



火岩控股
FIRE ROCK HOLDINGS

FIRE ROCK HOLDINGS LIMITED 火岩控股有限公司

(Incorporated in the Cayman Islands with limited liability) Stock code : 8345

Annual Report 2016



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

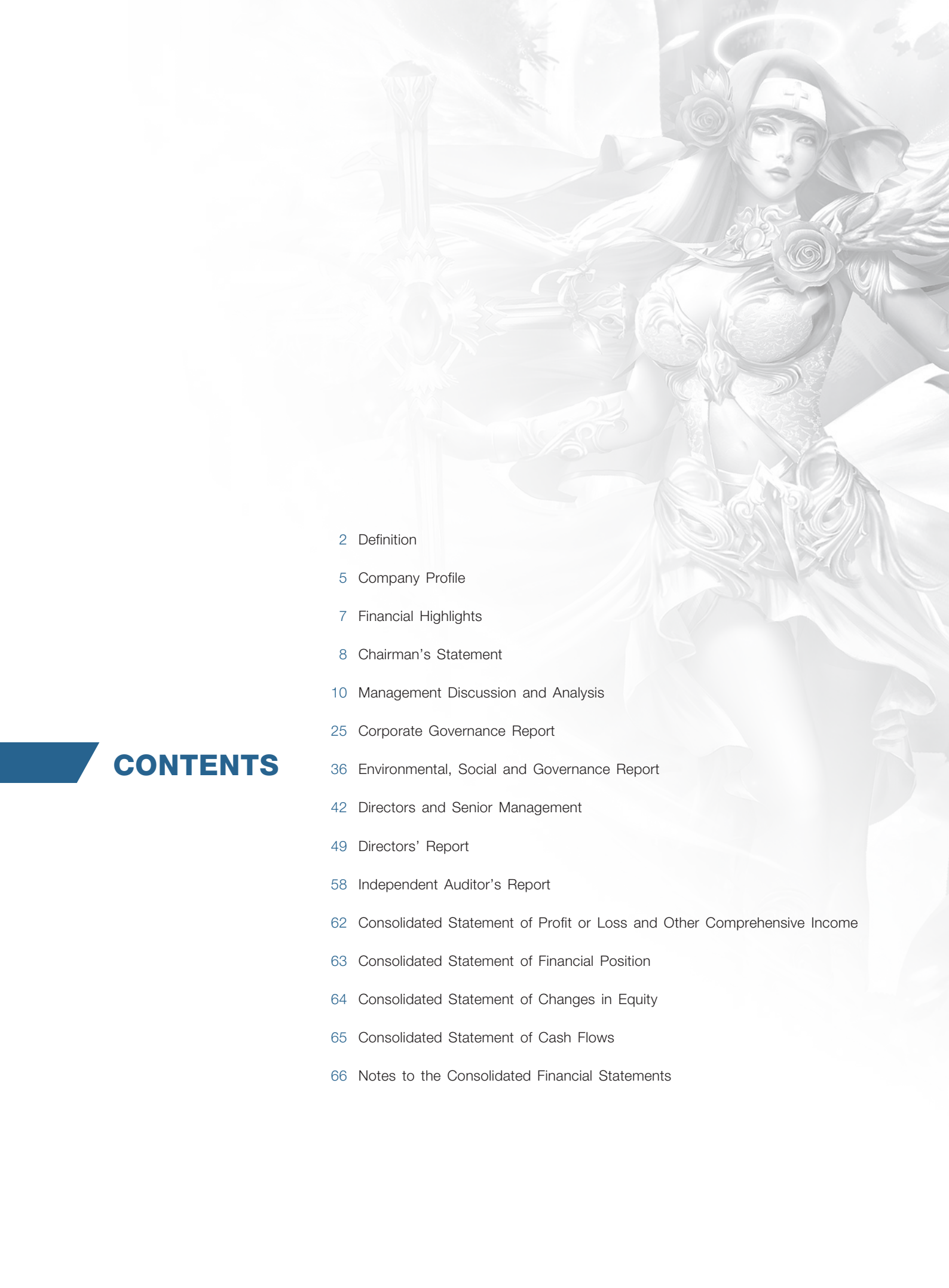
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This report, for which the directors (the “**Directors**”) of Fire Rock Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of 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.

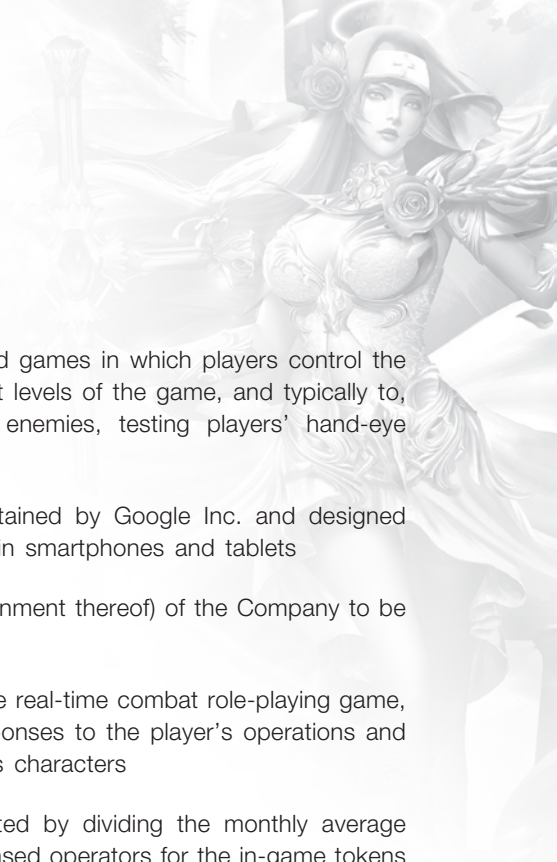




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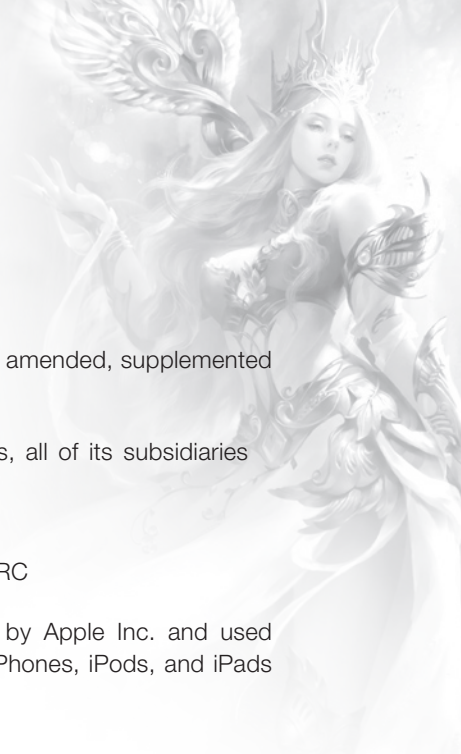
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DEFINITION



“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. and designed primarily for touchscreen technology used in smartphones and tablets
“Annual General Meeting”	the annual general meeting (and any adjournment thereof) of the Company to be held on 30 June 2017 (Friday)
“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 his 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 client 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
“Fire Rock International”	Fire Rock International Limited (火岩國際有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange

DEFINITION



“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”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“iOS”	a mobile operating system developed and maintained by Apple Inc. and used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
“JPY”	Japanese Yen, the lawful currency of Japan
“Listing”	the listing of the Shares of the Company on GEM
“MMORPG”	massively multiplayer online role-playing games, in which many players participate in the same role-playing game simultaneously
“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
“nomination committee”	the nomination committee under the Board
“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
“premium features”	in-game features and services which enhance the in-game experience of game players, for example, enabling social interaction of their game characters
“Prospectus”	this prospectus being issued on 29 January 2016 in connection with the Placing
“remuneration committee”	the remuneration committee under the Board
“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 Russia
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time

DEFINITION

“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
“side-scrolling game”	a video game in which the gameplay is viewed from a side-view camera angle, and the onscreen characters generally move from the left side of the screen to the right to meet an in-game objective
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“tower defence game”	a game in which players defend a base in real time by placing various elements at strategic points against waves of attackers
“USA”	the United States of America
“USD”	United States dollars, the lawful currency of the United States
“virtual items”	virtual items which enhance players’ gaming experience, by, for example, enhancing the powers, abilities or attractiveness
“Year”	the year ended 31 December 2016
“%”	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
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

COMPANY PROFILE

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

RESULTS

	For the year ended 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	44,977	30,062	22,813	18,459
Direct costs	(7,379)	(6,251)	(3,233)	(2,911)
Gross profit	37,598	23,811	19,580	15,548
Profit for the year	22,022	8,729	9,642	10,275

ASSETS AND LIABILITIES

	As at 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	9,180	11,461	6,315	1,708
Current assets	94,011	34,417	19,592	15,179
Total	103,191	45,878	25,907	16,887
Non-current liabilities	336	1,481	522	591
Current liabilities	6,646	8,639	5,163	9,716
Total	6,982	10,120	5,685	10,307
Total equity	96,209	35,758	20,222	6,580

MAJOR FINANCIAL RATIOS

	For the year ended 31 December			
	2016	2015	2014	2013
	Return on equity	33.4%	31.2%	71.9%
Return on total assets	29.5%	24.3%	45.1%	96.4%
Current ratio (times)	14.1	4.0	3.8	1.6

REVENUE HIGHLIGHTS

	For the year ended 31 December							
	2016		2015		2014		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Browser Version	26,901	59.8	29,164	97.0	21,521	94.3	18,043	97.7
License fees	3,160	7.0	2,370	7.9	2,486	10.9	2,271	12.3
Royalties	23,741	52.8	26,794	89.1	19,035	83.4	15,772	85.4
Mobile version	18,076	40.2	898	3.0	1,292	5.7	416	2.3
License fees	1,416	3.1	590	2.0	555	2.5	83	0.5
Royalties	16,660	37.1	308	1.0	737	3.2	333	1.8
Total	44,977	100.0	30,062	100.0	22,813	100.0	18,459	100.0

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Fire Rock Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2016.

OVERVIEW

The Listing of our Company's shares on the GEM of the Stock Exchange on 18 February 2016 (the "Listing") was a significant milestone in its development history. The Listing demonstrated the recognition from the capital market of the Group's achievement and development model as a developer specialized in games products in the game market. The Listing also improved the capital strength and corporate governance of the Group as well as enhanced our competitive edge which laid a solid foundation for the Group's future development.

As a game developer with stronger self-developed capabilities in games, we are engaged in the development of browser and mobile games to players around the world. We offer our games in different language versions, and licensed to different licensed operators for operation internationally. To focus our resources on the development of browser and mobile games and to efficiently distribute our browser and mobile games in different territories, we have licensed our games to various well-established game operators as our licensed operators with the exclusive and/or non-exclusive right to operate, publish and distribute specific games within an agreed period and designated territories.

In 2016, although the global game market was highly competitive, Asia Pacific region, especially the game industry in China market as a whole achieved prominent performance, of which the growth for mobile games was particularly outstanding. During the year, the Group was committed to our self-development objectives and capitalized our self-developed capabilities and experience for games to make efforts in developing mobile games while maintaining existing browser games as to enter into the mobile games market. As for browser games, the Group continued to upgrade the Kings & Legends (王者召喚) game series and Hero's Crown (英雄皇冠) in order to enhance the players' gaming experience. As for mobile games, the Group commercially launched four game products in 2016, namely Hero's Crown (英雄皇冠) series, Endless Battles (無盡爭霸) series, Legend of Fairies (萌仙記) series and Road of Vengeance (復仇之路) series which offered more options for players and expanded our game portfolio. In 2016, the Group's revenue increased by 49.5% from RMB30.1 million as for 2015 to RMB45.0 million. The revenue derived from mobile games accounted for 40.2% of the Group's total revenue in 2016 compared to about 3.0% in 2015.

PROSPECTS

Looking forward, it is expected that the game market in 2017 will be filled with competition and challenges and at the same time full of opportunities.

The Board believes the proper development strategies for the Group are to capitalize the development trend of browser games changing into client online games, keep its focus on developing and providing browser games with high-end graphic design, brand new engine and technique-driven play as well as to increase R&D investment for mobile games. We shall continue to optimise our game series and we seek to diversify our game portfolio by introducing new games in diversified genres to capture broader segments of the game population around the globe. We shall leverage our multilanguage game development capabilities and well-established business relationships with several reputable game operators to further expand the global presence of our games and broaden our geographic penetration. We aim to keep strengthening our relationships with our existing licensed operators and identify suitable new licensed operators to expand the reach of our games into new regions and territories so that our Group can keep on making progress and eventually become a leading game developer in the PRC.

CHAIRMAN'S STATEMENT

The Group plans to launch several mobile games, namely Sweeties Fighting (零食大亂鬥) series, War of the Sulfurons (薩弗隆戰記) series, Number Drop series and G-game series in 2017.

Following the development strategies determined by the Group, our management team is actively improving our overall competitiveness and growth potential to create values for our shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, may I take this opportunity to thank the management of the Group and the entire staff for their contribution. I also express my gratitude for the continuous support from all business partners and customers and the trust of our Shareholders. The Board would also like to express its sincere gratitude for the valuable opinions, guidance and support provided by the Securities and Futures Commission (the "SFC"), The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and other related institutions.

Zhang Yan (*Chairman*)

Hong Kong
27 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Overview

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 to 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.

2016 was an important year for the Group. During the year, our Company's shares were listed on the GEM of the Stock Exchange, which improved capital strength and corporate governance of the Group. The Group effectively captured the development opportunity from the fast growing global mobile markets and commercially launched four mobile games successively, 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.

During the year ended 31 December 2016, we have licensed six self-developed 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 to various game operators for the operation, publication and distribution of such games within an agreed period and within designated territories.

In 2016, in response to the rising quality standards put forward by our players on the playability, convenience, image quality and service level of our games, the Group kept on upgrading our browser games so that our revenue derived from browser games reached RMB26.9 million. Despite a decrease of 7.9% as compared to 2015, the revenue derived from our browser games still accounted for 59.8% of our total revenue. The decrease was attributable to the fact that the Group mainly devoted its resources on the R&D of mobile games while maintaining existing browser games during the year, which was in line with our development strategies of reducing the amount while improving the profitability of browser games.

In 2016, the revenue derived from mobile games for the Group amounted to RMB18.1 million, represented an increase of 1,911.1% as compared to 2015. The increase was mainly due to the four new mobile games which were commercially launched during the year attained satisfying results.

Industry Review

During the year, although the global game industry was highly competitive, with further enhancement of broadband network and improvement of R&D technology and upgrade of equipment, hardware and techniques, in particular the growing popularity of smart mobile devices and the development of device technology, client game users, browser game users and mobile game users experienced a significant growth. With the emergence of development tools and technology like Unity3D and Html5, the performance of games is prominently enhanced. Those factors contributed to the substantial growth of the game industry as compared to last year as a whole, the growth of mobile games was particularly outstanding. As mobile games is the target market we have always been focusing on, we have been actively participating and investing during the year, in order to achieve breakthrough amid the highly competitive mobile game market.

Our Games

In 2016, we adhered to our advantage in research and development and captured the huge development opportunity from the fast growing game markets domestically and abroad. We enhanced our research and development capability to develop new and innovative mobile games and updated and improved the existing games. During the year, 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, diversified our revenue sources and better captured the fast growing opportunities in global mobile game market.

As of 31 December 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.

Our two self-developed game series Kings & Legends (王者召喚) and Hero's Crown (英雄皇冠) continued to deliver satisfactory performance in the year and maintained an important position in our game portfolio. Of which, the percentage of revenue contribution to our total revenue from the Kings & Legends (王者召喚) series of games during the year was still approximately 24.6% and the percentage of revenue contribution to our total revenue from the Hero's Crown (英雄皇冠) series of games during the year achieved approximately 52.6%. Since the commercial launch of those two games in March 2012 and January 2015 respectively, their abilities to achieve a longer lifespan than the industry averages were attributable to our ongoing efforts in carrying out upgrades and enhancements to the content of the games with the view to retain player interest, increase player engagement to the game and enhance the players' gaming experience. It also generates stable revenue for us.

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 RMB0.6 million for the year ended 31 December 2016.

