



FIRE ROCK 火岩

FIRE ROCK HOLDINGS LIMITED 火岩控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8345



2016

Third Quarterly Report

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*This report, for which the directors (the “**Directors**”) of Fire Rock Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*



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DEFINITION

“ACT”	action game, which refers to action-themed games in which players control the avatar of a protagonist to navigate different levels of the game, and typically to, collect items, avoid obstacles and fight enemies, testing players’ hand-eye coordination and reaction time
“Android”	an operating system developed and maintained by Google Inc. designed primarily for touchscreen technology used in smartphones and tablets
“ARPG”	action role-playing game, also known as the real-time combat role-playing game, in which the player character instantly responds to the player’s operations and the game player has direct control over their characters
“ARPPU”	average revenue per paying user, calculated by dividing the monthly average royalties from the net sale of credits of licensed operators for the in-game tokens during a certain period by the average MPU during the same period
“Articles of Associations”	the articles of association of the Company conditionally adopted on 24 January 2016 and as amended, supplemented and otherwise modified from time to time
“Audit Committee”	the audit committee under the Board
“Board”	the board of Directors of the Company
“browser games”	online games that can be played within a web browser which does not require active installation of user software
“Code”	the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules

“commercial launch” or “commercialisation”	a game is considered commercially launched once our licensed operator(s) have (i) designated third party payment channels to collect payment for sales of in-game tokens, and (ii) concluded the open beta testing stage
“Company”	Fire Rock Holdings Limited (火岩控股有限公司), a company incorporated in the Cayman Islands with limited liability and all of its subsidiaries, the Shares of which are listed on the GEM (Stock code: 8345)
“Director(s)”	the director(s) of the Company
“EUR”	the lawful currency of the Euro Zone
“free-to-play”	a model used in the gaming industry, under which game players can play games for free, but may need to pay for in-game tokens to enhance their gaming experience
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Group” or “we”	the Company and where the context otherwise requires, all of its subsidiaries
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JPY”	Japanese Yen, the lawful currency of Japan
“Listing”	the listing of the Shares of the Company on GEM

“mobile games”	online games that are downloaded to and played on mobile devices including smartphones and tablets
“monthly paying users” or “MPU”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPU for a particular period is the average of the MPU of each calendar month during that period
“paying player”	players who obtain in-game tokens with credits of licensed operators
“Placing”	the conditional placing of Shares of the Company in February 2016
“PRC”	the People’s Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus issued on 29 January 2016 in connection with the Placing
“remuneration committee”	the remuneration committee under the Board
“Reporting Period”	the nine months ended 30 September 2016
“RMB”	Renminbi, the lawful currency of the PRC
“RPG”	role-playing game, in which players adopt the roles of one or more in-game characters and are able to interact within the game’s virtual world in accordance with in-game rules and guidelines
“RUB”	Russian Rouble, the lawful currency of the Russian Federation

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Fire Element”	Shenzhen Fire Element Network Technology Company Limited (深圳市火元素網絡技術有限公司), a company incorporated in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USA”	the United States of America
“USD”	United States dollars, the lawful currency of the United States
“%”	per cent

In this report, the terms “associate”, “close associate”, “connected”, “connected person”, “core connected person”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings ascribed thereto under the GEM Listing Rules, unless the context otherwise requires.

COMPANY PROFILE

Executive Directors

Mr. HUANG Yong
(*Chief Executive Officer*)
Mr. RAO Zhenwu
Mr. WU Zhe

Non-executive Director

Mr. ZHANG Yan (*Chairman*)

Independent Non-executive Directors

Mr. ZHANG Xiongfeng
Mr. HE Yunpeng
Mr. CHAN King Fai

Audit Committee

Mr. CHAN King Fai (*Chairman*)
Mr. HE Yunpeng
Mr. ZHANG Xiongfeng

Remuneration Committee

Mr. ZHANG Xiongfeng (*Chairman*)
Mr. CHAN King Fai
Mr. HUANG Yong

Nomination Committee

Mr. ZHANG Yan (*Chairman*)
Mr. HE Yunpeng
Mr. ZHANG Xiongfeng

Joint Company Secretaries

Mr. WEI Dong and
Mr. CHAN Chin Wang Keith

Authorized Representatives

Mr. HUANG Yong and
Mr. CHAN Chin Wang Keith

Compliance Officer

Mr. WU Zhe

Registered Office

Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Headquarter and Principal Place of Business in the PRC

4th Floor
Dongjiang Environmental Building
No. 9 Langshan Road
North Zone, Hi-Tech Industries Park
Nanshan District
Shenzhen, Guangdong
The People's Republic of China

