



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

First Quarterly Report **2017**



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



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DEFINITION



“ACT”	action game, which refers to action-themed games in which players control the avatar of a protagonist to navigate different levels of the game, and typically to, collect items, avoid obstacles and fight enemies, testing players’ hand-eye coordination and reaction time
“Android”	an operating system developed and maintained by Google Inc. designed primarily for touchscreen technology used in smartphones and tablets
“ARPG”	action role-playing game, also known as the real-time combat role-playing game, in which the player character instantly responds to the player’s operations and the game player has direct control over their characters
“ARPPU”	average revenue per paying user, calculated by dividing the 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
“Articles of Associations”	the articles of association of the Company becoming effective on 18 February 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
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Group” or “we”	the Company and where the context otherwise requires, all of its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JPY”	Japanese Yen, the lawful currency of Japan



“Listing”	the listing of the Shares of the Company on GEM
“mobile games”	online games that are downloaded to and played on mobile devices including smartphones and tablets
“monthly paying users” or “MPU”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPU for a particular period is the average of the MPU of each calendar month during that period
“paying player”	players who obtain in-game tokens with credits of licensed operators
“Placing”	the conditional placing of Shares of the Company in February 2016
“PRC”	the People’s Republic of China excluding, for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	this prospectus being issued on 29 January 2016 in connection with the Placing
“remuneration committee”	the remuneration committee under the Board
“Reporting Period”	the three months ended 31 March 2017
“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 Ruble, the lawful currency of Russian

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

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



COMPANY PROFILE

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. ZHANG Yan *(Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

JOINT COMPANY SECRETARIES

Mr. WEI Dong and
Mr. CHAN Chin Wang Keith

AUTHORIZED REPRESENTATIVES

Mr. HUANG Yong and
Mr. CHAN Chin Wang Keith

COMPLIANCE OFFICER

Mr. WU Zhe

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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World-Wide House
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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75 Fort Street
P.O. Box 1350
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KY1-1108
Cayman Islands

**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER
OFFICE**

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

PRINCIPAL BANKERS

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

COMPLIANCE ADVISER

China Everbright Capital Limited

HONG KONG LEGAL ADVISER

Li & Partners

AUDITOR

BDO Limited
Certified Public Accountants

GEM STOCK CODE

8345

COMPANY WEBSITE

www.firerock.hk

FINANCIAL HIGHLIGHTS (UNAUDITED)

	For the three months ended 31 March	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue	14,379	8,781
Gross Profit	12,232	7,685
Profit	8,584	2,130

- For the three months ended 31 March 2017, the Group's revenue increased from approximately RMB8.8 million for the three months ended 31 March 2016 to approximately RMB14.4 million, represented an increase of approximately 63.6%.
- For the three months ended 31 March 2017, the Group's gross profit increased from approximately RMB7.7 million for the three months ended 31 March 2016 to approximately RMB12.2 million, represented an increase of approximately 58.4%.
- For the three months ended 31 March 2017, the Group's profit increased from approximately RMB2.1 million for the three months ended 31 March 2016 to approximately RMB8.6 million, represented an increase of approximately 309.5%.
- The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2017.

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

	Notes	For the three months ended 31 March	
		2017 RMB (unaudited)	2016 RMB (unaudited)
Revenue	3	14,379,148	8,780,915
Direct costs		(2,146,664)	(1,095,525)
Gross profit		12,232,484	7,685,390
Other income	3	27,482	29,573
Game research costs		(215,602)	(158,601)
Distribution costs		(156,152)	(163,377)
Administrative expenses		(2,111,673)	(4,458,982)
Profit before income tax	4	9,776,539	2,934,003
Income tax expense	5	(1,192,297)	(803,911)
Profit for the period		8,584,242	2,130,092
Other comprehensive income: Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translating foreign operations		(191,020)	(461,945)
Other comprehensive income for the period		(191,020)	(461,945)
Total comprehensive income for the period		8,393,222	1,668,147
Profit for the period attributable to:			
Owners of the Company		8,584,242	2,130,092
Total comprehensive income attributable to:			
Owners of the Company		8,393,222	1,668,147
Earnings per share			
Basic and diluted (RMB cents)	7	5.37	1.33

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Share premium	Capital reserve	Merger reserve	Statutory reserve	Dividend reserve	Foreign exchange reserve	Retained profits	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Three months ended 31 March 2017 (unaudited)									
At 1 January 2017	1,347,236	35,021,914	11,201,260	10,000,000	7,198,564	—	2,664,590	28,775,087	96,208,651
Profit for the period	—	—	—	—	—	—	—	8,584,242	8,584,242
Total other comprehensive income	—	—	—	—	—	—	(191,020)	—	(191,020)
Profit for the period and total other comprehensive income	—	—	—	—	—	—	(191,020)	8,584,242	8,393,222
Transactions with owners:									
Capitalisation	—	—	—	—	—	—	—	—	—
Issue of ordinary shares by way of placing	—	—	—	—	—	—	—	—	—
Share issuance expenses	—	—	—	—	—	—	—	—	—
At 31 March 2017	1,347,236	35,021,914	11,201,260	10,000,000	7,198,564	—	2,473,570	37,359,329	104,601,873
Three months ended 31 March 2016 (unaudited)									
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 period	—	—	—	—	—	—	—	2,130,092	2,130,092
Total other comprehensive income	—	—	—	—	—	—	(461,945)	—	(461,945)
Profit for the period and total other comprehensive income	—	—	—	—	—	—	(461,945)	2,130,092	1,668,147
Transactions with owners:									
Capitalisation	1,011,899	(1,011,899)	—	—	—	—	—	—	—
Issue of ordinary shares by way of placing	335,336	42,587,672	—	—	—	—	—	—	42,923,008
Share issuance expenses	—	(6,267,817)	—	—	—	—	—	—	(6,267,817)
	1,347,235	35,307,956	—	—	—	—	—	—	—
At 31 March 2016	1,347,236	35,307,956	11,201,260	10,000,000	4,333,239	—	143,679	11,748,534	74,081,904