In 2016, we achieved commercial launch of three new mobile game series including Endless Battles (無盡爭霸) series, Legend of Fairies (萌仙記) series and Road of Vengeance (復仇之路) series, which further expand our game portfolio and diversify our games. Revenue derived from these three new games amounted to approximately RMB9.7 million, representing 21.5% of our total revenue. The mobile version of Endless Battles (無盡爭霸) series of games was commercially launched in February 2016. During the year ended 31 December 2016, revenue derived from this game series amounted to approximately RMB2.9 million. The mobile version of Legend of Fairies (萌仙記) series of games was commercially launched in March 2016. During the year ended 31 December 2016, revenue derived from this game series amounted to approximately RMB4.6 million. The mobile version of Road of Vengeance (復仇之路) series of games was commercially launched in August 2016. During the year ended 31 December 2016, revenue derived from this game series amounted to approximately RMB2.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the six main series of games commercially launched by our licensed operators as of 31 December 2016:

Language version	Game title	Platform	Initial commercial launch date
<i>Kings & Legends (王者召喚) series of games</i>			
English	Ancient Summoner/Rise of Mythos (Name changed in June 2014)	Browser	May 2013
	Kings and Legends	Browser	December 2012
	Kings and Legends	Mobile	May 2014
Japanese	デイヴァイン・グリモワール／Divine Grimoire	Browser	September 2012
	王者召喚~禁断の魔導書	Mobile	September 2014
	のすたるじっくガールズ	Browser	November 2016
German	Kings and Legends	Browser	July 2013
French	Kings and Legends	Browser	December 2013
Portuguese	Rise of Mythos	Browser	January 2014
Traditional Chinese	卡卡們的大亂鬥	Browser	June 2012
	卡卡們大亂鬥	Mobile	April 2013
Simplified Chinese	王者召喚	Browser	March 2012
Russian	Боги войны	Browser	June 2015
Turkish	Efsanelerin Öfkesi	Browser	July 2016
<i>Hero's Crown (英雄皇冠) series of games</i>			
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

MANAGEMENT DISCUSSION AND ANALYSIS

Language version	Game title	Platform	Initial commercial launch date
New Malay	Death of Shadow (formerly known as: Wgame)	Mobile	February 2016
Simplified Chinese	魔戒外传	Mobile	April 2016
<i>Heroines of Three Kingdoms (姬戰三國) series of games</i>			
Simplified Chinese	姬战三国	Browser	January 2015
Traditional Chinese	妖姬傳	Browser	June 2015
<i>Endless Battles (無盡爭霸) series of games</i>			
Simplified Chinese	无尽争霸	Mobile	February 2016
<i>Legend of Fairies (萌仙記) series of games</i>			
Simplified Chinese	萌仙记	Mobile	March 2016
<i>Road of Vengeance (復仇之路) series of games</i>			
Simplified Chinese	复仇之路	Mobile	August 2016

As of 31 December 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 Sulfurons (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 first quarter of 2017 to the second quarter of 2017.

Game Title	Genre	Expected Launch Date	Start of Game Inception and Evaluation
Sweeties Fighting (零食大亂鬥) series	ACT	Second quarter 2017	Second quarter 2016
War of the Sulfurons (薩弗隆戰記) series	ARPG	Second quarter 2017	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 year 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.

Looking forward to 2017, 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.

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 year ended 31 December 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 49.5% from approximately RMB30.1 million for the year ended 31 December 2015 to approximately RMB45.0 million for the year ended 31 December 2016. The increase in revenue was mainly due to the increase in revenue brought by the commercial launch of four mobile game series in 2016, including Hero's Crown (英雄皇冠) series of games, Endless Battles (無盡爭霸) series of games, Legend of Fairies (萌仙記) series of games and Road of Vengeance (復仇之路) series of games.

MANAGEMENT DISCUSSION AND ANALYSIS

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 years ended 31 December 2015 and 2016:

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
Browser version	26,901	59.8	29,164	97.0
License fees	3,160	7.0	2,370	7.9
Royalties	23,741	52.8	26,794	89.1
Mobile version	18,076	40.2	898	3.0
License fees	1,416	3.1	590	2.0
Royalties	16,660	37.1	308	1.0
	44,977	100.0	30,062	100.0

Revenue by Game Series

The table below sets forth the breakdown of revenue by game series for each of the years ended 31 December 2015 and 2016:

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
Kings & Legends (王者召喚)	11,044	24.6	15,779	52.5
Hero's Crown (英雄皇冠)	23,650	52.6	13,677	45.5
Heroines of the Three Kingdoms (姬戰三國)	589	1.3	606	2.0
Endless Battles (無盡爭霸)	2,940	6.5	—	—
Legend of Fairies (萌仙記)	4,550	10.1	—	—
Road of Vengeance (復仇之路)	2,204	4.9	—	—
	44,977	100.0	30,062	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

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 years indicated:

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
PRC ¹	36,010	80.1	15,376	51.1
PRC ^{2, 4}	1,962	4.3	1,717	5.7
PRC ^{3, 4}	3	—	36	0.1
North America ²	2,235	5.0	5,596	18.7
Asia Pacific (including Japan and Taiwan) ²	3,293	7.3	5,257	17.5
Europe ³	1,474	3.3	1,842	6.1
Europe ²	—	N/A	238	0.8
Total	44,977	100.0	30,062	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 year. Both companies had commercially launched our games in Europe and North America.

Revenue derived from Changyou.com (US) LLC. and ChangYou.com Limited, in which Changyou.com (US) LLC. and ChangYou.com Limited are group companies based in the PRC. The license we gave to Changyou.com (US) LLC. for the operation of our games had been transferred to ChangYou.com Limited during the year. Both companies had commercially launched our games in Europe and North America.

MANAGEMENT DISCUSSION AND ANALYSIS

Average MPU and ARPPU

The following table sets forth our average MPU and ARPPU for the years indicated.

	For the year ended 31 December	
	2016	2015
Kings & Legends (王者召喚)		
• Average MPU	3,912	6,664
• ARPPU ⁴ (RMB)	215	181
Hero's Crown (英雄皇冠)		
• Average MPU	6,488	2,983
• ARPPU ⁴ (RMB)	309	338
Heroines of Three Kingdoms (姬戰三國)		
• Average MPU	162	224
• ARPPU ⁴ (RMB)	340	223
Endless Battles (無盡爭霸)¹		
• Average MPU	27,679	—
• ARPPU ⁴ (RMB)	9	—
Legend of Fairies (萌仙記)²		
• Average MPU	11,991	—
• ARPPU ⁴ (RMB)	38	—
Road of Vengeance (復仇之路)³		
• Average MPU	15,608	—
• ARPPU ³ (RMB)	31	—

Notes:

1. The mobile version of Endless Battles (無盡爭霸) series of games was commercially launched in February 2016.
2. The mobile version of Legend of Fairies (萌仙記) series of games was commercially launched in March 2016.
3. The mobile version of Road of Vengeance (復仇之路) series of games was commercially launched in August 2016.
4. ARPPU is calculated by dividing the average monthly 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. As all of our games adopt the free-to-play model, the ARPPU of games should not be affected by the frequency of game players spending time on the games if they do not purchase credits from our licensed operators to exchange for in-game tokens which can be used for acquiring virtual items and premium features.

MANAGEMENT DISCUSSION AND ANALYSIS

Direct Costs

Our direct costs for the year ended 31 December 2016 amounted to approximately RMB7.4 million, representing an increase of approximately 17.5% as compared to approximately RMB6.3 million for the year ended 31 December 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 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 2015, direct staff costs were higher. During the year, 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 launched 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 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 year, total direct costs for the year was higher as compared to 2015. In general, the increase in direct costs was in line with the increase in our game revenue in 2016.

Gross Profit and Gross Profit Margin

Our gross profit for the year ended 31 December 2016 amounted to approximately RMB37.6 million, representing an increase of approximately 58.0% as compared to approximately RMB23.8 million for the year ended 31 December 2015. The increase in our gross profit was mainly due to the increase in revenue generated from newly commercialised games.

Our gross profit margin for year ended 31 December 2016 amounted to approximately 83.6% and approximately 79.2% for the year ended 31 December 2015. The increase in our gross profit margin was mainly due to the increase in revenue generated from newly commercialised games.

Other Income

Our other income mainly consisted of interest income on short-term bank deposits and government grants. For the year ended 31 December 2016, our other income was approximately RMB2.6 million, compared with approximately RMB2.8 million of 2015. Such decrease was mainly attributable to the decrease of government grants of a PRC subsidiary of the Group received from the local government from approximately RMB2.6 million in 2015 to approximately RMB1.4 million during the year.

Game Research Costs

Our game research costs for the year ended 31 December 2016 amounted to approximately RMB0.6 million, representing an increase of approximately 200.0% as compared to approximately RMB0.2 million for year ended 31 December 2015. The increase in our game research costs was mainly due to the fact that four new games were in the game inception and evaluation stage during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Costs

Our distribution costs for the year ended 31 December 2016 amounted to approximately RMB0.8 million, representing a decrease as compared to approximately RMB1.5 million 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 year ended 31 December 2016 amounted to approximately RMB12.8 million, representing a decrease of 9.2% as compared to approximately RMB14.1 million for the year ended 31 December 2015. Without taking into account the listing related expenses, our administrative expenses for the year ended 31 December 2016 amounted to approximately RMB9.0 million, representing an increase of approximately 32.4% as compared to approximately RMB6.8 million for the year ended 31 December 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 of the Stock Exchange as well as the increase in rentals for our operating premises.

Income Tax Expense

Our income tax expense for the year ended 31 December 2016 amounted to approximately RMB3.9 million while we recorded RMB2.1 million for the year ended 31 December 2015. The increase in our income tax expense was mainly because the profits of the PRC subsidiary of the Group increased which led to a higher PRC Enterprise Income Tax.

Profit for the Year

Given the aforesaid reasons, profit attributable to owners of the Company increased by approximately 152.9% from approximately RMB8.7 million for 2015 to approximately RMB22.0 million for 2016.

LIQUIDITY AND FINANCIAL RESOURCES

In 2016, we mainly financed our business with cash generated from our operating activities. We intend to fund our expansion and business operations through our internal resources and on-going internal growth.

Treasury policy

During the year ended 31 December 2016, the Group deposited its idle capital with commercial banks in the PRC and Hong Kong as short-term time deposits to allow inactive capital of the Group to generate certain return and did not engage in any investments with high risks or speculative derivative instruments.

Cash and cash equivalents

As of 31 December 2016, our cash and cash equivalents amounted to RMB70.1 million, compared with RMB19.4 million as of 31 December 2015, which primarily consisted of cash at bank and cash on hand and which are mainly denominated in RMB (as to approximately 41.70%), HKD (as to approximately 51.25%), USD (as to approximately 7.00%) and other currencies (as to approximately 0.05%).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment and leasehold improvements. For the year ended 31 December 2016, our total capital expenditures amounted to approximately RMB0.3 million, including the purchase of furniture and office equipment of approximately RMB0.3 million (2015: approximately RMB2.0 million, including the purchase of furniture and office equipment of approximately RMB1.8 million and leasehold improvement of approximately RMB0.2 million). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 18 February 2016. The capital structure of the Company comprised issued share capital and reserves.

BORROWING AND GEARING RATIO

As of 31 December 2016, we did not have any short-term or long-term bank borrowings.

As of 31 December 2016, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 6.8% (31 December 2015: approximately 22.1%).

CHARGE ON GROUP ASSETS

As of 31 December 2016, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2015: Nil).

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2016, the Group had 75 employees (31 December 2015: 91), mainly worked and are located in the PRC. The table below sets forth the number of employees by function as at 31 December 2016 and 2015:

Department	2016		2015	
	Number employees	% of total	Number employees	% of total
Management	9	12%	8	9%
Project development	46	61%	55	60%
Game design	13	17%	14	15%
Programming	20	27%	21	23%
Art	13	17%	20	22%
Project Support	14	19%	23	25%
Marketing	1	1%	2	2%
Licensing and operator support	8	11%	15	16%
Information technology	5	7%	6	7%
Finance and administration	6	8%	5	6%
Total	75	100%	91	100%

MANAGEMENT DISCUSSION AND ANALYSIS

The total remuneration of the employees of the Group was approximately RMB6.3 million for the year ended 31 December 2016 (2015: approximately RMB7.9 million).

The Group has established a remuneration committee on 24 January 2016 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules.

The Remuneration Committee will regularly review and recommend to the Board from time to time the remuneration and compensation of the Directors and senior management of the Group.

The Group offers competitive remuneration package commensurate in line with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus. In determining staff remuneration, the Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The staff remuneration is reviewed regularly.

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group's business. As a fast growing company, the Group is able to provide its employees with ample career development choices and opportunities of advancement. The Group organizes various training programs on a regular basis for its employees to enhance their knowledge of online game development, improve time management and internal communications and strengthen team building.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the reporting period, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

CONTINGENT LIABILITIES

As of 31 December 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

FOREIGN EXCHANGE RISKS

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR, JPY, RUB and HKD. Approximately 19.9% of the revenue are denominated in currencies other than the functional currency of the operating units making the sales for the year ended 31 December 2016 (2015: approximately 48.9%). Therefore, foreign exchange risk primarily arose from recognised assets in the Group when receiving or to receive foreign currencies from overseas cooperated counter parties.

80.1% (2015: approximately 51.1%) of the transactions of the Group are denominated and settled in its functional currency, RMB. The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in USD, EUR and HKD.

The Group currently does not have any hedging policy in respect of the foreign currency risk. However, our management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, we are not exposed to any significant foreign currency exchange risk in our operation.

USE OF PROCEEDS FROM THE PLACING

The shares of the Company were listed on the GEM of the Stock Exchange on 18 February 2016, and the net proceeds from the Placing was approximately HK\$28.9 million. During the year, the Group has spent approximately HK\$3.7 million on the development of new games, approximately HK\$2.1 million on the continual optimisation of our existing games on various platforms, and approximately HK\$1.5 million on working capital and other general corporate purposes. The Group is currently actively seeking opportunities to obtain/acquire the adaptation rights of appropriate source materials, opportunities to acquire/invest in game developers, and enhance and diversify our game development capabilities.

EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to owners of the Company for the year ended 31 December 2016 of RMB22,021,970 (2015: RMB8,729,183), and the weighted average number of 154,740,000 ordinary shares (2015: 120,000,000 ordinary shares).

The number of shares used to calculate the basic earnings per share for the year ended 31 December 2015 represent the number of shares of the Company immediately after the reorganisation and the capitalisation issue, but excluding any shares issued pursuant to the Placing, as if the shares issued under the reorganisation and the capitalisation issue had been in issue on 1 January 2015.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015.

RISK FACTORS FACED BY THE COMPANY AND RISK MITIGATION MEASURES

The Group principally engaged in the developing of our games in different language versions and licensing our games to different licensed operators for operation internationally. The major risks involved in our business include credit risks, interest risks, liquidity risks, currency risks and business risks. Details of the abovementioned major risks and risk mitigation measures are set forth in note 28 "Financial risk management" to the financial statements for the year.

We believe that there are certain risks involved in our operations, mainly include (i) risks relating to our business; and (ii) risks relating to our industry.

(i) Risks relating to our business

Although the revenue contribution by two of our games series, Kings & Legends (王者召喚) series and Hero's Crown (英雄皇冠) series decreased from 98.0% in 2015 to 77.2% in 2016, in case of any unfavourable developments in relation to our existing self-developed games may materially and adversely affect our business, financial condition and results of operations. In response, we expanded our game portfolio during the year. In 2016, the mobile version of four games series, namely Hero's Crown (英雄皇冠) series, Endless Battle (無盡爭霸) series, Legend of Fairies(萌仙記) series and Road of Vengeance(復仇之路) series were launched, and mobile version of four games series, being Sweeties Fighting (零食大亂鬥) series, War of the Sulfurons (薩弗隆戰記) series, Number Drop series and G-Game series will be launched soon, to further enrich our game portfolio.

We rely heavily on a limited number of licensed operators from which our revenue is sourced, and any deterioration or interruption of our business relationships with our licensed operators may have a material and adverse impact on our business, results of operations and financial position. To reduce our reliance on

MANAGEMENT DISCUSSION AND ANALYSIS

limited number of licensed operators, we have licensed our games to various new game operators as our licensed operators in 2016. For the year ended 31 December 2016, the proportion of the revenue contributed from our five largest licensed operators to our total revenue decreased to 78.9% (2015: 79.9%).

(ii) Risks relating to our industry

As a game developer, we expect to face intense competition from many counterparts domestically and internationally. We also face stiff competition from other forms of entertainment generally available to the public such as console gaming, offline games, cinema, television, sports and music. In response, we continue to regularly upgrade and modify existing games to keep players interested in our game portfolio, and incentivise game players to increase their spending on our games. Furthermore, we also continue to focus on research and development for new games and explore new markets to maintain our competitiveness.

MANAGEMENT OF RISKS

The audit committee of the Company is responsible for the risks management. The audit committee regularly reviews the company's risk management and internal control system to ensure the system's effectiveness. The audit committee also reviews the sufficiency of the Company's internal resources and staff qualifications, experience and trainings. The audit committee is in charge of reporting to the Board regarding the consideration and findings of investigations in risk management and internal control matters.