Principal Place of Business in Hong Kong

2201–2203, 22/F
World-Wide House
Central
Hong Kong

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands



**Hong Kong Branch Share
Registrar and Transfer Office**

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

China Merchant Bank,
Shenzhen Branch
Bank of Communication,
Hong Kong Branch

Compliance Adviser

China Everbright Capital Limited

Hong Kong Legal Adviser

Li & Partners

Auditor

BDO Limited
Certified Public Accountants

GEM Stock Code

8345

Company Website

www.firerock.hk

FINANCIAL HIGHLIGHTS (UNAUDITED)

	For the nine months ended 30 September	
	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Revenue	29,813	20,017
Gross profit	24,560	14,843
Profit	13,177	3,962

- For the nine months ended 30 September 2016, the Group's revenue increased by approximately 49.0% from approximately RMB20.0 million for the nine months ended 30 September 2015 to approximately RMB29.8 million.
- For the nine months ended 30 September 2016, the Group's gross profit increased by approximately 66.2% from approximately RMB14.8 million for the nine months ended 30 September 2015 to approximately RMB24.6 million.
- For the nine months ended 30 September 2016, the Group's profit increased by approximately 230.0% from approximately RMB4.0 million for the nine months ended 30 September 2015 to approximately RMB13.2 million.
- The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: Shenzhen Fire Element declared a special dividend of RMB5,000,000 on 26 February 2015 which was subsequently paid on 20 April 2015).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

		For the nine months ended 30 September	
	Notes	2016 RMB (unaudited)	2015 RMB (unaudited)
Revenue	3	29,813,001	20,016,708
Direct costs		(5,252,836)	(5,173,730)
Gross profit		24,560,165	14,842,978
Other income	3	1,195,481	766,787
Game research costs		(280,495)	(85,699)
Distribution costs		(398,965)	(1,058,333)
Administrative expenses		(9,420,483)	(9,389,980)
Profit before income tax	4	15,655,703	5,075,753
Income tax expenses	5	(2,479,139)	(1,113,686)
Profit for the period		13,176,564	3,962,067
Other comprehensive income Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translating foreign operations		714,996	(679,727)
Other comprehensive income for the period		714,996	(679,727)
Total comprehensive income for the period		13,891,560	3,282,340
Profit for the period attributable to:			
Owners of the Company		13,176,564	3,962,067
Total comprehensive income attributable to:			
Owners of the Company		13,891,560	3,282,340
Earnings per Share			
Basic and diluted (RMB cents)	7	8.24	3.30

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Capital reserve	Merger reserve	Statutory reserve	Dividend reserve	Foreign exchange reserve	Retained profits	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
For the nine months ended 30 September 2016 (unaudited)								
As of 1 January 2016	1	11,201,260	10,000,000	4,333,239	—	605,624	9,618,442	35,758,566
Profit for the period	—	—	—	—	—	—	13,176,564	13,176,564
Total comprehensive income	—	—	—	—	—	714,996	—	714,996
Profit and total comprehensive income for the period	—	—	—	—	—	714,996	13,176,564	13,891,560
Transactions with owners:								
Capitalisation	1,011,899	(1,011,899)	—	—	—	—	—	—
Issue of ordinary shares by way of placing	335,336	42,587,672	—	—	—	—	—	42,923,008
Share issuance expenses	—	(6,267,817)	—	—	—	—	—	(6,267,817)
	1,347,235	35,307,956	—	—	—	—	—	36,655,191
As of 30 September 2016	1,347,236	46,509,216	10,000,000	4,333,239	—	1,320,620	22,795,006	86,305,317
For the nine months ended 30 September 2015 (unaudited)								
As of 1 January 2015	10,000,001	—	—	2,618,482	5,000,000	—	2,604,016	20,222,499
Profit for the period	—	—	—	—	—	—	3,962,067	3,962,067
Total comprehensive income	—	—	—	—	—	(679,727)	—	(679,727)
Profit and total comprehensive income for the period	—	—	—	—	—	(679,727)	3,962,067	3,282,340
Transactions with owners:								
Arising from the Reorganisation	(10,000,000)	—	10,000,000	—	—	—	—	—
Capital contribution from shareholders	—	11,201,260	—	—	—	—	—	11,201,260
Dividend to shareholders of a subsidiary	—	—	—	—	(5,000,000)	—	—	(5,000,000)
	(10,000,000)	11,201,260	10,000,000	—	(5,000,000)	—	—	6,201,260
As of 30 September 2015	1	11,201,260	10,000,000	2,618,482	—	(679,727)	6,566,083	29,706,099

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

1. GENERAL INFORMATION

Fire Rock Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 3 November 2014. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business in the PRC is located at 4/F, Dongjiang Environment Building, No.9 Langshan Road, North Zone, Hi-Tech Industries Park, Nanshan District, Shenzhen, Guangdong Province, PRC. The Company was listed on the Growth Enterprise Market (the “**GEM**”) of the Stock Exchange of Hong Kong Limited on 18 February 2016.

