the foreseeable future. These forecasts have taken into account the market growth for digitally distributed content, the initial data on the released games and existing customer discussions. As a result, the Directors have concluded, based on the forecasts, that it is appropriate to prepare the financial statements on a going concern basis.

Events after the balance sheet date

Subsequent to the year-end, in April 2018, the Company commercially launched its Dirty Bomb title with limited economic success. Management is currently assessing the viability of handing the game back to community in the beginning of calendar year 2019. A further review will be taken on the performance of Dirty Bomb at the end of 2018 to determine the recoverability of the net book value. Warchest Limited sold the TV & Film rights to the Dirty Bomb title in June 2018 for USD 9m.

Development of the Company's next title is in good progress with an expected release date in Q4 of calendar year 2019.

Disclosure of information to auditors

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

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have 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 auditors are aware of that information.

Auditors

The auditors, 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 28 September 2018 and signed on its behalf.

Ross Farrow

R Farrow
Director

Warchest Limited

Directors' Responsibilities Statement
For the year ended 31 December 2017

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;
- 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 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 auditors' 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 2017 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 2017 and of its profit 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditors' report to the members of Warchest Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual 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.

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 Director's 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.

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.

BDO LLP

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

Date: 28 SEPTEMBER 2018

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 2017

	Note	31 December 2017 £	As restated 9 month period to 31 December 2016 £
Turnover		**7,395,217**	9,733,438
Cost of sales		**(6,507,031)**	(8,205,920)
Gross profit		**888,186**	1,527,518
Other income	4	**2,474,656**	302,519
Administrative expenses		**(2,822,657)**	(2,574,058)
Impairment of intangible asset	9	**-**	(4,228,256)
Operating profit/(loss)		**540,185**	(4,972,277)
Finance costs		**-**	(7,251)
Profit/(loss) before tax		**540,185**	(4,979,528)
Tax on profit/(loss)	8	**2,294,004**	278,645
Profit/(loss) for the financial year		**2,834,189**	(4,700,883)

There was no other comprehensive income for 2017 (2016:£NIL).

The notes on pages 10 to 27 form part of these financial statements.

Warchest Limited
Registered number: 07783664

Statement of Financial Position
As at 31 December 2017

	Note		2017 £		As restated 2016 £
Fixed assets					
Intangible assets	9		**9,081,264**		3,914,774
			9,081,264		3,914,774
Current assets					
Debtors: amounts falling due within one year	11	**3,719,577**		2,240,421	
Cash and cash equivalents	12	**102,214**		52,047	
		3,821,791		2,292,468	
Creditors: amounts falling due within one year	13	**(22,604,197)**		(18,805,883)	
Net current liabilities			**(18,782,406)**		(16,513,415)
Net liabilities			**(9,701,142)**		(12,598,641)
Capital and reserves					
Called up share capital	14		**1**		1
Share premium account	15		**55,594**		-
Other reserves	15		**-**		41,730
Profit and loss account	15		**(9,756,737)**		(12,640,372)
Shareholder's deficit			**(9,701,142)**		(12,598,641)

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 28 September 2019

Ross Farrow

R Farrow
Director

The notes on pages 10 to 27 form part of these financial statements.

Warchest Limited

Statement of Changes in Equity
For the year ended 31 December 2017

	Called up share capital	Share premium account	Other reserves	As restated Profit and loss account	Total shareholder's deficit
	£	£	£	£	£
At 1 April 2016	1	-	-	(7,939,489)	(7,939,488)
Comprehensive income for the period					
Loss for the period	-	-	-	(4,700,883)	(4,700,883)
Total comprehensive income for the period	-	-	-	(4,700,883)	(4,700,883)
Contributions by and distributions to owners					
Credit to equity for equity settled share based payment	-	-	41,730	-	41,730
Total transactions with owners	-	-	41,730	-	41,730
At 1 January 2017	1	-	41,730	(12,640,372)	(12,598,641)
Comprehensive income for the year					
Profit for the year	-	-	-	2,834,189	2,834,189
Total comprehensive income for the year	-	-	-	2,834,189	2,834,189
Contributions by and distributions to owners					
Shares issued during the year	-	55,594	-	-	55,594
Credit to equity for equity settled share based payment	-	-	7,716	-	7,716
Transfer to profit and loss account	-	-	(49,446)	49,446	-
Total transactions with owners	-	55,594	(41,730)	49,446	63,310
At 31 December 2017	1	55,594	-	(9,756,737)	(9,701,142)

The notes on 10 - 27 form part of these financial statements.