ENVIRONMENT POLICY AND PERFORMANCE

In consideration of our industry characters, the Group has made plans, formulated standards, implemented, operated, reviewed and assessed matters relating to environment management. In daily activities, our Group strictly controlled the use of water and electricity in office, actively took measures to encourage our staff to follow the environmental protection philosophy to save water and electricity and conduct waste separation. The Group promoted electronic informatization management to build "paperless" office.

The Group has implemented internal recycling and reusing program on a continuous basis for consumable goods such as office papers to minimise the operation impact on the environment and natural resources. The Group has also negotiated with the property management companies of our leased properties in relation to the implementation of energy-saving measures for the use of air-conditioning in our office premises in order to reduce unnecessary electricity usage.

COMPLIANCE OF LAWS AND REGULATIONS

The Company is aware of the importance of complying with the relevant laws and regulations. The Company has distributed human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication. From the date of Listing to 31 December 2016, to the knowledge of Directors, the Company is in compliance with the SFO, GEM Listing Rules and other relevant codes and regulations. During the year under review, the Group has complied, to the best of our knowledge, with the Securities and Futures Ordinance ("SFO"), the listing rules, the trading rules and the clearing house rules of the Stock Exchange, as well as the rules formulated by the Ministry of Cultural Management of the PRC government, being the *Administrative Measures for Internet Information Services* (互聯網信息服務管理辦法), the *Provisional Regulations on the Administration of Internet Culture* (互聯網文化管理暫行規定), the *Interim Measures for the Administration of Online Games* (網絡遊戲管理暫行辦法) and other relevant rules and regulations.

RELATIONSHIP WITH EMPLOYEES, LICENCED OPERATORS AND SUPPLIERS

The relationships between the Group and employees, licensed operators and suppliers have material impact on our business and constant development. Therefore, the Group is dedicated to building a good relationship with employees, licensed operators and suppliers.

The Group regards its employees as the most important and valuable assets. The objectives of human resources management are to motivate outstanding staff with competitive remuneration packages and comprehensive performance assessment, and assist the staff to develop their career and get promotion in the Group by providing suitable training and opportunities. The Company also has conditionally adopted the share option scheme as recognition and rewards to eligible participants (including employees) for the contribution they made and will potentially make to the Group. The details of the share option scheme is set out in the section headed “Director’s Report”. Details about employees, remuneration policies and retirement benefits are set out in note 4(k) to the financial statements.

The customers of the Group are our licensed operators. We strive to maintain stable business relations with the existing licensed operators. Meanwhile, we also actively take measures to reduce the reliance on the major licensed operators through seeking new licensed operators (subject to our current licensing arrangements) for new games in new markets.

The main suppliers of the Group included the companies providing outsourcing services such as graphic designs, sound effects, background music, subsegment updates and optimisations during the game developing and programming stages, server data centres and broadband service providers. We strive to maintain a stable business relationship with the current suppliers to ensure the stability of the services provided which is beneficial to our long-term game development and operation.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Group for the year ended 31 December 2016.

INTRODUCTION

We are committed to maintain high level of corporate governance as the Board recognises that sound and effective corporate governance is a key element to success. We have adopted a number of measures to protect interests of the Shareholders and other stakeholders.

CORPORATE GOVERNANCE PRACTICES

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

The Directors believe, for the year ended 31 December 2016, the Company has complied with all the Code provisions.

BOARD OF DIRECTORS

The Board is responsible for coordinating and supervising the Group and identifying its deviations so as to achieve the success of the Group. The Board has established board committees, and delegated their respective duties in accordance terms of references to board committees. Details of the respective committee's terms of reference are available at the Company's and the Stock Exchange's websites. All Directors have carried out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Board reserves discretion to decide on all major matters relating to policy matters, strategies and budgets, internal control and risk management, discloseable transactions and connected transactions, nomination of Directors and company secretary (or joint company secretaries) and other material financial and operation matters. All Directors contributed precious business experience, knowledges and professions to keep the Company functioning with high efficiency. All Directors can obtain comprehensive relevant materials and receive from the company secretary (or joint company secretaries) advice and services to ensure the Board procedures and all applicable laws, rules and regulations are followed.

The senior management has been delegated with the responsibility for the day-to-day management, administration and operation of the Group, the authorities delegated to managements are being reviewed regularly. The senior management has to be authorized by the Board before entering into any material transactions.

The Board is subject to the Code provisions D.3.1 concerning corporate governance. The Board has reviewed and discussed the corporate governance policy of the Group, and was satisfied with the performance of the corporate governance policy.

COMPOSITION

Throughout the period from the date of Listing to the date of this report, the Board consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The Directors are:

Executive Directors

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

Non-executive Director

Mr. ZHANG Yan (Chairman)

Independent Non-executive Directors

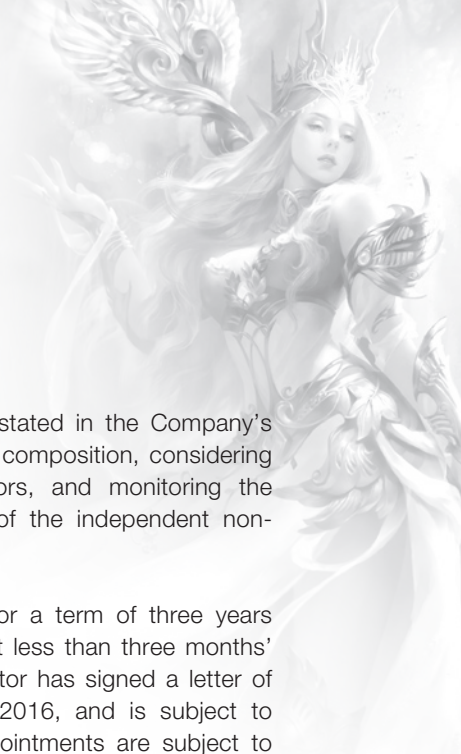
Mr. HE Yunpeng
Mr. CHAN King Fai
Mr. ZHANG Xiongfeng

The list of Directors (by category) is disclosed in all corporate communications issued by the Company pursuant to the GEM Listing Rules from time to time. Independent non-executive Directors are also listed out in all corporate communications issued by the Company pursuant to the GEM Listing Rules. The Company should maintain on its website and on the Stock Exchange's website an updated list of Directors identifying their role and function and whether they are independent non-executive Directors.

Save as disclosed in the Prospectus and in this annual report, as far as the Company has knowledge, there is no relationship (including financial, business, family, or other material relationship(s)) among the Board members.

Throughout the period from the date of Listing to the year ended 31 December 2016, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors, accounting for at least one third of the Board, with at least one independent non-executive Director possessing the appropriate professional qualifications, accounting or related financial management expertise.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. According to the guidelines set out in the provision 5.09 of GEM Listing Rules, the Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Company considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the GEM Listing Rules.



APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are stated in the Company's Articles of Association. The nomination committee is responsible for reviewing the Board composition, considering and formulating the relevant procedures for nomination and appointment of Directors, and monitoring the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

Each of the executive Directors has entered into service contract with the Company for a term of three years commencing 18 February 2016, which is subject to termination by either party giving not less than three months' written notice. Each of the independent non-executive Directors and non-executive Director has signed a letter of appointment with the Company for a term of three years commencing 18 February 2016, and is subject to termination by either party giving not less than three months' written notice. Such appointments are subject to retirement by rotation provisions in the Articles of Association.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. In accordance with the Articles of Association, all Directors of the Company is subject to retirement by rotation at least once every three years, new Directors appointed by the Board as additional Directors and to fill casual vacancies are subject to election or re-election at the first general meeting/annual general meeting.

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 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 from the date of Listing up to the date of this annual report.

DIRECTORS' TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT

Each of the Directors should keep abreast of the responsibilities as a Director, and of the conduct, business activities and developments of the Company.

Directors are aware of the provision A.6.5 of the Code, regarding continuing professional development programme for directors. For the year ended 31 December 2016, all Directors participated in the training regarding director responsibilities and duties by the Company's legal advisers in relation to the GEM Listing Rules. Such programmes were related to corporate governance, listed company and directors' continuing obligations.

DIRECTORS' LIABILITY INSURANCE

The Company strictly complied with the principle and provisions of the GEM Listing Rules. As at 31 December 2016, none of the Directors was engaged in material litigations of the Company. Each of our Directors was qualified and experienced to perform their duties and obligations. The Company predicts that in the foreseeable future, the risk of any events that lead to liabilities of the Directors is relatively low. Nevertheless, the Company has purchased appropriate insurance covering for Directors' and senior officers' liabilities.

BOARD MEETINGS AND SHAREHOLDERS' MEETINGS

Number of Board meetings and Directors' attendance

Pursuant to the code provision A.1.1, the Board meetings should be held at least four times a year at approximately quarterly intervals. Regular Board meetings will normally involve the active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present.

During the year ended 31 December 2016, the Board convened four meetings to discuss various matters of the Group, review and approve financial performance and results of operations and to consider and approve overall strategies and policies of the Group. The attendance of each individual Director at the board meeting, board committee meetings and general meeting is set out in the following table:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive directors					
Mr. Huang Yong	4/4	N/A	1/1	N/A	1/1
Mr. Wu Zhe	4/4	N/A	N/A	N/A	1/1
Mr. Rao Zhenwu	4/4	N/A	N/A	N/A	1/1
Non-executive director					
Mr. Zhang Yan	4/4	N/A	N/A	1/1	1/1
Independent non-executive directors					
Mr. Chan King Fai	4/4	4/4	1/1	N/A	1/1
Mr. Zhang Xiongfeng	4/4	4/4	1/1	1/1	1/1
Mr. He Yunpeng	4/4	4/4	N/A	1/1	1/1

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.

The annual general meeting of the Company was held on 16 June 2016 at which external auditor was present to address queries and questions.

PRACTICES AND GUIDELINES OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to the Directors in advance. The Company has arrangement to ensure that the Directors have opportunity to propose matters to be discussed into the meeting agenda.

Notices of regular Board meetings are normally served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

CORPORATE GOVERNANCE REPORT

Board documents together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The chief executive officer and chief financial officer (member of the senior management) attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, regulatory compliance matters, corporate governance and other major aspects of the Company.

The company secretary (or the joint company secretaries) is responsible to take and keep minutes of all Board meetings and committee meetings. Minutes of Board meetings and meetings of committees should record in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Articles of Associations contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the Code, the role of the chairman has been separate from that of the chief executive officer. Mr. Zhang Yan is the chairman of the Company and Mr. Huang Yong is the chief executive officer of the Company.

BOARD COMMITTEES

The Board established three committees, namely, remuneration committee, audit committee and nomination committee to oversee particular aspects of the Group's affairs. Each of the three committee has its defined scope of duties and terms of reference.

The majority members of remuneration committee, audit committee and nomination committee are independent non-executive Directors.

The Board committees have sufficient resources to perform their duties, and are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Remuneration Committee

The Group has established the remuneration committee on 24 January 2016 with written terms of reference in compliance with B.2 of the Code. The remuneration committee's terms of reference include, but not limited to:

- (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

CORPORATE GOVERNANCE REPORT

- (c) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (d) to make recommendations to the Board on the remuneration of non-executive Directors;
- (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- (f) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.


The remuneration committee consists of Mr. Zhang Xiongfeng, Mr. Chan King Fai and Mr. Huang Yong. Mr. Zhang Xiongfeng is the chairman of the remuneration committee.

Audit Committee

We established the audit committee on 24 January 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the Code of the GEM Listing Rules. The primary responsibilities of the audit committee are to supervise our internal control, financial information disclosure and financial reporting matters, which include but are not limited to:

- i. to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- ii. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- iii. to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- iv. to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- v. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;

CORPORATE GOVERNANCE REPORT

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- vi. in reviewing the aforementioned paragraph (e) before submission to the Board, the committee should focus particularly on:
 1. any changes in accounting policies and practices;
 2. major judgmental areas;
 3. significant adjustments resulting from audit;
 4. the going concern assumptions and any qualifications;
 5. compliance with accounting standards;
 6. compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;
 - vii. in reviewing the aforementioned paragraph (e) and (f):
 1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company's auditors; and
 2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
 - viii. to review the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
 - ix. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal auditing and financial reporting function;
 - x. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
 - xi. where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
 - xii. to review the Group's financial and accounting policies and practices;
 - xiii. to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
 - xiv. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
 - xv. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

CORPORATE GOVERNANCE REPORT

- xvi. to act as the key representative body for overseeing the Company's relations with the external auditor;
- xvii. to report to the Board on the matters set out above;
- xviii. to consider and implement other matters, as defined or assigned by the Board from time to time;
- xix. to formulate and review the corporate governance policies and practices of the Company and make recommendations to the Board;
- xx. to review and monitor the training and continuous professional development of Directors and senior management;
- xxi. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- xxii. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- xxiii. to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The audit committee currently consists of Mr. Chan King Fai, Mr. He Yunpeng and Mr. Zhang Xiongfeng. The chairman of the audit committee is Mr. Chan King Fai, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

Nomination Committee

The nomination committee was established on 24 January 2016 with terms of references in compliance with A.5.2 of the Code. The nomination committee should perform the duties, including but not limit to:

- i. review the structure, size, composition and diversity (including the sex, age, cultural and educational background, race, professional experience, skills, knowledge and term of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- ii. formulate the policies of nominating directors, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The committee shall consider an individual's strengths while seeking for suitable candidates and take into consideration of the composition diversity of the Board with an objective view;
- iii. assess the independence of independent non-executive Directors;
- iv. to review the Board's diversity policy in appropriate circumstances, the measurable goal set by the Board to implement the Board diversity policy, the progress in achieving such goal, as well as to disclose the review results in the Corporate Governance Report annually; and
- v. to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairman and the chief executive, taking into the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

The nomination committee consists of Mr. Zhang Yan, Mr. He Yunpeng and Mr. Zhang Xiongfeng. Mr. Zhang Yan is the chairman of the nomination committee.

CORPORATE GOVERNANCE REPORT

Directors' Responsibilities for the Financial Reporting

The Directors are responsible for the preparation of the financial statements for the year ended 31 December 2016.

The Board is responsible to present a balanced, clear and understandable assessment in the Company's annual and interim reports, price-sensitive announcement and other financial disclosures required under the GEM Listing Rules and other requirements from relevant regulations.

Senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information.

INTERNAL CONTROL

The Board is responsible for maintaining a good internal control system to protect the Group's assets and interest of Shareholders. The Board should review and ensure the effectiveness of the risk management and system of internal controls annually.

The system includes a well-established organizational structure with clearly defined lines of responsibility and authority. Particular department is responsible for the department's daily operation and accountable for its practices and performances, operates the department's business in accordance with the terms of references it delegated and implement and strictly complied the strategies and policies formulated by the Company from time to time. Each department must report to the Board in terms of the major development of its business and the progress of the implementation of strategies and policies that are formulated by the Board.

For the year ended 31 December 2016, the Board reviewed the effectiveness of the internal control of the Group, covering the finance, operation, compliance and risk management. The review was conducted by discussing with the Company's management officers, external auditors and internal auditors with review of audit committee. The Board believes the existing internal control is sufficient and effective.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONSHIP

The Company believes, effective communications with Shareholders and investors is essential to facilitate the Shareholders' understanding of the business performance and strategies of the Group. The Company also acknowledges the significance of the transparency of the company information and timely disclosure of such information so as to enable stakeholders and investors to make an informed investment decision.

The general meetings of the Company will provide a forum for communication between the Board and the Shareholders. The chairman of the Board and the chairmen of remuneration committee, audit committee, nomination committee, and in their absence, other members of these Board committees, attend general meetings to answer questions raised by Shareholders at the general meetings.

To facilitate effective communication, the Company establishes a website at www.firerock.hk to provide updated information of business development and operation, finance resources, corporate governance practices and other materials which are available for public inspection.

JOINT COMPANY SECRETARIES

Mr. Wei Dong and Mr. Chan Chin Wang Keith are our joint company secretaries.

For details of Mr. Wei Dong and Mr. Chan Chin Wang Keith, please refer to the section headed "Directors and Senior Management" in this report.

The two joint company secretaries of the Company took no less than 15 hours of relevant professional training during the reporting period.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the Directors' remunerations and the five individuals with the highest emoluments are disclosed in Note 13 to the financial statements in this annual report in accordance with the provisions in Chapter 18 of GEM Listing Rules.

INDEPENDENT AUDITOR'S REMUNERATION

BDO Limited, Certified Public Accountants, is appointed as the Company's auditor. The fees in relation to the auditing services provided by BDO Limited to the Group, amounted to approximately RMB0.4 million for the year ended 31 December 2016. There was no non-audit services provided during the reporting period.