The Company and its subsidiaries (collectively, the “**Group**”) are principally engaged in browser and mobile games development, including the game design, programming and graphics and licensing of its games in the PRC and overseas markets.

The condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity of the Group for the nine months ended 30 September 2016, as well as a summary of significant accounting policies and other explanatory information (collectively, the “**Third Quarterly Condensed Financial Statements**”) are unaudited, but have been reviewed by the Audit Committee and approved for issue by the Board on 14 November 2016.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Except for the adoption of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which are effective for the Group’s financial year beginning 1 January 2016, the accounting policies applied in preparing this unaudited third quarterly condensed financial statements for the nine months ended 30 September 2016 are consistent with those of the annual financial statements for the year ended 31 December 2015 issued by the Company on 24 March 2016, as described in those annual financial statements. The third quarterly condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective.

The unaudited Third Quarterly Condensed Financial Statements have been prepared on the historical cost basis. The condensed financial statements are presented in Renminbi (“**RMB**”) except when otherwise indicated.

3. REVENUE AND OTHER INCOME

	For the nine months ended 30 September	
	2016 RMB (unaudited)	2015 RMB (unaudited)
Revenue		
License fees and royalties	29,813,001	20,016,708
Other income		
Interest income	141,717	81,226
Government grants	1,053,764	600,000
Others	—	85,561
	1,195,481	766,787

4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	For the nine months ended 30 September	
	2016 RMB (unaudited)	2015 RMB (unaudited)
Auditors' remuneration	311,955	3,302
Depreciation of plant and equipment*	481,123	210,251
Amortisation of intangible assets**	3,692,542	1,729,173
Operating lease rentals in respect of land and buildings	1,476,444	1,003,289
Operating lease rentals in respect of servers	221,078	370,580
Write-off of plant and equipment	—	4,238
Loss on disposal of plant and equipment	—	1,904
Listing expenses	3,330,254	4,875,000

* Included in distribution costs and administrative expenses in the condensed consolidated statement of profit or loss and other comprehensive income.

** Included in direct costs in the condensed consolidated statement of profit or loss and other comprehensive income.

5. INCOME TAX EXPENSES

	For the nine months ended 30 September	
	2016	2015
	RMB	RMB
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")	2,479,139	1,113,686

No Hong Kong profits tax was provided in the unaudited condensed consolidated financial statements as the Group has no estimated assessable profit derived from or arising in Hong Kong during the nine months ended 30 September 2016 and 2015.

Provision for the EIT in the PRC is calculated at the applicable rate of 25% in accordance with the relevant laws and regulation in the PRC.

On 29 September 2013, Shenzhen Fire Element Network Technology Co., Ltd ("Shenzhen Fire Element") was qualified as an enterprise of Software and Integrated Circuit Industries (軟件產業和集成電路產業) in the PRC and is exempted from EIT for two years starting from the first profit making year, followed by a 50% reduction for the next three years on 5 August 2014. Shenzhen Fire Element started generating taxable profit during the year ended 31 December 2013 and therefore is exempted from EIT for the twelve months ended 31 December 2014. For the nine months ended 30 September 2016 and 2015, Shenzhen Fire Element enjoyed a reduced EIT rate of 12.5% as a 50% reduction on the statutory tax rate. The certification of software enterprise has been cancelled by the State Council of the PRC on 24 February 2015, but the aforementioned EIT preferential treatment related to certified software enterprise is still valid for now.

The Group has no material unrecognised deferred tax as of 30 September 2015 and 2016.

6. DIVIDEND

On 26 February 2015, Shenzhen Fire Element declared a special dividend of RMB5,000,000, which was subsequently paid on 20 April 2015.

Except disclosed above, no dividend was paid or declared by the Company during the nine months ended 30 September 2015 and 2016, nor has any dividend been proposed since the end of the Reporting Period.

7. EARNINGS PER SHARE

For the nine months ended 30 September 2015, the earnings per Share of the Company was RMB3.30 cents. The calculation is based on the earnings for the period of approximately RMB4.0 million and on the basis of 120,000,000 Shares of the Company in issue, as if these Shares issued under the reorganisation and the capitalisation issue (as defined in the Prospectus) had been issued on 1 January 2015.

