Warchest Limited

Directors' Report and Financial Statements

Year Ended

31 December 2018

Company Number 07783664

Warchest Limited

Company Information

Directors	A Xu Yiran J Kong R Jolly
Registered number	07783664
Registered office	Royal Court 81 Tweedy Road Bromley Kent BR1 1RG
Independent auditor	BDO LLP 31 Chertsey Street Guildford Surrey GU1 4HD

Warchest Limited

Contents

Warchest Limited

Directors' Report
For the year ended 31 December 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

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
P Wedgwood (resigned 31 October 2018)
R Farrow (resigned 20 March 2019)

Going concern

The Company generated losses for the year of £1,292,978 (2017: profits of £2,834,189). At the reporting date, the Company had net current liabilities of £13,357,980 (2017: £18,782,406) and net liabilities of £10,994,120 (2017: £9,701,142).

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 £31,923,071 and Fireteam Limited £736,445. 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 financial statements. 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.

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 23/9/19 and signed on its behalf.

R Jolly
Director

Warchest Limited

Directors' Responsibilities Statement
For the year ended 31 December 2018

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 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.

Independent Auditor's Report to the Members of Warchest Limited

Opinion

We have audited the financial statements of Warchest Limited ("the Company") for the year ended 31 December 2018 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 2018 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.

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 Auditor's 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 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 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.

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: 23/9/2019

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 2018

	Note	2018 £	2017 £
Turnover		**16,804,573**	7,395,217
Cost of sales		**(10,148,625)**	(6,507,031)
Gross profit		**6,655,948**	888,186
Other income	4	**1,349,621**	2,474,656
Administrative expenses		**(5,315,138)**	(2,822,657)
Impairment of intangible asset		**(6,840,245)**	-
Operating (loss)/profit		**(4,149,814)**	540,185
Finance income	8	**224,385**	-
(Loss)/profit before tax		**(3,925,429)**	540,185
Tax on (loss)/profit	9	**2,632,451**	2,294,004
(Loss)/profit for the financial year		**(1,292,978)**	2,834,189

There was no other comprehensive income for 2018 (2017: £NIL).

The notes on pages 10 to 29 form part of these financial statements.

Warchest Limited
Registered number: 07783664

Statement of Financial Position
As at 31 December 2018

	Note		2018 £		2017 £
Fixed assets					
Intangible assets	10		**2,363,860**		9,081,264
			2,363,860		9,081,264
Current assets					
Debtors: amounts falling due within one year	12	**19,477,592**		3,719,577	
Cash and cash equivalents	13	**84,624**		102,214	
		19,562,216		3,821,791	
Creditors: amounts falling due within one year	14	**(32,920,196)**		(22,604,197)	
Net current liabilities			**(13,357,980)**		(18,782,406)
Total assets less current liabilities			**(10,994,120)**		(9,701,142)
Net liabilities			**(10,994,120)**		(9,701,142)
Capital and reserves					
Called up share capital	15		**1**		1
Share premium account	16		**55,594**		55,594
Other reserves	16		**-**		-
Profit and loss account	16		**(11,049,715)**		(9,756,737)
Shareholders' deficit			**(10,994,120)**		(9,701,142)

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 23/9/19

R Jolly
Director

The notes on pages 10 to 29 form part of these financial statements.

Warchest Limited

Statement of Changes in Equity
For the year ended 31 December 2018

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total shareholder's deficit
	£	£	£	£	£
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	-	-	(49,446)	49,446	-
Transfer to profit and loss account	-	-	7,716	-	7,716
Total transactions with owners	-	55,594	(41,730)	49,446	63,310
At 1 January 2018	1	55,594	-	(9,756,737)	(9,701,142)
Comprehensive income for the year					
Loss for the year	-	-	-	(1,292,978)	(1,292,978)
Total comprehensive income for the year	-	-	-	(1,292,978)	(1,292,978)
At 31 December 2018	1	55,594	-	(11,049,715)	(10,994,120)

The notes on pages 10 to 29 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).