MATERIAL CHANGES IN CONSTITUTIONAL DOCUMENTS

On 24 January 2016, the Articles of Association was adopted with effect from the date of Listing. Save as disclosed above, there was no change in the Articles of Association during the reporting period.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company has adopted shareholders communication policy with objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established a number of channels to communicate with the Shareholders as follows:

- (i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued in printed form and are available on the GEM website www.hkgem.com and the Company's website at www.firerock.hk;
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website;
- (iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and
- (v) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Joint Company Secretary
2201-2203,
22/F, World-Wide House
Central, Hong Kong

SHAREHOLDERS' RIGHT

As one of the measures to safeguard Shareholder's interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant Shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of Shareholders holding not less than one-tenth of the paid up capital of the Company or by such Shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article of Associations. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such Article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company at the principal place of business of the Company in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a leading game developer in the PRC, we believe corporate social responsibility is closely tied to our business decisions. We are committed to carrying out our operations in a sustainable way for the economy, society and environment at the same time balancing the needs of our Shareholders and providing valuable services for the society. Achieving the commitment is a major objective in our management and will also be the individual and collective responsibilities of all our employees.

POLICIES STATEMENT

The Group has incorporated the corporate social responsibility into its development strategies, governance structure, corporate culture and business development. It also decided to create an harmonious environment between the Shareholders, employees and the society, so as to lead the enterprise to embark on the journey of sustainable development. On the foundation of sufficient analysis on the marketing risk and opportunities, the Group has set several strategic targets on the corporate social responsibilities: “efficient operation, employees’ growth, win-win cooperation and contribution to the society” to ensure the sustainable development of the Group.

IMPROVEMENT IN CORPORATE GOVERNANCE

The Group believes in the improvement of corporate governance as an important factor to maintain the confidence of Shareholders and its sustainable development. Thus, the Group has always been improving its level of governance and developing an efficient internal control system. The asset security and the interests of the Shareholders can be ensured by guaranteeing the integrity and the efficiency of a series of implementation of the system.

The Group hired an independent consulting firm to evaluate the risks and internal control in various aspects such as the organization structure, operation and finance. Evaluation report is generated after the evaluation and provided as reference for the Group for improvements.

The Company is pleased to present its first annual Environmental, Social and Governance (“ESG”) Report (“ESG Report”) to demonstrate its commitment to sustainable development. This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (“the Guide”) of the Stock Exchange.

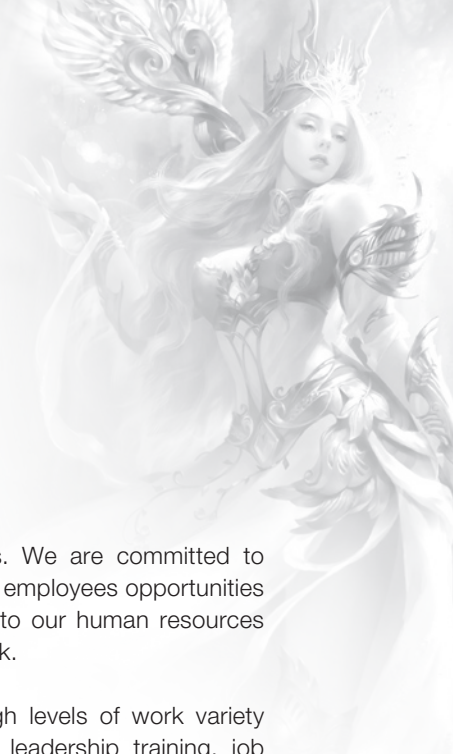
The Guide encourages an issuer to identify and disclose the aspects and key performance indicators of ESG information that is material and relevant to an issuer’s business. During the self-assessment of the Company’s business, the management has concluded 11 ESG aspects suggested by the Guide.

A. ENVIRONMENTAL

Emissions, use of resources and the environment and natural resources

In consideration of our industry characters, the Group has made plans, formulated standards, implemented, operated, reviewed and assessed matters relating to environmental management in order to perform responsibilities on environmental protection. In daily activities, our Group strictly controlled the use of water and electricity in office, actively took measures to encourage our staff to follow the environmental protection philosophy to save water and electricity and conduct waste separation. The Group promoted electronic informatization management to build “paperless” office.

With the implementation of the measures above, we believe the objectives of saving energy, reducing waste and preserving the environment can be achieved.



B. SOCIAL

Employment and Labour Practices

Employment and Labour Standards

Every employee of the Group is our key to maintaining our core competitiveness. We are committed to providing a rewarding work environment that encourages collaborations and offers our employees opportunities to learn, grow and succeed at work and in life. This commitment is incorporated into our human resources policy system, corporate social responsibility (“CSR”) policy and employee handbook.

We provide employees with training courses that facilitate career development, high levels of work variety and excellent career development opportunities, including skills development and leadership training, job rotation and secondment programs, and a “promotion from within” policy.

We have established a mechanism for employees to enhance their strengths and determine their career development prospects based on their annual work performance and personal development intention. Employees are developed on an individual basis and job rotation and employee-requested re-designation are provided with reference to the availability of staff and the requirement of the jobs. Priority is accorded to internal promotion in the filling of management, professional and technical vacancies, and the talent pooling system and team building are gradually enhanced as candidates are offered intense training and development in order to develop them into senior managers or professionals, in order to help employees realise their personal development and fulfill their career ambition.

We have established a comprehensive remuneration management system and the performances management system so that we become more competitive in selecting and recruiting our staff through a fair remuneration management and incentive mechanism. In addition, we provide discretionary bonus, commercial and social medical insurance and pension and purchase supplementary medical insurance on serious illnesses for our staff.

We strictly complied with the labour laws of the place of business, such as the Labour Law of the PRC, the Labour Contract Law of the PRC and the Employment Promotion Law of the PRC. We strictly adhere to the policies of national employment, provide the employees with various holidays and understand their needs. We support our people in effectively managing their work and life commitments through initiatives such as marriage and compassionate leave, in order to strike a better work-life balance and enhance their performance.

Maintaining good communication between the Company and its employees can create a better working atmosphere within the Company and open up channels, which lay a solid foundation for the establishment of the corporate culture. This sustains our industry leadership amid the situation where corporate culture has gradually become the core competitiveness of an enterprise. We encourage staff at all levels to express their views and make suggestions through a variety of channels. For instance, we have in place the “Creative Games Execution Proposal Evaluation System” to promote the innovation of our staff. Our intranet and internal newsletters keep employees up to date with business developments across the Group.

We also increase the sense of belonging of the employees and the enterprise cohesion by organizing different social, sports and recreation activities for them, including entertainment activities like board games, poker and table tennis competitions, birthday parties, parent-child activities and festival evenings.

We have been attracting talents by upholding a people-oriented, fair, just and open standard. We devoted to providing equal opportunities to all qualified candidates and to ensure that no employment discrimination is formed on the grounds of age (not employing anyone younger than sixteen years of age), nationality, race, religion, sexual orientation, sex, marital status, pregnancy, disability and political stances. Our corporate responsibility policies include provisions that deal with discrimination, harassment and victimization in the workplace.

We also actively uphold the legitimate rights and interests of female employees. Apart from the normal pregnancy check-ups leave, breast feeding leave and gynecological check-up leave, the Group held activities such as the “8th March International Women’s Day” and the “touring lunch on the Mother’s Day”, regular female employees sharing sections and career path planning program.

For situations in which an employee has violated the Group’s regulations, or whose performance is consistently below an acceptable level, a range of procedures to terminate their employment contract have been established. Terms and conditions for dismissal are outlined in our human resources policy system.

We aim to achieve the objectives of providing competitive benefits and a better working environment for our employees, while attracting and retaining talents with the implementation of the policies and measures above.

Health and Safety

We endeavor to guarantee the occupational health and safety of our employees, resolve the safety risks that causes impacts on the health of employees and ensure their safety conduct on work.

In 2016, we made further improvements on the “Occupational Health and Safety Management System” and standardized the career health and safety responsibility ordinance; eliminated the potential safety issues of the occupational health and safety; improved equipment and facilities; increased insurance inputs; monitored and evaluated safety measures regularly to create a safe working environment for our staff; conducted emergency drills with the property management unit; and carried out safety precautions training for the employees to avoid the occurrence of accidents. We also held occupational health courses for the leaders of the class and the mid- level managers to strengthen the occupational health and safety awareness, improve the skills of our members and develop a sharing platform to share the information of occupational health and safety.

Through this series of implementation, the Group did not encounter any serious safety accidents in 2016. We expect to reduce the occurrence of safety accidents every year gradually through a strict safety management system, equipment and education and reach the target of safety production.

Development and Training

Staff development is the impetus of the sustainable development of the enterprise business. Arranging ranges of training to improve the professional skills of employees, in addition to the meticulous excellence on work, we focused on their long-term career development. We ensure our staff at all levels to actively equip themselves and perform well at work and in life.



Operating Practices

Supply chain management

We maintain business relationships with over 20 suppliers that provide us with a wide variety of goods, equipment and services. Our suppliers are required to act responsibly and adhere to our ESG standards. We also offer encouragement and support to our suppliers in improving their own sustainability performance. Building trusting relationships with our suppliers helps us manage our potential environmental and social risk while enhancing the efficiency of our operations.

By formulating purchasing policies, we integrate social responsibility considerations into our purchasing decisions and promote sound practices in our supply chain. The policies enhance communications with our suppliers regarding their compliance with our standards and applicable local regulations governing ethical behavior, employment practices, health and safety, and the environment.

We have established a supplier assessment system which assesses our suppliers on areas such as their compliance of laws and regulations, upholding the human rights of workers, securing occupational health and safety and environmental protection when we evaluate our suppliers, so that we can select suppliers who meet our commitment in CSR.

We have further improved our procurement contracts that set out the provisions which shall be complied by our suppliers in environmental and social aspects.

Our Group conducts a yearly supplier performance review, targeting our major suppliers. Any unsatisfactory ratings are communicated to the relevant supplier(s) for rectification or improvement to ensure suppliers' commitment to CSR principles and appropriate supplier conduct, with the aim to monitor suppliers.

Product Responsibility

We are committed to providing game players with excellent free-to-play experience, and cooperating with licensed operators to ensure the game products and services we developed are safe and full of fun. We are in compliance with all applicable laws in health and safety standards, advertising and labels. Our goal is to give licensed operators confidence in our products and services and provide them with sufficient information to make informed decisions.

For the research and development of our game products, we have to ensure contents of our game products in several language versions are in compliance with laws and regulations of the countries in where licensed operators operate and respect local religions and customs, developing game products with positive effects. In view of the uniqueness of online game products and our commitment to social responsibility, we enter into cooperation with licensed operators of individual regions, such as Mainland China, to programme the "Real-Name Verification System to Prevent Online Gaming Addiction" in game products with an aim to prevent online gaming addiction in children and adolescents.

Game players may be free to play our games upon accepting and agreeing the conditions set out by us and licensed operators, and their information maintained in licensed operators' operational platforms and game products system through internet interface, namely registration, roles in game, value adding history, game experience, virtual items and premium features, is private and personal data of the game players. As such, we conduct technical matchmaking with licensed operators in licensing process and adopt related safety procedures and measures in order to prevent the information from leaking to other third party and ensure information security. We are of the view that privacy and safety of information is our key principle to our business operation. We are committed to be in compliance with all relevant law and regulation and implement

comprehensive procedures on privacy and safety of information so as to protect personal privacy. During the reporting period, the Group was not aware of any material breach of relevant law and regulation that would constitute significant impacts on the Group.

In relation to promotion and advertising of games by licensed operators, we closely monitor and supervise their compliance with relevant law and regulation. Terms and conditions on promotion and advertising of licensed games are set out in licensing agreement. The Group has not breached any law and regulation of promotion and advertising.

Provision of reliable services and products, proper technical support and resolution is our primary tasks. We satisfy the current and future demand from game players and licensed operators by constantly enhancing gaming experience of game players and optimising communication and coordination mechanism with licensed operators.

We place importance on feedbacks of game players and regard the same as golden opportunity for products enhancement. We have established various channels, including technical service center, service hotline, to maintain close contact with licensed operators, providing customer service officers of licensed operators with technical guidelines and assistance.

Anti-corruption

We are committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that all bribery and corruption cases are handled properly and recurrence of corruption is prevented to reduce operation and management risks.

We require Directors, senior management and staff members of the Group and its subsidiaries to act at high ethical standard.

We has an effective mechanism regarding bribery and corruption in any form or at any level in association with any aspect of the Group's activities.

Our employees are regularly advised of relevant policies and guidelines, including any updates or revisions. The employee induction process for new hires includes extensive guidance on anti-corruption measures. In addition, all employees are required to annually confirm that they have read and understand our anti-corruption and bribery policies. When new laws and regulations that may impact the business are introduced, we provide training to relevant staff to ensure compliance.

Persons in violation of our company policies and/or applicable laws and regulations may be subject to disciplinary or administrative action as well as civil or criminal liability. Where instances of non-compliance are confirmed, staff may be terminated or further actions may be taken. In 2016, no legal cases concerned with corrupt practices were brought against the Group or any of our subsidiaries or employees.

We have established effective procedures to ensure thorough investigation of all allegations of corruption — whether internal or involving third-party business partners. Investigation shall be internally conducted in accordance with our established "Procedures on Reporting Bribery and Corruption" and reported to the Board by general manager. Instances of improper action are addressed internally unless such matters indicate criminal activity, in which case we will immediately notify appropriate law enforcement agencies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We have established complaint channels through which employees and other parties can confidentially and/or anonymously report unethical and illegal behavior. We have adopted best practices with respect to whistle-blowing. Details of our whistle-blowing policy and procedures are published on public website. All whistle-blowing reports are investigated to the fullest extent possible and reported to the audit committee.

Community

Community Investment

We are committed to fostering positive relationships with the communities in which we operate, including by engaging in philanthropic and volunteer work to support their long-term development. By combining our resources and the passion of our volunteer team, we aim to address community concerns in collaboration with non-profit organizations, the government, private sector partners and academic institutions.

We encourage employees to pursue their personal passions and dedicate their time and skills to supporting local communities. In 2016, our staff members participated in a number of volunteer service and donation activity organised by non-governmental organisations, charity institutions and social service organisations on holidays and in their rest periods.

Charitable Donation

The Group made charitable donation of HK\$650,000 to the Community Chest for the year ended 31 December 2016.

OUTLOOK

The Company has not only strived for sustainable development by providing quality game products and experience to game players, but also fulfilling its corporate social responsibilities. In 2017, we will continue to enhance corporate governance and product quality while strengthening environmental protection, employee training and benefits and social care, in order to achieve sustainable development and harmonious coexistence of the society, economy and environment.

For details of governance, please refer to the section headed “Corporate Governance Report”.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

BOARD OF DIRECTORS

Our Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The term of service for Directors is three years, and Directors are permitted to be re-elected. Responsibilities of the Board include but are not limited to (i) convening general meetings, reporting on the Board's work at these meetings, implementing the Shareholders' resolutions passed at these meetings; (ii) determining business operation, financial, capital and investment plans; (iii) determining internal management structure, setting down fundamental management rules; (iv) appointing and discharging members of senior management, determining Directors' remuneration and formulating the proposals for profit distributions and for the increase or reduction of registered capital; and (v) taking responsibilities pursuant to the relevant laws, regulation and the Articles of Association.

DIRECTORS

Mr. ZHANG Yan (張岩)

Chairman and non-executive Director

Mr. Zhang Yan, aged 46, is our chairman and a non-executive Director. Mr. Zhang is responsible for supervising the overall management and strategy planning of our Group. Mr. Zhang has been our Director since November 2014 and was appointed as our chairman in March 2015.

Mr. Zhang has over 17 years of experience in the online game industry. Prior to joining our Group, from April 1997 to March 2010, he oversaw the development of several MMORPGs whilst working as the chief executive officer of Shenzhen Domain Computer Network Company Limited (深圳網域計算機網絡有限公司) ("Shenzhen Domain"), responsible for the overall operation and management. After that, Mr. Zhang explored his own business by investing in various companies conducting different lines of business.

Mr. Zhang is currently also a director of Fire Rock International and Shenzhen Fire Element.

Mr. Zhang received a diploma in computer communications from the Xidian University (西安電子科技大學) (Xi'an, the PRC) in July 1993.

DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG Yong (黃勇)

Executive Director and Chief Executive Officer

Mr. Huang Yong, aged 37, is our chief executive officer and an executive Director. Mr. Huang is responsible for formulating our corporate and business strategies and being responsible for our daily operations and management. Being one of the founders of the Group, Mr. Huang was appointed as the general manager and executive Director since November 2012. He is currently our Director since November 2014 and was appointed as our chief executive officer in March 2015.