For the nine months ended 30 September 2016, the earnings per Share of the Company was RMB8.24 cents. The calculation is based on the earnings for the period of approximately RMB13.2 million and on the basis of 160,000,000 Shares of the Company in issue immediately after the capitalisation issue (as defined in the Prospectus) and pursuant to the Placing on 18 February 2016.

Diluted earnings per share are same as the basic earnings per Share as there are no dilutive potential ordinary Shares in existence during the nine months ended 30 September 2015 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a game developer focusing on the development of browser and mobile games. We have launched various language versions for the games we developed and licensed our self-developed games to licensed operators around the world, so that the players around the world can enjoy our games on browser and mobile platforms. Our games adopt the free-to-play model. Players may log-in their game accounts to play our browser games on the browser directly. In addition, players may download our mobile games from third party internet platforms such as Apple's App Store or Google Play directly onto their mobile devices, such as iPhones, iPads and Android-based smartphones or tablets to access and log-in to their game accounts to play our games. To achieve a diversified player base, we have developed our games in various genres with different playing styles.

The Listing of our Company's Shares on the GEM of the Stock Exchange on 18 February 2016 was a milestone for the Group in improving capital strength and corporate governance as well as enhancing our competitive edge.

During the Reporting Period, the global game industry remained highly competitive, yet the development of various social network platforms in recent years has made it easier and less costly for game developers to open up new distribution channels and marketing platforms that has facilitated the presentation and distribution of their self-developed games to the public globally, and has also enabled the developers to cater to specific markets, which has contributed to the growth in the size of the browser games market we have been focusing on by leveraging on our cost advantage and strong research and development capability. We have been deepening our penetration in the browser games market so as to maintain our competitive strength in the highly competitive browser games market.

During the Reporting Period, in order to better capture the development opportunity from the fast growing global mobile markets, we grasped our advantage in research and development and our strong accumulation of technological knowledge and commercially launched four mobile games, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路), which further expanded our game portfolio and diversified our revenue sources.

As of 30 September 2016, six main series of games, in aggregate, including the mobile and browser versions of Kings & Legends (王者召喚) series, the mobile and browser versions of Hero's Crown (英雄皇冠) series, the browser version of Heroines of Three Kingdoms (姬戰三國) series, the mobile version of Endless Battles (無盡爭霸) series, the mobile version of Legend of Fairies (萌仙記) series and the mobile version of Road of Vengeance (復仇之路) series have been commercially launched. Kings & Legends (王者召喚) is our flagship tactical trading card game series designed in a Japanese-styled fantasy setting; Hero's Crown (英雄皇冠) is our self-developed turn-based card driven strategic RPG series designed with an European medieval fantasy style; Heroines of Three Kingdoms (姬戰三國) is our self-developed side-scrolling browser-based adventure RPG series based on the historic era of the Three Kingdoms of ancient China; Endless Battles (無盡爭霸) is a placement game set in the Three Kingdoms of ancient China; and Legend of Fairies (萌仙記) is a leisure strategic game; and Road of Vengeance (復仇之路) is our self-developed horizontal RPG mobile card game based on the myths of western heroes.

Kings & Legends (王者召喚) game series continued to deliver satisfactory performance during the Reporting Period and maintained an important position in our game portfolio. During the Reporting Period, the percentage of revenue contribution to our total revenue from the Kings & Legends (王者召喚) series of games was approximately 27.2%. It has been over four years since its commercial launch in March 2012. Its ability to achieve a longer lifespan than the industry averages was attributable to our ongoing efforts in carrying out upgrades and enhancements to the content of the game with the view to retaining player interest, increasing player engagement to the game and enhancing the players' gaming experience. It also generates stable revenue for us.

The browser version and the mobile version of our Hero's Crown (英雄皇冠) series was commercially launched in January 2015 and February 2016, respectively. Its monthly royalties, MPU and ARPPU have been increasing. Our revenue from the game series amounted to approximately RMB16.4 million for the nine months ended 30 September 2016.

The browser version of our Heroines of Three Kingdoms (姬戰三國) series was commercially launched in January 2015. The game series recorded revenue of approximately RMB0.5 million for the nine months ended 30 September 2016.

The mobile version of our Endless Battles (無盡爭霸) series was commercially launched in February 2016. The game series recorded revenue of approximately RMB1.7 million for the nine months ended 30 September 2016.

The mobile version of our Legend of Fairies (萌仙記) series was commercially launched in March 2016. The game series recorded revenue of approximately RMB2.3 million for the nine months ended 30 September 2016.