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

2. Accounting policies (continued)

2.3 Adoption of new and revised standards

New Standards, interpretations and amendments effective from 1 January 2018

New standards impacting the Company that have been adopted in the annual financial statements for the year ended 31 December 2018, and have given rise to changes in the Company's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15).

None of the standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material transitional impact on the financial statements as discussed below:

IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement

IFRS 9 has introduced a new classification approach for financial assets and liabilities. The categories of financial assets are now reduced from four to three categories and are: measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. Financial liabilities are measured at amortised cost or fair value through profit and loss. The standard also prescribes an "expected credit loss" model for determining the basis of providing for bad debts. There was no material transitional impact on the financial statements due to the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers which replaces IAS 18 Revenue

The Company has adopted IFRS 15 Revenue from Contracts with Customers for the year ended 31 December 2018. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer, and supersedes all previous revenue recognition requirements under IFRS.

Adoption of IFRS 15 has not resulted in a change to the Company's Profit, Other Comprehensive Income or Assets and Liabilities within the Statement of Financial Position. The Company has considered all aspects of IFRS 15 and concluded that no changes are necessary to comply with the Standard.

2. Accounting policies (continued)

2.4 Going concern

The Company generated losses for the year of £1,292,978 (2017: profits of £2,834,189). At the reporting date, the Company had net current liabilities of £13,357,980 (2017: £18,782,406) and net liabilities of £10,994,120 (2017: £9,701,142).

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 £31,923,071 and Fireteam Limited £736,445 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 financial statements. 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.

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 alter 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.

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 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)

2.7 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.

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.

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.

Financial liabilities

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

2. Accounting policies (continued)

2.11 Financial instruments (continued)

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. Accounting policies (continued)

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.

2.15 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. Accounting policies (continued)

2.17 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.

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.

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:

- **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. This assessment resulted in an impairment adjustment of £6,840,245 for the year (2017: £Nil) recognised in the Statement of Comprehensive Income.

3. Judgements in applying accounting policies (continued)

Key sources of estimation uncertainty (contimued):

- **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.

4. Other operating income

	2018 £	2017 £
Management recharges	**773,941**	603,112
Realised gain on contract renegotiation	**575,680**	1,871,544
	1,349,621	2,474,656

During the current and 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:

	2018 £	2017 £
Fees for the audit of the Company	**18,000**	8,750

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:

	2018 No.	2017 No.
HR/Finance/Media staff	**16**	17

7. Directors' remuneration

	2018	2017
	£	£
Directors' emoluments	**283,922**	286,722
Company contributions to defined contribution pension schemes	**17,946**	8,190

The highest paid Director received remuneration of £155,992 (2017 - £142,146).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £9,194 (2017 - £6,115).

During the year, retirement benefits were accruing to two directors (2017 - two) in respect of a defined contribution pension scheme.

8. Interest receivable

	2018	2017
	£	£
Other interest receivable	**217,822**	-
Statutory interest on tax receivable	**6,563**	-
	224,385	-

9. Taxation

	2018	2017
	£	£
Corporation tax		
Current tax on (losses)/profits for the year	**(2,915,229)**	(2,294,004)
Adjustments in respect of previous periods	**282,778**	-
Taxation on (loss)/profit on ordinary activities	**(2,632,451)**	(2,294,004)

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% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
(Loss)/profit on ordinary activities before tax	**(3,925,429)**	540,185
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	**(745,832)**	103,986
Effects of:		
Expenses not deductible for tax purposes	**8,270**	1,485
Video game development tax profit adjustment	**(2,079,592)**	(3,973,656)
Adjustments to tax charge in respect of prior periods	**262,138**	-
Deferred tax not recognised	**664,690**	2,171,703
Effects off other tax credits for the period	**(742,125)**	(527,934)
Share scheme deduction	-	(50,572)
Double tax relief	-	(19,016)
Total tax credit for the year	**(2,632,451)**	(2,294,004)

Factors that may affect future tax charges

At 31 December 2018, available tax losses amounted to approximately £12.9m (2017: £20.2m) which at a corporate tax rate of 17% (2017: 17%) amounts to a deferred tax asset of £2.2m (2017: £3.4m). 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.