Mr. Huang is experienced in software development, having worked in the industry since 2001. Prior to joining the Group, Mr. Huang worked as a project leader in Shenzhen Wellhope Multimedia Company Limited (深圳維豪多媒體有限公司) from July 2001 to December 2003 as project manager; as a chief programming officer in Shenzhen Domain from April 2004 to April 2007, responsible for game development; and as a general manager in Shenzhen Aoyouba Digital Interaction Technology Company Limited (深圳市敖游吧數字互動科技有限公司) (“Shenzhen Aoyouba”) from May 2007 to October 2010, responsible for game development.

Mr. Huang has participated in the design and development of a number of MMORPGs from 2004 to 2010. In designing these games, Mr. Huang was mainly responsible for the development and maintenance of the server architecture, communications layer, event servers, database engine and anti-hacker systems.

Mr. Huang is currently also a director of Shenzhen Fire Element.

Mr. Huang obtained a bachelor’s degree majoring in vehicle engineering from the Hunan University (湖南大學) (Changsha, the PRC) in July 2001.

Mr. WU Zhe (吳哲)

Executive Director and chief planning officer

Mr. Wu Zhe, aged 37, is our chief planning officer and an executive Director. Mr. Wu is responsible for formulating our corporate and business strategies, strategic planning and development of all games. Being one of the founders of the Group, Mr. Wu has worked as vice president of Shenzhen Fire Element responsible for game development since March 2011. He has been our Director since November 2014 and was appointed as our chief planning officer in March 2015.

Mr. Wu is experienced in game development. Prior to joining our Group, from October 2004 to January 2011, Mr. Wu worked at Shenzhen Domain as the chief designer and producer, and participated in the development of a number of online games.

Mr. Wu is currently also a director of Shenzhen Fire Element.

Mr. Wu obtained a bachelor’s degree in material science and engineering from the Shenzhen University (深圳大學) (Shenzhen, the PRC) in July 2002 and a master’s degree in software engineering from the South China University of Technology (華南理工大學) (Guangzhou, the PRC) in July 2004.

DIRECTORS AND SENIOR MANAGEMENT

Mr. RAO Zhenwu (饒振武)

Executive Director and chief technology officer

Mr. Rao Zhenwu, aged 35, is our chief technology officer and an executive Director. Mr. Rao is responsible for formulating our corporate and business strategies in relation to the development and operation of our online games as well as research and planning of new technology. Being one of the founders of the Group, Mr. Rao has worked as the chief technology officer of Shenzhen Fire Element since March 2011. He has been our Director since November 2014 and was appointed as our chief technology officer in March 2015.

Mr. Rao possesses over 10 years' extensive experience in software and server development and system maintenance. Prior to joining our Group, he worked as an information technology officer responsible for graphic design and internet maintenance and operation at Ningbo Oulitai Electronic Technology Company Limited (寧波歐利泰電子科技公司), from July 2003 to April 2004. Mr. Rao worked in Shenzhen Qiming Software Company Limited (深圳啟明軟件有限公司) from May 2004 to August 2005; in Shenzhen Domain from February 2006 to May 2007; and in Shenzhen Aoyouba from May 2007 to October 2010, each as a software engineer responsible for software and game development.

Mr. Rao is currently also a director of Shenzhen Fire Element.

Mr. Rao obtained a bachelor's degree in metallic material engineering from the Harbin University of Science and Technology (哈爾濱理工大學) (Harbin, the PRC) in July 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Fai (陳京暉)

Independent non-executive Director

Mr. Chan King Fai, aged 46, was appointed as an independent non-executive Director on 24 January 2016.

Mr. Chan has over 15 years of experience in accounting, taxation and company secretarial service. He is a practising certified public accountant in Hong Kong and is currently a partner of Lau Chan and Company.

Mr. Chan was an independent non-executive director of Heng Fai Enterprises Limited from August 2011 to July 2015 (stock code: 0185), which is listed on the Main Board of the Stock Exchange.

Mr. Chan obtained a master's degree in business administration from The University of Warwick (the United Kingdom) in April 2007 and a master's degree in accountancy from The Chinese University of Hong Kong (Hong Kong) in December 2000. He is a fellow member of the Association of Chartered Certified Accountants since July 2002, an associate member of the Hong Kong Institute of Certified Public Accountants since January 1998, an associate member of The Taxation Institute of Hong Kong since July 2000, an associate member of The Hong Kong Institute of Chartered Secretaries since June 2006 and an associate member of The Institute of Chartered Secretaries and Administrators since June 2006. Mr. Chan is currently a Certified Tax Adviser in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHANG Xiongfeng (張雄峰)

Independent non-executive Director

Mr. Zhang Xiongfeng, aged 48, was appointed as an independent non-executive Director of our Company on 24 January 2016.

Mr. Zhang Xiongfeng has worked in the banking and finance industry for over 20 years with management experience. He worked as a financial officer at the Shanghai representative office of Daiwa Securities Co. Ltd. from December 1994 to November 2004. After that, he worked as a vice president at Daiwa Securities SMBC Hong Kong Limited (which was renamed as Daiwa Capital Markets Hong Kong Limited in January 2010) since April 2005. He was promoted to a senior vice president in April 2008 and worked there until November 2010. From November 2010 to May 2012, he worked as a managing director and joint head of corporate finance of Oriental Patron Asia Limited. In the above jobs, he was responsible for corporate finance and management.

Mr. Zhang has been involved in the gaming industry. Since December 2013, he has been an executive director and the chairman of Interactive Entertainment China Cultural Technology Investments Limited (互娛中國文化科技投資有限公司, “China Cultural Technology”) (previously known as China Mobile Games and Cultural Investment Limited (中國手遊文化投資有限公司), stock code: 8081) which is listed on the GEM of the Stock Exchange. In addition, Mr. Zhang was a non-executive director of Something Big Technology Holdings Limited (大事科技控股有限公司, “Something Big”).

Mr. Zhang Xiongfeng obtained a bachelor’s degree of arts in German language awarded by the Shanghai International Studies University (上海外國語大學) (Shanghai, the PRC) in July 1990.

Mr. HE Yunpeng (何雲鵬)

Independent non-executive Director

Mr. He Yunpeng, aged 41, was appointed as an independent non-executive Director on 24 January 2016.

Mr. He has extensive management experience in the software industry. Between August 2003 to September 2009, Mr. He established Shanghai Wangdun Information Technology Company Limited (上海網盾信息技術有限公司, “Shanghai Wangdun”), and had been its executive director since its establishment. From September 2008 to August 2011, he worked as a senior marketing controller of Fujian Tianqing Digital Company Limited (福建天晴數碼有限公司) responsible for game development. From August 2011 to August 2012, Mr. He was allocated to Fujian Borui Network Technology Company Limited (福建博瑞網絡科技有限公司) and was responsible for the development and operation management of a community website for smartphone users, 91.com (百度91無線). Since August 2012, Mr. He is a general manager of Jiangsu Bode Websoft Technology Company Limited (江蘇博得網絡科技有限公司), which focuses on development and operation of mobile software products in the PRC. In April 2014, Mr. He established Chengdu Tianxiang Interaction Technology Company Limited (成都天象互動科技有限公司, “Chengdu Tianxiang”) with others and has been its executive director and general manager since its establishment.

Mr. He obtained a bachelor’s degree of engineering majoring in architecture engineering from the Shanghai Jiao Tong University (上海交通大學) (Shanghai, the PRC) in July 1998.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our Company's business.

Mr. WEI Dong (衛東)

Chief financial officer and joint company secretary

Mr. Wei Dong, aged 48, is our chief financial officer. Mr. Wei is responsible for the daily management and operations; assisting the chief executive officer in financial planning and responsible for administration of the Board's matters. Mr. Wei joined our Group in September 2014 as the chief financial officer of Shenzhen Fire Element. In March 2015, Mr. Wei was appointed as the chief financial officer and joint company secretary of our Company.

Mr. Wei possesses over 27 years of experience in the accounting and finance industry. Mr. Wei commenced his career as an accounting and finance work staff at the Shaanxi Aircraft Manufacturing Corporation (陝西飛機製造公司) (restructured in 1999 as Shaanxi Aircraft Industry (Group) Corporation Ltd. (陝西飛機工業(集團)有限公司)) in August 1988 until May 1996, responsible for accounting and auditing works. Mr. Wei then worked as an auditing staff in Shenzhen Tianjian Xinde Accounting Firm (深圳天健信德會計師事務所), responsible for accounting and auditing works from August 1996 to October 2001; as chief auditor and partner in Shenzhen Changcheng Accounting Firm Company Limited (深圳市長城會計師事務所有限公司) from November 2001 to September 2009 and from June 2012 to May 2013, responsible for accounting and auditing works; and in Beijing Xinghua Accounting Firm Company Limited (北京興華會計師事務所有限責任公司) from October 2009 to April 2012 as a senior audit manager, responsible for accounting and auditing works. Mr. Wei worked as the chief financial officer in Hangzhou Green Valley from June 2013 to August 2014 responsible for financial control and corporate finance.

Mr. Wei is currently a director of Fire Rock (HK) and Shenzhen Fire Element.

Mr. Wei obtained a college diploma of accounting from Shaanxi Financial and Economic Institute (陝西財經學院) (Xi'an, the PRC) (now the School of Finance and Economics of Xi'an Jiaotong University (西安交通大學經濟與金融學院)) in December 1993. Mr. Wei is a Certified Public Accountant (中國註冊會計師) of the Chinese Institute of Certified Public Accountants since October 1999 and Judicial Accounting Expert (司法會計鑒定人).

Mr. XU Jing (徐憬)

Head of Project Development

Mr. Xu Jing, aged 33, is our head of Project Development. Mr. Xu is responsible for daily management and is responsible for the supervision of the development of our games. Mr. Xu has worked as the chief artist of Shenzhen Fire Element since its establishment in March 2011 and was appointed as the chief arts officer of Shenzhen Fire Element in March 2011.

Mr. Xu possesses many years of experience in the anime industry. Prior to joining the Group, Mr. Xu worked at Shenzhen Aoyouba as a departmental manager from September 2009 to March 2011, responsible for graphic designs of animations.

DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG Liming (黃黎明)

Chief marketing officer

Mr. Huang Liming, aged 29, is our chief marketing officer. Mr. Huang Liming is responsible for marketing of games, co-ordination with licensed operators and the on-going relationship with licensed operators. He joined our Group in December 2011 as the manager of browser games management and was appointed as the project manager of our Kings & Legends (王者召喚) series of games in July 2013. He was appointed as the chief operation officer of Shenzhen Fire Element in August 2014.

Mr. Huang Liming possesses over 7 years of experience in the online games industry. Prior to joining our Group, he worked at Shenzhen Domain from July 2008 to March 2011 as a customer service representative and an operational support officer subsequently. From April 2011 to November 2011, he worked at 7Road Technology as an operational officer and was responsible for the planning and operation of an online game in both the local and overseas markets.

Mr. Huang Liming obtained a diploma in animation design and production from Hunan Software Vocational Institute (湖南軟件職業學院) (Xiangtan, the PRC) in June 2010.

Mr. XIANG Bin (向斌)

Chief information officer

Mr. Xiang, aged 34, is our chief information officer. Mr. Xiang is responsible for the maintenance of database and systems, and assisting the chief technology officer in the research and planning of new technology. Mr. Xiang joined our Group in December 2011 as chief database officer of Shenzhen Fire Element.

Mr. Xiang possesses over 9 years of experience in the computing industry. From April 2006 to April 2007, Mr. Xiang worked at Beijing Network Technology Development Company Limited (北京新網科技發展有限公司) and was responsible for the development of web pages in the IT industry. Mr. Xiang worked at Shenzhen Domain from December 2007 to April 2011 and was responsible for the development of web pages and databases, together with the design of the webpage framework.

Mr. Xiang obtained a diploma of computer information management from Hunan International Economics University (湖南涉外經濟學院) (Changsha, the PRC) in June 2004 and a diploma in computer application technology from Hunan University of Science and Technology (湖南科技大學) (Xiangtan, the PRC) through attending distance learning courses in July 2014.

He also participated in the Tests of the National Computer Information Technology (全國計算機信息高新技術考試) in 2003 and 2006, attaining, respectively, level four of National Occupational Qualification (國家職業資格四級) for image and graphic treatment (Photoshop system) and level three of National Vocational Qualifications (國家職業資格三級) for computer programming.

Mr. CHEN Xuan (陳璇)

Head of Project Support

Mr. Chen Xuan, aged 31, is our head of Project Support. Mr. Chen is responsible for game development support and assisting the chief planning officer in strategic planning of all games. Mr. Chen has worked in our Group since its establishment in March 2011 as online games designer and project manager of our Kings & Legends (王者召喚) series of games. Since March 2015, Mr. Chen has been appointed as head of Project Support.

Mr. Chen obtained a bachelor's degree majoring in labour and social security from the Zhongnan University of Economics and Law (中南財經政法大學) (Hubei, the PRC) in June 2007.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Wei Dong and Mr. Chan Chin Wang Keith are our joint company secretaries.

Mr. WEI Dong (衛東), one of our joint company secretaries, is also a member of our senior management. Mr. Wei was appointed as one of the joint company secretaries of our Company with effect on 24 January 2016. For further information of Mr. Wei Dong, please refer to the sub-section headed “Senior management — Mr. Wei Dong (衛東)” in this section.

Mr. Chan Chin Wang Keith (陳展泓) is an associate of Messrs. Li & Partners since January 2012. He was admitted as a solicitor of the High Court of Hong Kong in January 2003. He was appointed as one of the joint company secretaries of our Company in March 2015 with effect upon the Listing.

Mr. Chan obtained a Bachelor of Laws degree in November 1998 from the City University of Hong Kong (Hong Kong) and a Master of Laws degree in Chinese Law from The University of Hong Kong (Hong Kong) in December 2005. He was appointed as the joint company secretary of Amax Holdings Limited (Stock Code: 959) in August 2009 and had been appointed as its sole company secretary from November 2009 to June 2010. He was also appointed as the joint company secretary of Dongwu Cement International Limited (Stock Code: 695) from May 2012 to March 2014. Mr. Chan is currently a senior associate of Messrs. Li & Partners, a practising law firm in Hong Kong. He is not an employee of our Company and he provides services to our Company as an external service provider.

COMPLIANCE OFFICER

Mr. Wu Zhe (吳哲) was appointed as the compliance officer of the Company in March 2015. For further details, please refer to the sub-section headed “Directors — Mr. Wu Zhe (吳哲)” above in this section.

DIRECTORS' REPORT

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is mainly engaged in the development of browser and mobile games, as well as licensing game products to other well-established game operators with the right to exclusively/non-exclusively operate, publish and distribute specific games within an agreed period and within designated territories.

For the principal activities and other details of the subsidiaries of the Company, please refer to note 25 to the financial statements. The principal business of the Group has no material changes in nature during the year ended 31 December 2016.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the financial statements on page 7 of this annual report.

FINAL DIVIDEND

The Directors do not recommend payment of any final dividend for the year ended 31 December 2016.

BUSINESS REVIEW

While global games market was competitive during the year under review, the entire games industry delivered outstanding performance, in particular the growth in mobile device games. During the Reporting Period, in addition to maintenance of the existing browser games, the Group has concentrated resources to commercially launch four series of games, namely 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), for expanding our games portfolio. Details of the business review are set out in the sections headed, "Management Discuss and Analysis" and "Environmental, Social and Governance Report" in this report.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company proposes to hold the Annual General Meeting on 30 June 2017 (Friday), and the notice of the Annual General Meeting will be sent to the Company's Shareholders in due course.

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 29 June 2017 (Thursday) to 30 June 2017 (Friday) (both days inclusive), during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 28 June 2017 (Wednesday).

SHARE CAPITAL

For the year ended 31 December 2016, details of the movements in share capital of the Company during the year are set out in the note 20 to the financial statements.

DIRECTORS' REPORT

RESERVES

For the year ended 31 December 2016, details of the changes in the reserves of the Group are set out in the consolidated statement of changes in equity and note 21 to the financial statements.

USE OF PROCEEDS FROM PLACING

The Company's shares were listed on the GEM of the Stock Exchange on 18 February 2016 and net proceeds from the Placing was approximately HK\$28.9 million. During the year, the Group used approximately HK\$3.7 million for development of new game series, approximately HK\$2.1 million for continual optimisation of the Group's existing games on various platforms and approximately HK\$1.5 million for its working capital and other general corporate purposes.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the distributable reserves of the Company approximately amounted to RMB47.8 million, which was not recommended to be the payment of a final dividend for the year by the Company.