The mobile version of our Road of Vengeance (復仇之路) series was commercially launched in August 2016. The game series recorded revenue of approximately RMB0.8 million for the nine months ended 30 September 2016.

The table below sets forth the six main series of games commercially launched by our licensed operators as of 30 September 2016:

Language version	Game title	Platform	Initial commercial launch date
Kings & Legends (王者召喚) series of games			
English	Ancient Summoner/Rise of Mythos (Name changed in June 2014)	Browser	May 2013
Japanese	Kings and Legends	Browser	December 2012
	Kings and Legends デイヴァイン・グリモワール /Divine Grimoire	Mobile Browser	May 2014 September 2012
German	王者召喚~禁斷の魔導書	Mobile	September 2014
French	Kings and Legends	Browser	July 2013
Portuguese	Kings and Legends	Browser	December 2013
Traditional Chinese	Rise of Mythos	Browser	January 2014
Simplified Chinese	卡卡們的大亂鬥	Browser	June 2012
	卡卡們大亂鬥	Mobile	April 2013
Russian	王者召喚	Browser	March 2012
Turkish	Бог войны	Browser	June 2015
	EfsanelerinÖfkesi	Browser	July 2016
Hero's Crown (英雄皇冠) series of games			
English	Summoner's Legion	Browser	January 2015
French	Summoner's Legion	Browser	April 2015
German	Summoner's Legion	Browser	April 2015
Simplified Chinese	英雄皇冠	Browser	March 2015
Traditional Chinese	卡卡們的大亂鬥II：英雄皇冠	Browser	June 2015
Japanese	ヴェルストライズ/Velstrise	Browser	September 2015
New Malay	Death of Shadow (formerly known as: Wgame)	Mobile	February 2016
Simplified Chinese	魔戒外传	Mobile	April 2016
Heroines of Three Kingdoms (姬戰三國) series of games			
Simplified Chinese	姬戰三國	Browser	January 2015
Traditional Chinese	妖姬傳	Browser	June 2015

Language version	Game title	Platform	Initial commercial launch date
Endless Battles (無盡爭霸) series of games			
Simplified Chinese	无尽争霸	Mobile	February 2016
Legend of Fairies (萌仙記) series of games			
Simplified Chinese	萌仙記	Mobile	March 2016
Road of Vengeance (復仇之路) series of games			
Simplified Chinese	復仇之路	Mobile	August 2016

As of 30 September 2016, we also had four game series under research and development, including the Sweeties Fighting (零食大亂鬥) series, the War of the Sulfulons (薩弗隆戰記) series, the Number Drop series and the G-game series. It is intended that these four games will be developed into different genres and in different languages to be launched globally. Subject to their development progress and market response, it is estimated that these four new games will be launched in the fourth quarter of 2016 to the first quarter of 2017.

Game Title	Genre	Expected Launch Date	Start of Game Inception and Evaluation
Sweeties Fighting (零食大亂鬥) series	ACT	Fourth quarter 2016	Second quarter 2016
War of the Sulfulons (薩弗隆戰記) series	ARPG	Fourth quarter 2016	Second quarter 2016
Number Drop series	2D leisure tournament	First quarter 2017	Third quarter 2016
G-Game series	PC leisure	First quarter 2017	Third quarter 2016

Prospects

The Group will further optimise the quality of self-developed game products with its excellent research and development core capability as the base, the stable research and development team as the support and a longer research and development cycle as to ensure and elevate the quality of its self-developed products. The Group will persist in the simultaneous development model of various games which can assure the Group's competitiveness in research and development, and to maintain a multiple product portfolio. For our existing

games, the Group will carry out ongoing update and optimisation of our games so as to enhance the bonding between game users and those games and generate stable revenue for us, we will at the same time raise the revenue generated from third-party internet platforms by mobile games launched during the Reporting Period in order to further enhance the growth potential of mobile games. Our research and development team will continue to introduce new modes of play for the games, release games in more language versions so as to cater for different players and license the games to operators for operation. In the short-to-mid term, the games should see continuing revenue growth from newly-acquired users.

In the fourth quarter of 2016, we will maintain our ongoing, timely and effective research as well as our capability in game upgrades, taking full advantage of our ascendancy in three aspects of our research and development capability, namely game planning, programming and graphic production. We will enhance our cooperation with licensed operators through discussion on the operation mode, precise management and way of promotion of our new games in order to give full play to our strengths in games research and development as well as to enhance the Group's profile in games research and development. Meanwhile, the Group has made active attempts into the development of innovative game types with further exploration, innovation and development. The Group will continue to enhance the investment in research and development and to attract and satisfy players with high-quality and diversified games. Given the success we obtained from our game products in the previous years and our continuous great efforts put into research and development, our Group will launch more outstanding new products.