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).

First time application of FRS 101

In the current year the Company has transitioned from FRS 102 to FRS 101, both of which are applicable UK accounting standards and part of FRS 100.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied. Consequently the principal accounting policies and disclosures are unchanged from the prior period.

The change in basis of preparation has enabled the Company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below. There have been no other material amendments to the disclosure requirements previously applied in accordance with FRS 102.

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 requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - 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 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

2. Accounting policies (continued)

2.3 Going concern

The Company trades closely and also operates a funding operation with fellow group companies, Splash Damage Limited and Fireteam Limited. The purpose is to ensure working capital demands are met within the Group, and only use external facilities should the need arise for a specific opportunity. Each Group company complements the others with the services they provide, therefore providing a full service to consumers and their clients.

The Company also operates a cash pooling system. The purpose is to ensure working capital demands are met within the Group's facilities.

At the reporting date, the Company had net current liabilities of £18,782,406 (2016: £16,513,415) and net liabilities of £9,701,142 (2016: £12,598,641).

Currently Warchest Limited owes Splash Damage Limited £20,072,811 and Fireteam Limited £688,811. The Directors feel confident that this balance will be settled within the foreseeable future and as such doesn't present any concerns, as comfort has been sought from Splash Damage Limited and Fireteam Limited directors, that the balances will not need to be repaid for a period of at least 12 months from the date of signing this report or until such time as the funds are available. A letter of support has been obtained from Splash Damage Limited and Fireteam Limited for at least 12 months from the date of signing these accounts, as well as from the ultimate parent company, Leyou Holdings Technologies Limited.

The rate of growth in this sector of the market has been very strong and this is expected to continue. The Directors have prepared forecasts which indicate that the Company has adequate resources to continue in operational existence for the foreseeable future. These forecasts have taken into account the market growth for digitally distributed content, the initial data on the released games and existing customer discussions. as a result, the Directors have concluded, based on the forecasts, that it is appropriate to prepare the financial statements on a going concern basis.

2.4 Turnover

Turnover is stated net of VAT. Revenue is measured at fair value of the consideration received or receivable for the sale of services in the ordinary course of activities. Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the activities, as described below:

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.

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.

2. Accounting policies (continued)

2.5 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 probably future economic 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.

2. Accounting policies (continued)

2.6 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.

2.7 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.

2.8 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.

2.9 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.

2. Accounting policies (continued)

2.10 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.

Loans and receivables

Loans and receivables 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.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

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

2.11 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. Accounting policies (continued)

2.12 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 except when deferred in other comprehensive income as qualifying cash flow hedges.

2.13 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.

2.14 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Statement of Comprehensive Income over the remaining vesting period.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation and adjusted for the effects of lack of marketability and control etc. based on management's best estimate.

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 Current and deferred taxation

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.

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.

3. Judgements in applying accounting policies (continued)

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 expected future financial performance of the asset.

- **Share based payment expense**
  The Company has granted share options to selected employees exercisable only in the event of a sale of the business. During the prior period to 31 December 2016 it became probable for the first time since grant date that the business will be sold successfully. During the current year, the business was actually sold.

  In light of the above, management was required to consider the appropriate recognition of a corresponding share based expense. In making its judgement, management considered the detailed guidance in IFRS 2 - Share based payments, in particular, guidance around an appropriate valuation model including vesting conditions and period. Following a detailed quantification, management is satisfied that the appropriate expense for share based compensation has been recognised during the year.

Key source of estimation uncertainty:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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:

- **Impairment of intangible assets**
  Management's judgement is required in determining which project costs related to the development of internally generated intangible assets qualify for capitalisation. This determination is made in line with the Intangibles policy outlined above.

  Management determines the estimated useful lives for amortisation of intangible assets. The estimate is based on the historical experience of the actual lives of the assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the amortisation where useful lives are less than previously estimated lives, or provide impairment for technically obsolete or non-strategic assets that have been abandoned or sold.

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of recoverable amount, which is based on management's estimate with best information available. Management derives the required cash flow estimates from historical experience and internal business plans. Management determined that the recoverable amount of the intangible assets at year-end is £9,034,664 (2016: £3,908,047). This assessment resulted in an impairment adjustment of £nil for the year (9 month period to 31 December 2016: £4,228,256) recognised in the Statement of Comprehensive Income.