MAJOR CUSTOMERS AND SUPPLIERS

Our major customers are licensed operators. For the year ended 31 December 2016, the revenue contributed from our five largest licensed operators accounted for approximately 78.9% of our total revenue, while our single largest licensed operator contributed approximately 32.8% of our total revenue.

Our major suppliers include companies which provided outsourced services such as part of the graphic design and audio production of sound effects and background music of our games in the game research and development activities and also in their subsequent updates and enhancements as well as server data centre and bandwidth service providers. For the year ended 31 December 2016, purchases from our five largest suppliers accounted for approximately 99.2% of our total purchases, while purchases from our single largest suppliers accounted for approximately 49.0% of our total purchases.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's four largest operators or suppliers.

FINANCIAL HIGHLIGHTS

A summary of the published results and of the assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, was set out on page 7 in the annual report. The summary does not form part of the audited financial statements of the Group.

BUSINESS REVIEW AND RISK FACTORS FACED BY THE COMPANY AND THE RESPONSE STRATEGIES

Details of the business review and risk factors faced by the Company as well as the response strategies are set out in the "Management Discussion and Analysis" section of this annual report, and form part of the "Directors' Report".

CHARITY DONATION

For the year ended 31 December 2016, the Group has donated HK\$650,000 to the Community Chest.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2016, details of the changes in property, plant and equipment during the year are set out in the note 14 to the financial statements.

BORROWING

For the year ended 31 December 2016, the Group did not have any bank or other borrowing.

CONTINGENT LIABILITIES

As of 31 December 2016, the Group did not have any material contingent liabilities.

SUFFICIENT PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is sufficient public float of the Company's securities as required under the GEM Listing Rules for the reporting period.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the articles or the laws of the Cayman Islands, and no restrictions exist which oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into service contract with the Company for a term of three years commencing on 18 February, 2016, and is subject to termination by either party giving not less than three months' written notice. Each of the independent non-executive Director and the non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing on 18 February, 2016, and is subject to termination by either party giving not less than three months' written notice. Such appointments are subject to retirement by rotation provisions in the Articles of Association.

No Director proposed for re-election at the forthcoming Annual General Meeting has a non-expired service contract with the Company or any subsidiaries, which is not determinable by the Company or any subsidiaries within one year without payment of compensation (other than statutory compensation).

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS' INDEPENDENCE

According to the provision 5.09 of GEM Listing Rules, the Company has received a confirmation from each of the independent non-executive Directors in respect of their independence. The Company has reviewed the independence of aforementioned Directors. We consider that all independent non-executive Directors are being considered to be independent.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

- (a) 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
- (b) which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or
- (c) 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 Shares ¹	Percentage of Shareholdings
Zhang Yan ²	Interest in controlled corporation	58,800,000	36.75%
Wu Zhe ³	Interest in controlled corporation	19,200,000	12.00%
Huang Yong ⁴	Interest in controlled corporation	19,200,000	12.00%
Rao Zhenwu ⁵	Interest in controlled corporation	19,200,000	12.00%

Notes:

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 Limited by virtue of the SFO.

Save as disclosed above, as on 31 December 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 Stock Exchange.

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 the date of Listing, 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 Shares ¹	Percentage of shareholding
Sulfulon International Limited	Beneficial owner	58,800,000	36.75%
Zhang Yan ²	Interest of controlled corporation	58,800,000	36.75%
Ms. Zheng Xin (鄭鑫) ³	Interest of spouse	58,800,000	36.75%
R&P Global Limited	Beneficial owner	19,200,000	12.00%
Wu Zhe ⁴	Interest of controlled corporation	19,200,000	12.00%
Ms. Xu Yao (徐瑤) ⁵	Interest of spouse	19,200,000	12.00%
Raglon International Limited	Beneficial owner	19,200,000	12.00%
Huang Yong ⁶	Interest of controlled corporation	19,200,000	12.00%
Ms. Pan Li (潘莉) ⁷	Interest of spouse	19,200,000	12.00%
Meteor Technology International Limited	Beneficial owner	19,200,000	12.00%
Rao Zhenwu ⁸	Interest of controlled corporation	19,200,000	12.00%
Ms. Chen Xuanqi (陳煇祺) ⁹	Interest of spouse	19,200,000	12.00%

Notes:

- All interests stated are long positions.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.

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

The Shares was 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 year ended 31 December 2016.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

None of the Directors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year ended 31 December 2016.

INTEREST OF DIRECTORS IN COMPETING BUSINESS

Mr. Zhang Xiongfeng has been involved in the gaming industry. Since December 2013, he has been an executive director and the chairman of Interactive Entertainment China Cultural Technology Investments Limited (互娛中國文化科技投資有限公司, "China Cultural Technology") (previously known as China Mobile Games and Cultural Investment Limited (中國手遊文化投資有限公司), stock code: 8081) which is listed on the GEM of the Stock Exchange. To the best knowledge, information and belief of our Directors after having made reasonable enquiries, Mr. Zhang, directly or indirectly, owned more than 5% but less than 20% of shares of China Cultural Technology (including such interests in shares by way of rights issue and by way of share options). China Cultural Technology is principally engaged in (i) mobile internet cultural business and provision of IT services; (ii) provision of integral marketing services; (iii) provision of medical diagnostic and health check services; (iv) provision of hospitality and related services in Australia; (v) money lending business; and (vi) assets investments business. Its mobile-online game business includes investment in companies which engage in design, development, marketing, distribution and operation of mobile-online games, as well as the design and development of a zuma-type RPG mobile-online game, which are competing with us or being regarded as potentially competing with us.

In addition, Mr. Zhang is a non-executive director of Something Big Technology Holdings Limited (大事科技控股有限公司, "Something Big") and was interested in the share capital of Something Big as to approximately 1% by way of options granted under a share option scheme adopted by Something Big. China Cultural Technology is also interested in approximately 28.8% of the share capital of Something Big. Something Big is a PRC mobile game developer and operator, the business of which is also competing or being regarded as potentially competing with us.

Save as disclosed above and for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2016.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the share option scheme ("Share Option Scheme") conditionally adopted by our Company on 24 January 2016. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 23 of the GEM Listing Rules.

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the eligible participants have had or may have made to the Group. The scheme is valid and effective for a period of ten years commencing from the date of adoption of the scheme.

Eligible participants of the Share Option Scheme include:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non executive Directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:
 - (aa) contribution to the development and performance of the Group;
 - (bb) quality of work performed for the Group;
 - (cc) initiative and commitment in performing his/her duties; and
 - (dd) length of service or contribution to the Group.

As at 31 December 2016, the total number of Shares available for issue under the scheme is 16,000,000 Shares, representing 10% of the issued share capital of the Company. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the "Cancelled Shares") to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular and the approval of the Shareholders in general meeting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

DIRECTORS' REPORT

Upon acceptance of an option to subscribe for shares granted pursuant to the scheme (the "Option"), the eligible participant shall pay HK\$1.00 to the Company as consideration for the grant. The subscription price for the Shares subject to Options will be a price determined by the Board and notified to each participant and shall be the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the Options, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant of the Options; and
- (iii) the nominal value of a Share.

No share option has been granted as at the date of this report and since the adoption of the scheme.

CONNECTED TRANSACTIONS

The Company has not entered into any connected transactions for the year ended 31 December 2016.

NON-COMPETITION UNDERTAKING OF DIRECTORS

Each of the executive Directors has undertaken that, among other things, shall not, and shall procure that his/its associates shall not, among other things:

- a) directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) (i) the current and potential business engaged or to be engaged by our Group, including but not limited to the development of electronic/online games and/or (ii) any other new business that our Group may undertake from time to time after the Listing (collectively the "Restricted Business") and where they become aware of such engagement of the Restricted Business they shall notify our Company forthwith;
- b) solicit or procure any of the suppliers and/or the customers of our Group from time to time to terminate their business relationships or otherwise reduce the amount of business with our Group;
- c) solicit or procure any of the directors, senior management or other employees of our Group from time to time to resign or otherwise cease providing services to our Group; and/or
- d) unless with the prior written consent of our Company, disclose any confidential information of our Group to any other third parties, including but not limited to, customers list and supplier list.

Each of the executive Directors confirmed that he/she has fulfilled the above non-competition undertakings from the date of Listing to the year ended 31 December 2016.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Appropriate Directors' liability insurance cover has been arranged by the Company to indemnify the Directors for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are reviewed annually.

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 Company pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the Corporate Governance Code. Save as disclosed in this annual report, the Company has complied with all the code provisions under the Corporate Governance Code from the date of Listing to the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to reappoint BDO Limited as auditor of the Company until the conclusion of the next annual general meeting.

REVIEW BY AUDIT COMMITTEE

The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2016 and made recommendations and advice.

By order of the Board

Zhang Yan

Chairman

Hong Kong, 27 March 2017

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF FIRE ROCK HOLDINGS LIMITED

火岩控股有限公司

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Fire Rock Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 62 to 100, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of intangible assets

(Refer to note 15 to the consolidated financial statements and the Group's critical accounting judgements and key sources of estimation uncertainty in relation to impairment of intangible assets set out in note 5(ii))

The carrying value of the Group's development costs recognised as intangible assets as at 31 December 2016 was RMB1,633,738 (2015: RMB5,673,825). Management has performed an impairment review in accordance with Hong Kong Accounting Standard ("HKAS") 36 "Impairment of Assets". The recoverable amounts are determined based on value in use calculations, which included significant assumptions and judgements made by management concerning the estimated future cash flows.

INDEPENDENT AUDITOR'S REPORT

Our response:

Our procedures in relation to management's impairment assessment of development costs included:

- Checking the mathematical accuracy of the value in use calculations;
- Discussing with senior management to understand the cash flow projection and key assumptions;
- Assessing the reasonableness of key assumptions for:
 - growth rate based on our knowledge of the business and industry and by considering the historical performance achieved;
 - discount rate used in the calculation based on the market data and research; and
- Performing sensitivity analysis including assessing the effect of a reasonably possible change in discount rate.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Leung Tze Wai
Practising Certificate Number P06158

Hong Kong, 27 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB	2015 RMB
Revenue	7	44,976,635	30,062,366
Direct costs		(7,379,397)	(6,250,510)
Gross profit		37,597,238	23,811,856
Other income	7	2,565,342	2,795,547
Game research costs		(634,773)	(207,902)
Distribution costs		(768,320)	(1,512,472)
Administrative expenses		(12,827,467)	(14,079,622)
Profit before income tax	8	25,932,020	10,807,407
Income tax expense	9	(3,910,050)	(2,078,224)
Profit for the year		22,021,970	8,729,183
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		2,058,966	605,624
Other comprehensive income for the year		2,058,966	605,624
Total comprehensive income for the year		24,080,936	9,334,807
Profit attributable to:			
Owners of the Company		22,021,970	8,729,183
Total comprehensive income attributable to:			
Owners of the Company		24,080,936	9,334,807
Earnings per share		RMB cents	RMB cents
Basic and diluted	11	14.23	7.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	2016 RMB	2015 RMB
Non-current assets			
Property, plant and equipment	14	1,556,933	1,924,636
Intangible assets	15	7,622,667	9,536,376
		9,179,600	11,461,012
Current assets			
Trade receivables	16	13,217,121	10,825,753
Prepayment, deposits and other receivables		687,993	4,226,636
Short-term bank deposits	17	10,000,000	—
Cash and cash equivalents	17	70,105,578	19,364,920
		94,010,692	34,417,309
Current liabilities			
Trade and other payables	18	1,901,447	4,264,197
Deferred revenue	19	3,313,956	3,410,259
Tax payables		1,430,067	964,538
		6,645,470	8,638,994
Net current assets		87,365,222	25,778,315
Total assets less current liabilities		96,544,822	37,239,327
Non-current liability			
Deferred revenue	19	336,171	1,480,761
Net assets		96,208,651	35,758,566
EQUITY			
Share capital	20	1,347,236	1
Reserves	21	94,861,415	35,758,565
Total equity		96,208,651	35,758,566

On behalf of the board of directors

Huang Yong
Director

Wu Zhe
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium*	Capital reserve*	Merger reserve*	Statutory reserve*	Dividend reserve*	Foreign exchange reserve*	Retained profits*	Total
	(note 21(a))	(note 21(b))	(note 21(c))	(note 21(d))					
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 January 2015	10,000,001	—	—	—	2,618,482	5,000,000	—	2,604,016	20,222,499
Profit for the year	—	—	—	—	—	—	—	8,729,183	8,729,183
Other comprehensive income for the year:									
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	605,624	—	605,624
Total comprehensive income for the year	—	—	—	—	—	—	605,624	8,729,183	9,334,807
Appropriation to statutory reserve	—	—	—	—	1,714,757	—	—	(1,714,757)	—
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 (note 10)	—	—	—	—	—	(5,000,000)	—	—	(5,000,000)
At 31 December 2015	1	—	11,201,260	10,000,000	4,333,239	—	605,624	9,618,442	35,758,566
At 1 January 2016	1	—	11,201,260	10,000,000	4,333,239	—	605,624	9,618,442	35,758,566
Profit for the year	—	—	—	—	—	—	—	22,021,970	22,021,970
Other comprehensive income for the year:									
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	2,058,966	—	2,058,966
Total comprehensive income for the year	—	—	—	—	—	—	2,058,966	22,021,970	24,080,936
Appropriation to statutory reserve	—	—	—	—	2,865,325	—	—	(2,865,325)	—
Capitalisation issue (note 20 (c))	1,011,899	(1,011,899)	—	—	—	—	—	—	—
Placing (note 20 (d))	335,336	42,587,672	—	—	—	—	—	—	42,923,008
Share issuance expenses (note 20 (d))	—	(6,553,859)	—	—	—	—	—	—	(6,553,859)
At 31 December 2016	1,347,236	35,021,914	11,201,260	10,000,000	7,198,564	—	2,664,590	28,775,087	96,208,651

* The aggregate balances of these reserve amounts of RMB94,861,415 and RMB35,758,565 are included as reserves as at 31 December 2016 and 2015 respectively in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB	2015 RMB
Cash flows from operating activities		
Profit before income tax expense	25,932,020	10,807,407
Adjustments for:		
Amortisation of intangible assets	5,278,759	2,339,913
Depreciation of property, plant and equipment	640,887	321,299
Interest income	(278,141)	(170,096)
Loss on disposal of property, plant and equipment	—	1,904
Write-off of property, plant and equipment	—	4,238
Operating profit before working capital changes	31,573,525	13,304,665
Increase in trade receivables	(2,385,748)	(6,418,339)
Decrease/(Increase) in prepayments, deposits and other receivables	3,628,296	(3,660,862)
(Decrease)/Increase in trade and other payables	(2,451,671)	3,261,877
(Decrease)/Increase in deferred revenue	(1,359,479)	2,954,471
Cash generated from operating activities	29,004,923	9,441,812
Tax paid	(3,438,014)	(1,113,686)
Net cash generated from operating activities	25,566,909	8,328,126
Cash flows from investing activities		
Interest received	278,141	170,096
Additions of intangible assets	(3,365,050)	(5,874,075)
Increase of short-term bank deposits	(10,000,000)	—
Proceeds from disposal of property, plant and equipment	—	11,624
Purchases of property, plant and equipment	(273,184)	(1,950,327)
Net cash used in investing activities	(13,360,093)	(7,642,682)
Cash flows from financing activities		
Proceeds from issuance of shares upon listing	42,923,008	—
Share issue expenses	(6,553,859)	—
Capital contribution from shareholders (note 21(b))	—	11,201,260
Decrease in amount due to a related company	—	(2,746,888)
Dividend paid to shareholders of a subsidiary	—	(5,000,000)
Net cash generated from financing activities	36,369,149	3,454,372
Net increase in cash and cash equivalents	48,575,965	4,139,816
Cash and cash equivalents at beginning of the year	19,364,920	14,619,480
Effect of foreign exchange rate changes	2,164,693	605,624
Cash and cash equivalents at end of the year	70,105,578	19,364,920
Analysis of cash and cash equivalents		
Cash at banks and on hand	49,705,578	19,364,920
Short-term bank deposits with original maturity of less than three months	20,400,000	—
	70,105,578	19,364,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 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, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business in the People’s Republic of China (the “PRC”) is located at 4/F, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, Guangdong, the PRC.

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.

In connection with the listing of the shares of the Company on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company underwent a reorganisation (the “Reorganisation”) and has become the holding company of its subsidiaries now comprising the Group since 5 May 2015. The shares of the Company were listed on the GEM of the Stock Exchange on 18 February 2016.