Financial Review

Revenue

We are engaged in the development of browser and mobile games, including game design, programming and graphics, and licensing of our self-developed browser and mobile games to licensed operators around the world.

During the nine months ended 30 September 2016, our revenue was originated from our licensed operators and derived from the following revenue types: (i) license fees in accordance with the contractual terms agreed with our licensed operators for granting the exclusive operating right for specific games within an agreed period and designated territories; and (ii) royalties which were calculated based on a pre-determined percentage sharing of the net sales of credits of our licensed operators which have been exchanged into our in-game tokens purchased through platforms designated by our licensed operators in accordance with the terms of the licensing agreements.

Our revenue increased by approximately 49.0% from approximately RMB20.0 million for the nine months ended 30 September 2015 to approximately RMB29.8 million for the nine months ended 30 September 2016. The increase in revenue was mainly due to the increase in revenue brought by Hero's Crown (英雄皇冠) game series.

Revenue by Game Platforms and Revenue Types

The table below sets forth the breakdown of revenue by game platforms and revenue types for each of the nine months ended 30 September 2015 and 2016:

	For the nine months ended 30 September			
	2016		2015	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)		(unaudited)	
Browser version	20,571	69.0	19,462	97.2
License fees	1,861	6.2	1,613	8.0
Royalties	18,710	62.8	17,849	89.2
Mobile version	9,242	31.0	555	2.8
License fees	1,021	3.4	319	1.6
Royalties	8,221	27.6	236	1.2
	29,813	100.0	20,017	100.0

Revenue by Game Series

The table below sets forth the breakdown of revenue by game series for each of the nine months ended 30 September 2015 and 2016:

	For the nine months ended 30 September			
	2016		2015	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
Kings & Legends (王者召喚)	8,107	27.2	11,726	58.6
Hero's Crown (英雄皇冠)	16,411	55.0	7,918	39.5
Heroines of the Three Kingdoms (姬戰三國)	486	1.6	373	1.9
Endless Battles (無盡爭霸)	1,665	5.6	—	—
Legend of Fairies (萌仙記)	2,342	7.9	—	—
Road of Vengeance (復仇之路)	802	2.7	—	—
	29,813	100.0	20,017	100.0

Revenue by Geographical Markets

The following table sets forth our revenue from our games based on territories, as determined by type of settlement currency with licensed operators, in absolute amounts and as a percentage of our revenue for the periods indicated:

	For the nine months ended 30 September			
	2016		2015	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
PRC ¹	22,960	77.0	9,010	45.0
PRC ^{2, 4}	1,353	4.5	1,241	6.2
PRC ^{3, 4}	3	0.0	31	0.2
North America ²	1,824	6.1	4,205	21.0
Asia Pacific (including Japan and Taiwan) ²	2,530	8.5	3,871	19.3
Europe ³	1,143	3.9	1,597	8.0
Europe ²	—	—	62	0.3
Total	29,813	100.0	20,017	100.0

Notes:

- ¹ Settled in RMB
- ² Settled in USD
- ³ Settled in EUR
- ⁴ Revenue derived from R2Game Co., Limited and Reality Squared Game Co., Limited, in which Reality Squared Game Co., Limited and R2Game Co., Limited are group companies based in the PRC. The license we gave to R2Game Co., Limited for the operation of our games had been transferred to Reality Squared Game Co., Limited during the Reporting Period. Both companies had commercially launched our games in Europe and North America.

Direct Costs

Our direct costs for the nine months ended 30 September 2016 amounted to approximately RMB5.3 million, representing an increase of approximately 1.9% as compared to approximately RMB5.2 million for the same period in 2015. As we commercially launched two new browser games, being Hero's Crown (英雄皇冠) and Heroines of the Three Kingdoms (姬戰三國) at the beginning of the same period in 2015 and we spared substantially all the research staff from the two games for the maintenance of the games so as to fulfill the marketing and maintenance requirement of the games during their introduction stage; and because fewer games were in the game inception and development stage during the Reporting Period, direct staff costs were higher. During the Reporting Period, the four new mobile games, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路) were only launched at the middle of the period, and the number of staff required for the maintenance of mobile games was much lower than that of browser games, direct staff costs decreased significantly compared with the same period in 2015, together with the increase in amortisation of our intangible assets resulted from the commercial launch of four mobile games, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路) during the Reporting Period, change in the total direct costs for the Reporting Period was smaller as compared to the same period.