10. Intangible assets

	Game development £	Trademarks £	Total £
Cost			
At 1 January 2018	**17,845,703**	**55,970**	**17,901,673**
Additions	**4,402,560**	**19,549**	**4,422,109**
Disposals	**(3,355,612)**	**-**	**(3,355,612)**
At 31 December 2018	**18,892,651**	**75,519**	**18,968,170**
Amortisation			
At 1 January 2018	**8,811,039**	**9,370**	**8,820,409**
Charge for the year	**2,341,610**	**6,565**	**2,348,175**
On disposals	**(1,404,519)**	**-**	**(1,404,519)**
Impairment loss	**6,840,245**	**-**	**6,840,245**
At 31 December 2018	**16,588,375**	**15,935**	**16,604,310**
Net book value			
At 31 December 2018	**2,304,276**	**59,584**	**2,363,860**
At 31 December 2017	9,034,664	46,600	9,081,264

In the current year, management assessed the recoverable amount of intangible assets to be less than their carrying value and as such an impairment of £6,840,245 (2017: £nil) was recognised in the Statement of Comprehensive Income.

In the current year, assets with a carrying value of £1,951,093 were sold for a consideration of £1,951,093 resulting in a profit on disposal of £Nil being recognised in the Statement of Comprehensive Income within other income.

11. Tangible fixed assets

	Office equipment £	Computer equipment £	Total £
Cost			
At 1 January 2018	**416**	**52,324**	**52,740**
At 31 December 2018	**416**	**52,324**	**52,740**
Depreciation			
At 1 January 2018	**416**	**52,324**	**52,740**
At 31 December 2018	**416**	**52,324**	**52,740**
Net book value			
At 31 December 2018	**-**	**-**	**-**
At 31 December 2017	-	-	-

12. Debtors

	2018 £	2017 £
Trade debtors	**5,786,235**	67,888
Amounts owed by group undertakings	**8,282,398**	-
Other debtors	**5,200**	-
Prepayments and accrued income	**17,923**	246,405
Corporation tax recoverable	**5,385,836**	3,405,284
	19,477,592	3,719,577

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 £1,120,716 (2017: £Nil).

13. Cash and cash equivalents

	2018 £	2017 £
Cash at bank and in hand	**84,624**	102,214

14. Creditors: Amounts falling due within one year

	2018 £	2017 £
Trade creditors	**28,764**	39,989
Amounts owed to group undertakings	**32,659,516**	20,761,496
Other taxation and social security	**32,741**	24,969
Other creditors	**8,349**	282,002
Accruals and deferred income	**190,826**	1,495,741
	32,920,196	22,604,197

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

Security:

The Company has a mortgage debenture dated 16 August 2017.

15. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
1,085,150 (2017 - 1,085,150) 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.

16. 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 had previously operated a share option scheme for employees. In the prior year, all the options vested and were exercised and the balance of the reserve was transferred to the profit and loss account.

Profit and loss account

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

17. Share based payments

Enterprise management incentives share-option scheme

The Company set up an 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.

Options were exercisable at a price equal to the estimated fair value of the Company's shares on the date of grant. The options would vest on the date of successful sale of the Company.

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

17. Share based payments (continued)

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

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the beginning of the year	-	-	0.94	82,625
Granted during the year	-	-	-	-
Exercised during the year	-	-	0.94	(82,625)
Outstanding at the end of the year	-	-	-	-

	2018 Number	2017 Number
Exercisable at the end of the year	-	-

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 £Nil (2017: £7,716) related to equity settled share based payment transactions in the year.

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 £59,727 (2017 - £41,246). Contributions totalling £Nil (2017: £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.

20. 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.