The financial statements for the year ended 31 December 2016 were approved and authorised for issue by the board of directors on 27 March 2017.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new or revised HKFRSs — effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to Hong Kong Accounting Standard (“HKAS”) 1	Disclosure Initiatives
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The adoption of these new or amended HKFRSs has no impact on these financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(b) *New or revised HKFRSs that have been issued but are not yet effective*

The following new or revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKFRS 15 — Revenue from Contracts with Customers

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(b) *New or revised HKFRSs that have been issued but are not yet effective (continued)*

HKFRS 9 — Financial Instruments (continued)

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 16 — Leases (continued)

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors are not yet in a position to state whether the application of these new pronouncements will have material impact on the Group’s financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the “HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of measurement

The financial statements have been prepared under historical costs basis. The measurement bases are fully described in the accounting policies in note 4.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollars (“HK\$”). However, the financial statements are presented in Renminbi (“RMB”) instead of its functional currency as RMB is the principal currency of the economic environment on which the Group operates.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *Subsidiaries*

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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 Group 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 recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Office equipment	3 years
Furniture and fixtures	5 years
Leasehold improvement	Over the lease term

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4(l)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Intangible assets

(i) Game intellectual properties

Game intellectual properties are initially recorded at cost and included in internally generated intangible assets (i.e. capitalised development costs as detailed in note 4(d) (ii) below) that are available for use. These intangible assets are amortised on a straight-line basis over their license periods or estimated useful lives of respective game intellectual properties.

(ii) Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities (relating to the design and testing of new or improved products) are recognised as intangible assets provided that they meet the following recognition requirements:

- (1) demonstration of technical feasibility of completing the prospective product for internal use or sale;
- (2) there is intention to complete the intangible asset and use or sell it;
- (3) the Group's ability to use or sell the intangible asset is demonstrated;
- (4) how the intangible asset will generate future economic benefits through internal use or sale;
- (5) sufficient technical, financial and other resources are available for completion and to use or sell the intangible asset; and
- (6) the expenditure attributable to the intangible asset during its development can be reliably measured.

As mentioned in note (i) above, capitalised development costs are transferred to game intellectual properties for amortisation when the intangible assets are available for use. The Group initially determines the useful lives of its game intellectual properties based on the contracted period of license granted to the Group's licensed operators (the "Licensed Operators") which is normally 2 years and subsequently reviews the estimated useful lives on a periodic basis. The useful lives of particular game intellectual properties will be extended if that game intellectual properties are popular resulting in extension of existing licensing agreements or more licensing agreements being granted to the Licensed Operators.

Development expenditure not satisfying the above criteria and expenditure on the research phase of the projects are recognised in profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) *Financial instruments*

(i) **Financial assets**

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset is acquired. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sales of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets 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 and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) **Impairment loss on financial assets**

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Financial instruments (continued)*

(ii) **Impairment loss on financial assets (continued)**

An impairment loss on loan and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) **Financial liabilities**

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Financial instruments (continued)*

(vi) **Derecognition**

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(g) *Revenue recognition*

- (i) The Group engaged in browser and mobile games development, including the game design, programming and graphics and licensing of its developed games in China and overseas markets. The Group's revenue is principally derived from granting the exclusive and non-exclusive rights of the self-developed games to the Licensed Operators and sharing of game revenue with the Group's Licensed Operators ("License fees and Royalties").

The Group's self-developed browser and mobile games are designed under free-to-play model. These games are operated directly by the Licensed Operators on their own platforms as well as third party internet platforms, subject to the contractual terms agreed with them. Moreover, the Licensed Operators are responsible for hosting the games, providing customers' services to game players, determining the selling price of the in-game token, selection of distribution and payment channels and preventing, detecting and resolving cheating and hacking activities. The Group has evaluated and determined it is not the primary obligor in the rendering services to game players. Accordingly, the Group considers the Licensed Operators as their customers and the License fees and Royalties reported in the financial statements are net of taxes and related surcharges.

The Group receives License fees and Royalties from the Licensed Operators for the provision of the license to operate the game. License fees represented the upfront fee from its Licensed Operators in exchange for exclusive operating rights of the Group's self-developed games in certain regions and providing related technical support. License fees are recognised on a straight-line basis over the contracted license period. Royalties are calculated monthly based on a pre-determined percentage of net sales of credits of the Licensed Operators which have been exchanged into in-game tokens purchased through platforms designated by the Licensed Operators and typically unaffected by the marketing discounts on the prices of credits offered by the Licensed Operators. On the other hand, the Group can access in-game accounts for the data of game player's purchase activity to estimate the royalties which is recognised when the Licensed Operators confirm their sales activities for the period.

- (ii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(h) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and are subject to an insignificant risks of change in value.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Income taxes*

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(j) *Foreign currency*

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statement, the assets and liabilities of the Company and certain subsidiaries are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee benefits

(i) Retirement benefit costs

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of employees' salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss when the services are rendered by the employees. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

(ii) Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(l) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of the group of which it is a part, provides key management personnel services to the Group or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, 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 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 addition to information disclosed elsewhere in this consolidated financial statements, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Estimated useful lives of property, plant and equipment and intangible assets

The Group's management determines the useful lives and the related depreciation or amortisation charges for its property, plant and equipment and intangible assets. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation or amortisation charges where useful lives are subsequently assessed to be less than previously estimated lives. It will write off or write down the technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from the estimated useful lives. Periodic review could result in a change in depreciable or amortisable lives and therefore affect the depreciation or amortisation charges in future periods.

As mentioned in note 4(d)(ii), the Group initially determines the useful lives of its game intellectual properties based on the contracted period of license granted to the Group's Licensed Operators which is normally 2 years and subsequently reviews the estimated useful lives on a periodic basis.

The useful lives of particular game intellectual properties will be extended if that game intellectual properties are popular resulting in extension of existing licensing agreements or more licensing agreements being granted to the Licensed Operators.

(ii) Impairment of intangible assets

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of value in use and fair value less costs of disposal. These calculations require the use of judgements and estimates.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(ii) *Impairment of intangible assets (continued)*

Management judgement is required in the area of asset impairment particularly in assessing: (a) whether an event has occurred that may indicate that the related asset values may not be recoverable; (b) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (c) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

(iii) *Impairment of property, plant and equipment*

The Group assesses whether there are any indicators of impairment for property, plant and equipment at the end of each reporting period. The property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposal of the asset. When value in use calculation is undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(iv) *Impairment of trade receivables*

Recoverability of the trade receivables are reviewed by management based on the receivables' aging characteristics, the current creditworthiness and past collection history of each Licensed Operator. Judgement is required in assessing the ultimate realisation of these receivables, and the financial conditions of the debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

6. SEGMENT INFORMATION

(a) *Reportable segments*

During the year, information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance, is the financial information of the Group as a whole as reported under HKFRSs. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the executive directors of the Company have determined that the Group has only one single reportable segment which is browser and mobile games development for earning License fees and Royalties from the Licensed Operators. The executive directors of the Company allocate resources and assess performance on an aggregated basis.

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6. SEGMENT INFORMATION (continued)

(b) Geographic information

The Company is an investment holding company incorporated in the Cayman Islands and the principal place of the Group's operation is the PRC. Accordingly, management determines that the Group is domiciled in the PRC.

The Group's revenue from Licensed Operators and information about its non-current assets by geographical location are detailed below.

	Revenue from Licensed Operators*	
	2016	2015
	RMB	RMB
The PRC (place of domicile)	37,974,722	17,128,820
North America	2,234,627	5,595,536
Japan	2,563,720	3,475,813
Taiwan	729,246	1,781,763
Germany	1,474,320	2,080,434
	44,976,635	30,062,366

* Based on location of Licensed Operators

	Non-current assets	
	2016	2015
	RMB	RMB
The PRC	9,179,600	11,461,012

(c) Information about major Licensed Operators

Revenue from major Licensed Operators, each of them accounted for 10% or more of the Group's revenue, are set out below:

	2016	2015
	RMB	RMB
Licensed Operator A	14,736,895	N/A**
Licensed Operator B	10,503,957	7,988,281
Licensed Operator C	N/A*	5,595,536
Licensed Operator D	4,818,700	4,868,621
Licensed Operator E	N/A*	3,475,813
	30,059,552	21,928,251

* The corresponding revenue does not contribute over 10% of the Group in the respective year.

** No revenue contribute to the Group in the respective year.

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7. REVENUE AND OTHER INCOME

	2016 RMB	2015 RMB
Revenue		
License fees and Royalties	44,976,635	30,062,366
Other income		
Government grants (<i>note</i>)	1,350,000	2,600,000
Interest income	278,141	170,096
Exchange gain, net	753,557	—
Others	183,644	25,451
	2,565,342	2,795,547

Note:

During the year ended 31 December 2016, the Group received government grants from the government of the PRC for subsidising its self-developed games and qualifying as High and New Technology Enterprise amounting to RMB1,300,000 and RMB50,000 respectively. During the year ended 31 December 2015, the Group received government grants from the government of the PRC for subsidising its self-developed games and acquisition of property, plant and equipment amounting to RMB1,200,000 and RMB1,400,000 respectively. There are no unfulfilled conditions or contingencies related to these grants.

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2016 RMB	2015 RMB
Auditors' remuneration	416,461	303,302
Depreciation of property, plant and equipment*	640,887	321,299
Amortisation of intangible assets**	5,278,759	2,339,913
Operating lease rentals in respect of land and buildings	1,653,826	1,516,479
Operating lease rentals in respect of servers	294,414	465,799
Write-off of property, plant and equipment	—	4,238
Loss on disposal of property, plant and equipment	—	1,904
Listing expenses	3,817,593	7,236,694
Exchange (gain)/loss, net	(753,557)	206,159

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

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

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9. INCOME TAX EXPENSE

	2016 RMB	2015 RMB
PRC Enterprise Income Tax ("EIT")		
– Current year	3,900,712	2,078,224
– Under provision in respect of prior years	9,338	–
	3,910,050	2,078,224

No Hong Kong Profits Tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from or arising in Hong Kong during the years ended 31 December 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 years ended 31 December 2013 and 2014. For the years ended 31 December 2015 and 2016, 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.

	2016 RMB	2015 RMB
Profit before income tax expense	25,932,020	10,807,407
Tax on profit before income tax, calculated at the applicable tax rate of 25%	6,483,005	2,701,852
Effect on different tax rates of foreign operations	483,039	613,980
Tax effect of non-deductible expenses for tax purpose	1,065,615	1,253,170
Tax effect of non-taxable income for tax purpose	(463,738)	(744,068)
Effect of tax exemption granted to a PRC subsidiary	(3,667,209)	(1,746,710)
Under provision in respect of prior years	9,338	–
Income tax expense	3,910,050	2,078,224

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

At 31 December 2016, no deferred tax has been recognised for withholding tax that would be payable on the unremitted earnings that are subject to withholding tax of the Group's PRC subsidiary. In the opinion of the directors, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with PRC subsidiary for which deferred tax liabilities have not been recognised was RMB45,002,000 at 31 December 2016 (2015: RMB20,163,000).

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10. DIVIDEND

Neither dividend was paid or declared by the Company during the years ended 31 December 2015 and 2016, nor has any dividend been proposed since the end of the reporting period.

On 26 February 2015, Shenzhen Fire Element declared a special dividend of RMB5,000,000 for the year ended 31 December 2014 and was subsequently paid on 20 April 2015.

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to owners of the Company for the year ended 31 December 2016 of RMB22,021,970 (2015: RMB8,729,183), and the weighted average number of 154,740,000 ordinary shares (2015: 120,000,000 ordinary shares).

The number of shares used to calculate the basic earnings per share for the year ended 31 December 2015 represent the number of shares of the Company immediately after the reorganisation and the capitalisation issue (note 20(c)), but excluding any shares issued pursuant to the placing (note 20(d)), as if the shares issued under the reorganisation and the capitalisation issue had been in issue on 1 January 2015.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015.

12. STAFF COSTS

	2016	2015
	<i>RMB</i>	<i>RMB</i>
Staff costs (including directors' emoluments <i>(note 13(a))</i> comprise:		
Salaries, allowances and benefits in kind	5,655,337	7,166,874
Contributions to defined contribution retirement plans	606,122	766,387
	6,261,459	7,933,261

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13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS**(a) Directors' emoluments**

The emoluments of the directors are set out below:

Year ended 31 December 2016

	Fees RMB	Salaries, allowances and benefits in kind RMB	Contributions to retirement pension scheme RMB	Total RMB
<i>Executive directors</i>				
Mr. Huang Yong*	—	283,500	9,579	293,079
Mr. Wu Zhe	—	283,500	9,219	292,719
Mr. Rao Zhen Wu	—	283,500	9,219	292,719
<i>Non-executive director</i>				
Mr. Zhang Yan*	—	72,000	2,435	74,435
<i>Independent non-executive directors</i>				
Mr. Chan King Fai**	128,316	—	—	128,316
Mr. He Yunpeng**	—	—	—	—
Mr. Zhang Xiongfeng**	128,316	—	—	128,316
Total	256,632	922,500	30,452	1,209,584

Year ended 31 December 2015

	Fees RMB	Salaries, allowances and benefits in kind RMB	Contributions to retirement pension scheme RMB	Total RMB
<i>Executive directors</i>				
Mr. Huang Yong*	—	218,625	10,090	228,715
Mr. Wu Zhe	—	218,625	9,730	228,355
Mr. Rao Zhen Wu	—	218,625	9,730	228,355
<i>Non-executive director</i>				
Mr. Zhang Yan*	—	—	—	—
Total	—	655,875	29,550	685,425

* In March 2015, Mr. Huang Yong and Mr. Zhang Yan were appointed as the chief executive officer and the Chairman of the Company respectively.

** Mr. Chan King Fai, Mr. He Yunpeng and Mr. Zhang Xiongfeng were appointed as the independent non-executive directors of the Company on 24 January 2016.

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13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2015: nil) were directors of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining two (2015: five) individuals were as follows:

	2016 <i>RMB</i>	2015 <i>RMB</i>
Salaries, allowances and benefits in kind	452,680	963,200
Discretionary bonus	—	213,800
Contributions to defined contribution retirement plans	15,266	37,722
	467,946	1,214,722

The emoluments of each of the above non-director highest paid individuals were all within the band of Nil to HK\$1,000,000 for the years ended 31 December 2016 and 2015.

During the year ended 31 December 2016, Mr. He Yunpeng waived the emoluments of HK\$150,000 (equivalents to approximately RMB128,316) as independent non-executive director of the Company.

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, except for Mr. He Yunpeng, none of the directors waived or agreed to waive any emoluments during the years.

(c) Senior management

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	2016 <i>No. of individuals</i>	2015 <i>No. of individuals</i>
Nil – HK\$1,000,000	5	5

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14. PROPERTY, PLANT AND EQUIPMENT

	Office equipment <i>RMB</i>	Furniture and fixtures <i>RMB</i>	Leasehold improvement <i>RMB</i>	Total <i>RMB</i>
Cost				
At 1 January 2015	684,211	65,253	—	749,464
Additions	1,643,066	82,261	225,000	1,950,327
Disposal	(35,588)	—	—	(35,588)
Write off	(9,347)	—	—	(9,347)
<hr/>				
At 31 December 2015 and 1 January 2016	2,282,342	147,514	225,000	2,654,856
Additions	273,184	—	—	273,184
<hr/>				
At 31 December 2016	2,555,526	147,514	225,000	2,928,040
<hr/>				
Accumulated depreciation				
At 1 January 2015	403,662	32,428	—	436,090
Charge for the year	248,626	16,423	56,250	321,299
Disposal	(22,060)	—	—	(22,060)
Write off	(5,109)	—	—	(5,109)
<hr/>				
At 31 December 2015 and 1 January 2016	625,119	48,851	56,250	730,220
Charge for the year	541,744	24,143	75,000	640,887
<hr/>				
At 31 December 2016	1,166,863	72,994	131,250	1,371,107
<hr/>				
Net carrying value				
At 31 December 2016	1,388,663	74,520	93,750	1,556,933
<hr/>				
At 31 December 2015	1,657,223	98,663	168,750	1,924,636
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15. INTANGIBLE ASSETS

	Game intellectual properties <i>RMB</i>	Development costs <i>RMB</i>	Total <i>RMB</i>
Cost			
At 1 January 2015	155,827	6,000,359	6,156,186
Additions	—	5,874,075	5,874,075
Transfer from development costs	6,200,609	(6,200,609)	—
At 31 December 2015 and 1 January 2016	6,356,436	5,673,825	12,030,261
Additions	—	3,365,050	3,365,050
Transfer from development costs	7,405,137	(7,405,137)	—
At 31 December 2016	13,761,573	1,633,738	15,395,311
Accumulated amortisation			
At 1 January 2015	153,972	—	153,972
Charge for the year	2,339,913	—	2,339,913
At 31 December 2015 and 1 January 2016	2,493,885	—	2,493,885
Charge for the year	5,278,759	—	5,278,759
At 31 December 2016	7,772,644	—	7,772,644
Net carrying value			
At 31 December 2016	5,988,929	1,633,738	7,622,667
At 31 December 2015	3,862,551	5,673,825	9,536,376

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16. TRADE RECEIVABLES

The Group allows credit period within 120 days (2015: 120 days) to its Licensed Operators.