Gross Profit and Gross Profit Margin

Our gross profit for the nine months ended 30 September 2016 amounted to approximately RMB24.6 million, representing an increase of approximately 66.2% as compared to approximately RMB14.8 million for the nine months

ended 30 September 2015. Our gross profit margin for the nine months ended 30 September 2016 amounted to approximately 82.6% and approximately 74.0% for the nine months ended 30 September 2015. The increase in our gross profit and gross profit margin was mainly due to the increase in revenue brought by Hero's Crown (英雄皇冠) game series and the new game series launched during the Reporting Period.

Other Income

Our other income mainly consisted of interest income on short-term bank deposits and government grants. For the nine months ended 30 September 2016, our other income was approximately RMB1.2 million, compared with approximately RMB0.8 million for the same period of 2015.

Game Research Costs

Our game research costs for the nine months ended 30 September 2016 amounted to approximately RMB0.3 million, representing an increase of approximately 200.0% as compared to approximately RMB0.1 million for the nine months ended 30 September 2015. The increase in our game research costs was mainly due to the fact that three new games were in the game inception and evaluation stage during the Reporting Period.

Distribution Costs

Our distribution costs for the nine months ended 30 September 2016 amounted to approximately RMB0.4 million, representing a decrease as compared to approximately RMB1.1 million for the same period in 2015. The decrease in our distribution costs was mainly due to the decrease in the number of promotional personnel.

Administrative Expenses

Our administrative expenses for the nine months ended 30 September 2016 amounted to approximately RMB9.4 million, remaining stable as compared to approximately RMB9.4 million for nine months ended 30 September 2015. Without taking into account the listing related expenses, our administrative expenses for the nine months ended 30 September 2016 amounted to approximately RMB6.1 million, representing an increase of approximately 35.6% as compared to approximately RMB4.5 million for the nine months ended 30 September 2015. The increase in administrative expenses was mainly

due to the increase in legal and professional fees upon the successful listing of our Group on the GEM as well as the increase in rentals for our operating premises.

Income Tax Expenses

Our income tax expenses for the nine months ended 30 September 2016 amounted to approximately RMB2.5 million while we recorded RMB1.1 million for the nine months ended 30 September 2015. The increase in our income tax expenses was mainly because the profits of the PRC subsidiary of the Group increased significantly during the Reporting Period as compared to the same period in 2015.

Profit for the Period

Given the aforesaid reasons, profit attributable to owner of the Company increased by approximately 230.0% from approximately RMB4.0 million for the nine months ended 30 September 2015 to approximately RMB13.2 million for the nine months ended 30 September 2016.

Earnings Per Share

For the nine months ended 30 September 2015, the earnings per Share of the Group was RMB3.30 cents. The calculation is based on the earnings for the period of approximately RMB4.0 million and on the basis of 120,000,000 Shares of the Company in issue, as if these Shares issued under the reorganisation and the capitalisation issue (as defined in the Prospectus) had been issued on 1 January 2015.

For the nine months ended 30 September 2016, the earnings per Share of the Group was RMB8.24 cents. The calculation is based on the earnings for the period of approximately RMB13.2 million and on the basis of 160,000,000 Shares of the Company in issue immediately after the capitalisation issue (as defined in the Prospectus) and pursuant to the Placing on 18 February 2016.

Diluted earnings per Share during the Reporting Period are same as the basic earnings per Share as there are no dilutive potential ordinary Shares in existence during the nine months ended 30 September 2016 and 2015.

Interim Dividends

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: Shenzhen Fire Element declared a special dividend of RMB5,000,000 on 26 February 2015 which was subsequently paid on 20 April 2015).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

The Board is committed to achieving a high standard of corporate governance, to protect interests, improve corporate value and accountability.

The Company has adopted the principles and the Code provisions set out in the Code contained in Appendix 15 of the GEM Listing Rules.

The Directors consider the Company has complied with all the Code provisions throughout the Reporting Period.

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the nine months ended 30 September 2016.

Disclosure of Interest as Per Registers Kept Pursuant to the SFO

(a) *Interests and Short Positions of Directors and the Chief Executive in the Shares, Underlying Shares or Debentures*

As of 30 September 2016, the Directors and the chief executive of our Company had the interests in the Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of part XV of the SFO):

- (1) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or

- (2) which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or
- (3) which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, as follows:

Name	Capacity	Number of Shares¹	Percentage of shareholdings
Mr. Zhang Yan ²	Interest in controlled corporation	58,800,000	36.75%
Mr. Wu Zhe ³	Interest in controlled corporation	19,200,000	12.00%
Mr. Huang Yong ⁴	Interest in controlled corporation	19,200,000	12.00%
Mr. Rao Zhenwu ⁵	Interest in controlled corporation	19,200,000	12.00%