4. Other operating income

	31 December 2017 £	9 month period to 31 December 2016 £
Management recharges	**603,112**	302,519
Realised gain on contract renegotiation	**1,871,544**	-
	2,474,656	302,519

During the year, a royalty agreement was renegotiated on more favourable terms. Resulting in a release of liabilities due to the Statement of Comprehensive Income.

5. Auditors' 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:

	31 December 2017 £	9 month period to 31 December 2016 £
Fees for the audit of the company	**8,750**	18,400

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

6. Employees

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

	31 December 2017 No.	9 month period to 31 December 2016 No.
HR/Finance/Media staff	**17**	14

7. Directors' remuneration

	31 December 2017 £	9 month period to 31 December 2016 £
Directors' emoluments	**286,722**	138,141
Company contributions to defined contribution pension schemes	**8,190**	10,135

The highest paid Director received remuneration of £142,146 (2016 - £138,141).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £6,115 (2016 - £4,9794,979).

During the year, retirement benefits were accruing to two directors (2016 - two) in respect of a defined contribution pension scheme.

8. Taxation

	31 December 2017 £	9 month period to 31 December 2016 £
Corporation tax		
Current tax on profits/(losses) for the year/period	**(2,294,004)**	(1,111,666)
Adjustments in respect of previous periods	**-**	833,021
Taxation on profit/(loss) on ordinary activities	**(2,294,004)**	(278,645)

8. Taxation (continued)

Factors affecting tax charge for the year/period

The tax assessed for the year/period is different to the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	31 December 2017 £	9 month period to 31 December 2016 £
Profit/(loss) on ordinary activities before tax	**540,185**	(4,979,528)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	**103,986**	(995,906)
Effects of:		
Expenses not deductible for tax purposes	**1,485**	976
Video game development tax profit adjustment	**(3,973,656)**	-
Adjustments to tax charge in respect of prior periods	**-**	833,021
Deferred tax not recognised	**2,171,703**	453,816
Effects off other tax rates/(credits) for the period	**(527,934)**	(570,552)
Share scheme deduction	**(50,572)**	-
Double tax relief	**(19,016)**	-
Total tax credit for the year/period	**(2,294,004)**	(278,645)

Factors that may affect future tax charges

At 31 December 2017, available tax losses amounted to approximately £20.2m (2016: £9.9m) which at a corporate tax rate of 17% (2016: 17%) amounts to a deferred tax asset of £3.4m (2016: £1.7m). This asset has not been recognised due to the estimated future taxable profits against which these losses may be offset.

With effect from 1 April 2020, the UK corporate tax rate will be reduced to 17%. This change, which was announced in the March 2015 budget and affirmed in the March 2016 budget, will have no significant impact on these statements.

9. Intangible assets

	Games Development £	Trademarks £	Total £
Cost			
At 1 January 2017	11,569,309	11,802	11,581,111
Additions	6,276,394	44,168	6,320,562
At 31 December 2017	17,845,703	55,970	17,901,673
Amortisation			
At 1 January 2017	7,661,262	5,075	7,666,337
Charge for the year	1,149,777	4,295	1,154,072
At 31 December 2017	8,811,039	9,370	8,820,409
Net book value			
At 31 December 2017	9,034,664	46,600	9,081,264
At 31 December 2016	3,908,047	6,727	3,914,774

No impairment loss on intangible assets has been recognised in the current year. In the prior year, management assessed the recoverable amount of intangible assets to be less than their carrying value and as such an impairment of £4,228,256 was recognised in the Statement of Comprehensive Income.

10. Tangible fixed assets

	Office equipment £	Computer equipment £	Total £
Cost			
At 1 January 2017	416	52,324	52,740
At 31 December 2017	416	52,324	52,740
Depreciation			
At 1 January 2017	416	52,324	52,740
At 31 December 2017	416	52,324	52,740
Net book value			
At 31 December 2017	-	-	-
At 31 December 2016	-	-	-

11. Debtors

	2017 £	2016 £
Trade debtors	67,888	74,676
Corporation tax	3,405,284	2,157,281
Prepayments and accrued income	246,405	8,464
	3,719,577	2,240,421

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 £nil (2016: £nil).

12. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	**102,214**	52,047

13. Creditors: Amounts falling due within one year

	2017 £	As restated 2016 £
Trade creditors	**39,989**	13,108,079
Amounts owed to group undertakings	**20,761,496**	-
Other taxation and social security	**24,969**	104,262
Other creditors	**282,002**	1,198,222
Accruals and deferred income	**1,495,741**	4,395,320
	22,604,197	18,805,883

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

Security:

The Company has a mortgage debenture dated 16 August 2017.

14. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
1,085,150 (2016 - 1,000,000) Ordinary shares of £0.000001 each	1	1

On 31 March 2017 the Company issued an additional 85,150 ordinary shares with a nominal value of £0.000001 per share for a total consideration of £55,594.

15. 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.

Other reserves

Other reserves consist of the share based payment reserve. The company has a share option scheme for employees. The Company recognises and measures its allocation of the share based payment expense on a pro-rata basis.

Profit and loss account

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

16. Share based payments

The Company has a share option scheme for employees. The Company recognised and measures its allocation of the share based payment expense on a pro-rata basis.

Options are exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The options vest on the successful sale of the Company. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

Enterprise management incentives share-option scheme

The Company set up and Enterprise Management Incentives share-option scheme on 21 June 2012. All directors and staff employed by the Company on that date were granted share options and the total number of options granted was 85,450.

The options can only be exercised on a change of control. If any individual leaves the Company before the event, their options will lapse. During the year no members of staff left the employ of the Company and therefore no options lapsed during the year (period ended 31 December 2016: nil).

During the year, the Company was sold and therefore all share options vested and were exercised.

16. Share based payments (continued)

Details of the share options outstanding during the year are as follows:

	Weighted average exercise price (pence) 2017	Number 2017	*Weighted average exercise price (pence)* 2016	Number 2016
Outstanding at the beginning of the year/period	**0.94**	**82,625**	0.67	63,125
Granted during the year/period		**-**	1.80	19,500
Exercised during the year/period	**0.94**	**(82,625)**		-
Outstanding at the end of the year	**-**	**-**	0.94	82,625

	2017 Number	2016 Number
Exercisable at the end of the year/period	**-**	82,625

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Company recognised total expenses of £7,716 (period ended 31 December 2016: £41,730) related to equity settled share based payment transactions in the year.

17. Prior year adjustment

During the year, the Directors reassessed the terms of a contract and it was determined that cash received in advance during the year ended 31 March 2015 should have been deferred and spread over the contract term. As such, the following adjustments have been made to the prior year disclosures:

- £5,238,686 reduction to prior year opening retained earnings with a corresponding adjustment to deferred income
- £967,142 increase to prior year turnover with a corresponding adjustment to deferred income.

This resulted in a total adjustment of £4,271,544 to the prior year profit and loss account, increasing the accumulated losses from £8,368,828 to £12,640,372.

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 £41,246 (2016 - £24,863). Contributions totalling £Nil (2016: £Nil) were payable to the fund at the reporting date and are included in creditors.

19. Related party transactions

On 31 March 2017 the Company was acquired by the Leyou Holdings Technologies Limited Group. As a result, the Company is now a 100% held subsidiary within the Group and entities that were previously related parties under common control are now fellow 100% held group subsidiaries.

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.

During the prior 9 month period to 31 December 2016, the Company made the following transactions with entities under common control:

In relation to Games Operations and IT Services which are included within admin expenses on the Statement of Comprehensive Income:

- Services purchased from Fireteam Limited: £(17,628)

In relation to Games Development services:

- Services purchased from Splash Damage Limited: £(9,651,035) of which £1,574,625 are included in intangible assets on the Statement of Financial Position and £8,076,410 are included in cost of sales on the Statement of Comprehensive Income.
- Services rendered to Splash Damage Limited: £8,076,410 which are included in turnover on the Statement of Comprehensive Income.

In relation to HR/Finance services which are included within turnover on the Statement of Comprehensive Income:

- Services rendered to Fireteam Limited: £19,198
- Services rendered to Splash Damage Limited: £283,110

At prior period end 31 December 2016, the following amounts were owed by/(to) entities under common control and are included within debtors and creditors respectively:

- Amounts owed by Fireteam Limited: £41,356
- Amounts owed to Fireteam Limited: £(729,297)
- Amounts owed to Splash Damage Limited: £(13,550,271)

20. Subsequent events

The company commercially launched its Dirty Bomb title with limited economic success, management is currently assessing the viability of handing the game back to community in the beginning of calendar year 2019. *A further review will be taken on the performance of Dirty Bomb at the end of 2018 to determine the* recoverability of the net book value. Warchest sold the TV & Film rights to the Dirty Bomb title in June 2018 for USD 9m.

Development of the company's next title is in good progress with an expected release date in Q4 of calendar year 2019.

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.

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.