The ageing analysis of trade receivables, based on invoice date, as of the end of the reporting period is as follows:

	2016 RMB	2015 RMB
0–30 days	5,162,885	3,184,160
31–60 days	4,689,544	3,220,362
61–90 days	2,607,341	1,370,568
91–120 days	145,776	1,368,849
more than 120 days	611,575	1,681,814
	13,217,121	10,825,753

The following table sets forth the ageing analysis of trade receivables which are past due but not impaired:

	2016 RMB	2015 RMB
Neither past due nor impaired	12,605,546	9,143,939
Past due for less than 30 days	153,689	810,733
Past due for more than 30 days but less 60 days	33,949	716,502
Past due for more than 60 days but less 120 days	6,129	127,436
Past due for more than 120 days but less than 1 year	417,808	25,271
Past due for more than 1 year	—	1,872
	13,217,121	10,825,753

Receivables that were neither past due nor impaired related to Licensed Operators for whom there was no recent history of default. Receivables that were past due but not impaired related other Licensed Operators with long business relationship. The management considered that no impairment allowance was provided as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17. SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2016 <i>RMB</i>	2015 <i>RMB</i>
Cash at banks and on hand	49,705,578	19,364,920
Short-term bank deposits with original maturity of less than three months	20,400,000	—
Cash and cash equivalents	70,105,578	19,364,920
Short-term bank deposits with original maturity of more than three months	10,000,000	—
	80,105,578	19,364,920

Cash at banks earns interest at floating rate based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between three and six months, and earn interest at the respective short-term bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The analysis of short-term bank deposits and cash and cash equivalents denominated in foreign currencies at the end of reporting period is shown as follows:

	2016 <i>RMB</i>	2015 <i>RMB</i>
Euro ("EUR")	38,073	31,478
HK\$	35,929,153	1,531,813
United States dollars ("USD")	4,907,874	4,813,055
RMB	39,230,478	12,988,574
	80,105,578	19,364,920

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. TRADE AND OTHER PAYABLES

	2016 RMB	2015 RMB
Trade payables	99,000	99,000
Accruals	1,295,044	3,898,613
Other payables	507,403	266,584
	1,901,447	4,264,197

An ageing analysis of the Group's trade payables at the end of reporting period, based on the invoice date is as follows:

	2016 RMB	2015 RMB
Less than 30 days	—	99,000
More than 1 year	99,000	—
	99,000	99,000

19. DEFERRED REVENUE

	2016 RMB	2015 RMB
Deferred license fees		
— Current	3,313,956	3,410,259
— Non-current	336,171	1,480,761
	3,650,127	4,891,020

Deferred license fees are received from Licensed Operators for obtaining the exclusive rights granted to them to operate the Group's self-developed games. The license fees are recognised on a straight-line basis over the exclusive period as described in note 4(g)(i).

As at 31 December 2016 and 2015, deferred revenue included in non-current liability was expected to be recognised as License fees and Royalties within two years commencing from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. SHARE CAPITAL

	2016		2015	
	Number	Amount RMB	Number	Amount RMB
Authorised:				
Ordinary shares of HK\$0.01 each				
At 1 January	39,000,000	312,000	39,000,000	312,000
Increase in authorised shares (note (b))	461,000,000	3,887,383	—	—
At 31 December	500,000,000	4,199,383	39,000,000	312,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At 1 January	100	1	97	1
Issue of shares pursuant to the Reorganisation (note (a))	—	—	3	—
Capitalisation issue (note (c))	119,999,900	1,011,899	—	—
Placing (note (d))	40,000,000	335,336	—	—
At 31 December	160,000,000	1,347,236	100	1

Notes:

- (a) As at 1 January 2015, total 97 ordinary shares of the Company were issued to the Company's shareholders. Pursuant to the Reorganisation of the Group, on 2 June 2015, the Company, Elite Charm Ventures Limited ("Elite Charm"), one of then shareholders of Shenzhen Fire Element, and Fire Rock International (HK) Limited ("Fire Rock (HK)") entered into a supplemental reorganisation equity transfer agreement, pursuant to which the Company agreed to allot and issue 3 shares to Elite Charm, representing 3% of the then enlarged issued share capital of the Company after allotment at a consideration of RMB330,000, which the parties agreed has to be used to fully set off the consideration payable by Fire Rock (HK) to Elite Charm under the reorganisation equity transfer agreements. The 3 shares were then allotted and issued by Company to Elite Charm, credited as fully paid, on the same date.

As a result of the above allotment, the total number of issued shares of the Company increased to 100 shares as at 31 December 2015.

- (b) On 24 January 2016, the shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$390,000 to HK\$5,000,000, divided into 500,000,000 shares each by the creation of an additional 461,000,000 shares.
- (c) Pursuant to the resolutions passed by the shareholders of the Company on 24 January 2016, conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the placing as mentioned below, the issue of a total 119,999,900 shares by the Company to the shareholders on a pro-rata basis by way of capitalising an amount of HK\$1,199,999 (equivalent to approximately of RMB1,011,899) from the share premium account of the Company has been approved.
- (d) On 18 February, 2016, the Company's shares were listed on the GEM of the Stock Exchange and 40,000,000 ordinary shares were issued to the public by way of placing at HK\$1.28 per share.

Of the gross proceeds from the placing of HK\$51,200,000 (equivalents to approximately RMB42,923,008), HK\$400,000 (equivalents to approximately RMB335,336) representing the aggregate par value of shares issued was credited to the Company's share capital whereas the remaining amount of HK\$50,800,000 (equivalents to approximately RMB42,587,672) was credited to share premium account.

The share issuance expenses, which amounted to HK\$7,817,662 (equivalents to approximately RMB6,553,859), was deducted from share premium account.

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21. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2016 and 2015 is presented in the consolidated statement of changes in equity. The nature and purposes of reserves within equity are as follows:

(a) *Share premium*

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue of the shares.

(b) *Capital reserve*

On 20 March 2015, each of the shareholders of the Company advanced a shareholders' loan (the "Shareholders' Loan") amounted to HK\$28,000,000 (equivalent to approximately RMB22,094,240) to the Company but irrevocably waived by them on 24 March 2015. The Shareholders' Loan was classified as capital reserve of the Company on the same date. The funds were used to provide an inter-group loan to Fire Rock (HK).

On 21 April 2015, Fire Rock (HK) paid a cash consideration of HK\$13,800,000 (equivalent to approximately RMB10,892,980) to Mr. Zhang Yan, Mr. Wu Zhe, Mr. Rao Zhen Wu and Mr. Huang Yong, the then shareholders of Shenzhen Fire Element in exchange for their equity interests in Shenzhen Fire Element as part of the Reorganisation. The consideration was funded by the Shareholders' Loan. The remaining balance of the Shareholders' Loan would be used for general working capital requirements and the expenses of the Group.

The above transactions are an integral part of the Reorganisation and in substance are accounted for by the Group as a single arrangement. Accordingly, the capital reserve of the Group reflects the cash inflow of HK\$14,200,000 (equivalent to approximately RMB11,201,260) to the Group during the year ended 31 December 2015.

(c) *Merger reserve*

The merger reserve of the Group represents the difference between the investment costs in subsidiaries and the nominal value of the issued share capital of the Group's subsidiaries.

(d) *Statutory reserve*

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the company incorporated in the PRC now comprising the Group, i.e. the PRC Operational Entity, it is required to appropriate 10% of the annual net profits of the PRC Operational Entity, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve fund before distributing any net profit. When the balance of the statutory reserve fund reaches 50% of the registered capital of the PRC Operational Entity, any further appropriation is at the discretion of shareholders. The statutory reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory reserve fund after such issue is no less than 25% of registered capital.

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21. RESERVES (continued)

The Company

	Share premium <i>RMB</i>	Capital reserve <i>RMB</i>	Foreign exchange reserve <i>RMB</i>	Accumulated losses <i>RMB</i>	Total <i>RMB</i>
At 1 January 2015	—	—	—	—	—
Loss for the year	—	—	—	(7,536,694)	(7,536,694)
Other comprehensive income for the year:					
— Exchange gain on translation of financial statements	—	—	1,363,601	—	1,363,601
Total comprehensive income for the year	—	—	1,363,601	(7,536,694)	(6,173,093)
Capital contribution from shareholders (<i>note a</i>)	—	22,094,240	—	—	22,094,240
At 31 December 2015 and 1 January 2016	—	22,094,240	1,363,601	(7,536,694)	15,921,147
Loss for the year	—	—	—	(6,354,598)	(6,354,598)
Other comprehensive income for the year:					
— Exchange gain on translation of financial statements	—	—	3,224,671	—	3,224,671
Total comprehensive income for the year	—	—	3,224,671	(6,354,598)	(3,129,927)
Capitalisation issue (<i>note 20(c)</i>)	(1,011,899)	—	—	—	(1,011,899)
Placing (<i>note 20(d)</i>)	42,587,672	—	—	—	42,587,672
Share issuance expenses (<i>note 20(d)</i>)	(6,553,859)	—	—	—	(6,553,859)
At 31 December 2016	35,021,914	22,094,240	4,588,272	(13,891,292)	47,813,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions disclosed elsewhere in the financial statements, the Group entered into the following transaction with its related party during the year:

Name	Related party relationship	Type of transaction	Transaction amount	
			2016 RMB	2015 RMB
深圳市銳網科技有限公司	Common director who has equity interest in both entities	Rental expenses on servers	—	36,258

The above party was a related company in which Mr. Zhang Yan, one of the Company's directors, acted as a director and had indirect equity interests. On 4 February 2015, the above party ceased to be a related party as Mr. Zhang disposed all of his equity interests to an independent third party.

- (b) Members of key management comprise only of the directors whose emoluments are set out in note 13.

23. OPERATING LEASE COMMITMENTS

Future minimum rental payable under non-cancellable operating lease in respect of rented premises is as follows:

	2016 RMB	2015 RMB
Within one year	1,871,304	1,769,691
In the second to fifth year inclusive	474,177	2,345,481
	2,345,481	4,115,172

The Group leases an office under operating lease. The lease runs for an initial period of three years (2015: three years). The above lease commitments only include commitments for basic rental and none of the lease includes any contingent rental.

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24. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2016 RMB	2015 <i>RMB</i>
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries		6	6
Current assets			
Prepayments, deposits and other receivables		343,891	3,848,617
Amounts due from subsidiaries	25	31,442,429	16,627,856
Cash and cash equivalents		20,136,239	1
		51,922,559	20,476,474
Current liabilities			
Accruals		525,494	3,129,093
Amounts due to subsidiaries	25	2,236,701	1,426,239
		2,762,195	4,555,332
Net current assets		49,160,364	15,921,142
Net assets		49,160,370	15,921,148
EQUITY			
Share capital	20	1,347,236	1
Reserves	21	47,813,134	15,921,147
Total equity		49,160,370	15,921,148

On behalf of the directors

Huang Yong
Director

Wu Zhe
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name	Form of business structure	Place of incorporation/ operations	Description of shares held	Proportion of effective equity interests held by the Company		Principal activities
				Directly	Indirectly	
Fire Rock International Limited	Corporation	British Virgin Islands/Hong Kong	Ordinary share of USD1	100%	—	Investment holding
Fire Rock (HK)	Corporation	Hong Kong	Ordinary share of HK\$1	—	100%	Investment holding and licensing browser games
Shenzhen Fire Element	Corporation	The PRC	Registered capital of RMB25,000,000 (2015: RMB10,000,000)	—	100%	Browser and mobile games development, including the game design, programming and graphics

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

26. CAPITAL MANAGEMENT

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern and maximising the return to stakeholders. The Group's capital structure is regularly reviewed and managed by the directors of the Company. The Group is not subject to externally imposed capital requirements. To maintain or adjust capital structure, the Group may adjust dividend payment to shareholders or issue new shares. Adjustments will be made to the capital structure in light of changes in economic conditions affecting the Company or its subsidiaries, and the risk characteristics of the Group's underlying assets.

The Group defines "capital" as including all components of equity. The capital of the Group at 31 December 2016 was RMB96,208,651 (2015: RMB35,758,566).

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27. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of financial assets and liabilities as defined in note 4(f):

	2016 RMB	2015 RMB
Financial assets		
<i>Loans and receivables:</i>		
Trade receivables	13,217,121	10,825,753
Deposits and other receivables	336,021	369,352
Short-term bank deposits	10,000,000	—
Cash and cash equivalents	70,105,578	19,364,920
	93,658,720	30,560,025
Financial liabilities		
<i>At amortised cost:</i>		
Trade and other payables	1,571,167	4,264,197

Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade receivables, deposits and other receivables, short-term bank deposits, cash and cash equivalents as well as trade and other payables. Due to their short-term nature, the carrying values of these financial instruments approximate their fair values.

28. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, short-term bank deposits and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on Licensed Operators. These evaluations focus on their past history of making payments when due and current ability to pay, and take into account information specific to them as well as pertaining to the economic environment in which they operate. Trade receivables are due within 120 days. Normally, the Group does not obtain collateral from Licensed Operators.

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28. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each Licensed Operator. The default risk of the industry and country in which Licensed Operators operate also has an influence on credit risk but to a lesser extent. As at 31 December 2016, three Licensed Operators with the highest trade receivables balance (2015: three Licensed Operators) were approximately RMB9,518,000 (2015: RMB7,678,000) and represented 72% (2015: 71%) of trade receivables.

In addition, the credit risk for liquid funds is considered negligible. Short-term bank deposits and cash and cash equivalents are placed with reputable banks with high quality external credit ratings. There was no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Management of the Company is satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future in the normal course of business.

The following table shows the remaining contractual maturities at the end of each of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flow (including interest payment computed using contractual rates or, if floating, based on the current rates at the reporting date) and the earliest date the Group may be required to pay.

	Carrying amount RMB	Total contractual undiscounted cash flow RMB	Within 1 year or on demand RMB
At 31 December 2016			
Trade and other payables	1,571,167	1,571,167	1,571,167
At 31 December 2015			
Trade and other payables	4,264,197	4,264,197	4,264,197

31 December 2016

28. FINANCIAL RISK MANAGEMENT (continued)**(c) Interest rate risk**

Other than deposits held in banks, the Group does not have significant interest-bearing assets. The directors of the Company consider the Group's cash flow interest rate risk on bank balances is not significant due to low level of deposit interest rate.

As at 31 December 2016 and 2015, the Group has no interest-bearing liabilities, which may expose the Group to any interest rate risk.

(d) Currency risk

The Group is exposed to currency risk primarily through the License fees and Royalties that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily EUR, USD, Japanese Yen ("JPY"), Russian Rouble ("RUB") and HK\$.

Foreign currency risk arises from the Group's financial assets, which were denominated in EUR, USD, JPY, RUB and HK\$ other than the functional currency at the end of each reporting period are as follows:

	Assets	
	2016	2015
	RMB	RMB
EUR	966,433	978,569
USD	5,694,442	8,361,327
JPY	153,866	603,916
RUB	5,938	74,268
HK\$	15,206,661	—

31 December 2016

28. FINANCIAL RISK MANAGEMENT (continued)**(d) Currency risk (continued)**

The following table indicates the approximate effect on the profit for the year in response to reasonably possible changes in the foreign exchange rates, with all other variables held constant, to which the Group has significant exposure at the end of each reporting period.

	Year ended 31 December 2016			
	Appreciates against	Increase in profit for the year and retained profits	Depreciates against	Decrease in profit for the year and retained profits
	RMB	RMB	RMB	RMB
EUR	5%	42,201	5%	(42,201)
USD	5%	239,258	5%	(239,258)
JPY	5%	6,732	5%	(6,732)
RUB	5%	260	5%	(260)
HK\$	5%	665,291	5%	(665,291)

	Year ended 31 December 2015			
	Appreciates against	Increase in profit for the year and retained profits	Depreciates against	Decrease in profit for the year and retained profits
	RMB	RMB	RMB	RMB
EUR	5%	42,741	5%	(42,741)
USD	5%	355,788	5%	(355,788)
JPY	5%	26,421	5%	(26,421)
RUB	5%	3,249	5%	(3,249)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for financial assets in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. Results of the analysis as presented in the above table represent an aggregation of the effects on Groups' profit for the year and equity measured in the respective foreign currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The measures to manage foreign currency risk have been followed by the Group since prior years and are considered to be effective.