1. All interests stated are long positions.
2. Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International Limited by virtue of the SFO.
3. Mr. Wu Zhe is interested in the entire issued share capital of R&P Global Limited and he is therefore deemed to be interested in the Shares held by R&P Global Limited by virtue of the SFO.
4. Mr. Huang Yong is interested in the entire issued share capital of Raglon International Limited and he is therefore deemed to be interested in the Shares held by Raglon International Limited by virtue of the SFO.
5. Mr. Rao Zhenwu is interested in the entire issued share capital of Meteor Technology International Limited and he is therefore deemed to be interested in the Shares held by Meteor Technology International Limited by virtue of the SFO.

Save as disclosed above, as of 30 September 2016, none of the Directors or chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7

and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors to be notified to our Company and the Hong Kong Stock Exchange.

(b) Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares or Underlying Shares

So far as is known to the Directors or chief executive of the Company, on 30 September 2016, the following persons had, or were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares¹	Percentage of shareholding
Sulfulon International Limited	Beneficial owner	58,800,000	36.75%
Mr. Zhang Yan ²	Interest of controlled corporation	58,800,000	36.75%
Ms. Zheng Xin ³	Interest of spouse	58,800,000	36.75%
R&P Global Limited	Beneficial owner	19,200,000	12.00%
Mr. Wu Zhe ⁴	Interest of controlled corporation	19,200,000	12.00%
Ms. Xu Yao ⁵	Interest of spouse	19,200,000	12.00%
Raglon International Limited	Beneficial owner	19,200,000	12.00%
Mr. Huang Yong ⁶	Interest of controlled corporation	19,200,000	12.00%
Ms. Pan Li ⁷	Interest of spouse	19,200,000	12.00%
Meteor Technology International Limited	Beneficial owner	19,200,000	12.00%
Mr. Rao Zhenwu ⁸	Interest of controlled Corporation	19,200,000	12.00%
Ms. Chen Xuanqi ⁹	Interest of spouse	19,200,000	12.00%

1. All interests stated are long positions.
2. Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International Limited by virtue of the SFO.
3. Ms. Zheng Xin is the spouse of Mr. Zhang Yan and she is therefore deemed to be interested in the Shares held by Mr. Zhang Yan by virtue of the SFO.
4. Mr. Wu Zhe is interested in the entire issued share capital of R&P Global Limited and he is therefore deemed to be interested in the Shares held by R&P Global Limited by virtue of the SFO.
5. Ms. Xu Yao is the spouse of Mr. Wu Zhe and she is deemed to be interested in the Shares held by Mr. Wu Zhe by virtue of the SFO.
6. Mr. Huang Yong is interested in the entire issued share capital of Raglon International Limited and he is therefore deemed to be interested in the Shares held by Raglon International Limited by virtue of the SFO.
7. Ms. Pan Li is the spouse of Mr. Huang Yong and she is deemed to be interested in the Shares held by Mr. Huang Yong by virtue of the SFO.
8. Mr. Rao Zhenwu is interested in the entire issued share capital of Meteor Technology International Limited and he is therefore deemed to be interested in the Shares held by Meteor Technology International Limited by virtue of the SFO.
9. Ms. Chen Xuanqi is the spouse of Mr. Rao Zhenwu and she is deemed to be interested in the Shares held by Mr. Rao Zhenwu by virtue of the SFO.

Competing Interest

None of the Directors or the Controlling Shareholders or the substantial shareholders of the Company or their respective associates has any interest in any business which competed or may compete with the business of the Group during the Reporting Period.

Contracts with Controlling Shareholders

No contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the Reporting Period.

Directors' Interest in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted as of 30 September 2016 or at any time during the Reporting Period.

Repurchase, Sale or Redemption of the Company's Listed Securities

The Shares were listed on the GEM of the Stock Exchange on 18 February 2016. Neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2016.

Interest of Compliance Adviser

As confirmed by the Group's compliance adviser, China Everbright Capital Limited (the "**Compliance Adviser**"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 26 January 2016, neither the Compliance Adviser nor its directors, employees or associates (as defined in the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

By order of the Board
Zhang Yan
Chairman

Hong Kong, Monday, 14 November 2016

As of the date of this report, the Chairman and non-executive Director is Mr. Zhang Yan; the executive Directors are Mr. Huang Yong, Mr. Wu Zhe and Mr. Rao Zhenwu; and the independent non-executive Directors are Mr. Chan King Fai, Mr. Zhang Xiongfeng and Mr. He Yunpeng.