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2017

1. GENERAL INFORMATION

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

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

The condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity of the Group for the three months ended 31 March 2017, as well as a summary of significant accounting policies and other explanatory information (collectively, the “**First Quarterly Condensed Financial Statements**”) are unaudited, but have been reviewed by the Audit Committee and were approved and authorized for issue by the Board on 12 May 2017.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Except for the adoption of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which are effective for the Group’s financial year beginning 1 January 2017, the accounting policies applied in preparing this unaudited first quarterly condensed financial statements for the three months ended 31 March 2017 are consistent with those of the annual financial statements for the year ended 31 December 2016 issued by the Company on 27 March 2017, as described in those annual financial statements. The condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

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

The unaudited First Quarterly Condensed Financial Statements has been prepared under the historical cost basis. These condensed financial statements are presented in Renminbi (“RMB”) except when otherwise indicated.

3. REVENUE AND OTHER INCOME

	For the three months ended 31 March	
	2017 RMB (unaudited)	2016 RMB (unaudited)
Revenue		
License fees and Royalties	14,379,148	8,780,915
Other income		
Interest income	27,482	29,573

4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	For the three months ended 31 March	
	2017 RMB (unaudited)	2016 RMB (unaudited)
Auditors’ remuneration	—	4,810
Depreciation of plant and equipment*	169,930	142,012
Amortisation of intangible assets**	1,317,518	686,834
Operating lease rentals in respect of land and buildings	427,404	172,795
Operating lease rentals in respect of servers	73,681	72,950
Listing expenses	—	3,330,254

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

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

5. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2017	2016
	RMB	RMB
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")	1,192,297	803,911

No Hong Kong Profits Tax was provided in the unaudited condensed consolidated financial statements as the Group has no estimated assessable profit derived from or arising in Hong Kong during the three months ended 31 March 2017 and 2016.

Provision for the EIT in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profit as determined in accordance with the relevant income tax law 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 (軟體產業和積體電路產業) 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 year ended 31 December 2013 and 2014. For the three months ended 31 March 2017 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.

The Group has no material unrecognised deferred tax as at 31 March 2016 and 31 March 2017.

6. DIVIDEND

No dividend was paid or declared by the Company during the three months ended 31 March 2016 and 31 March 2017, nor has any dividend been proposed since the end of the reporting period.



7. EARNINGS/(LOSS) PER SHARE

For the three months ended 31 March 2017, the earnings per share of the Company was RMB5.37 cents. The calculation is based on the earnings for the period of approximately RMB8.6 million and on the basis of the number of 160,000,000 ordinary shares of the Company in issue.

For the three months ended 31 March 2016, the earnings per share of the Company was RMB1.33 cents. The calculation is based on the earnings for the period of approximately RMB2.1 million and on the basis of the number of 160,000,000 ordinary shares of the Company in issue.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the three months ended 31 March 2016 and 31 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

During the Reporting Period, in order to better capture the development opportunity from the fast growing global mobile markets, we grasped our advantage in research and development and our strong accumulation of technological knowledge and commercially launched two mobile games, being the mobile versions of Number Drop and G-game, which further expanded our game portfolio and diversified our revenue sources.

During the period ended 31 March 2017, we have licensed eight 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, the mobile version of Road of Vengeance (復仇之路) series, the mobile version of Number Drop series and the mobile version of G-game series to various game operators for the operation, publication and distribution of such games within an agreed period and within designated territories.



Kings & Legends (王者召喚) game series continued to deliver satisfactory performance during the Reporting Period and maintained an important position in our game portfolio. During the Reporting Period, the percentage of revenue contribution to our total revenue from the Kings & Legends (王者召喚) series of games was approximately 16.3%. It has been over five years since its commercial launch in March 2012. Its ability to achieve a longer lifespan than the industry averages was attributable to our ongoing efforts in carrying out upgrades and enhancements to the content of the game with the view to retaining player interest, increasing player engagement to the game and enhancing the players' gaming experience. It also generates stable revenue for us.

The browser version and the mobile version of our Hero's Crown (英雄皇冠) series was commercially launched in January 2015 and February 2016, respectively. Its monthly royalties, MPU and ARPPU have been increasing. Our revenue from the game series amounted to approximately RMB7.2 million for the three months ended 31 March 2017.

The browser version of our Heroines of Three Kingdoms (姬戰三國) series was commercially launched in January 2015. Our revenue from the game series amounted to approximately RMB0.1 million for the three months ended 31 March 2017.

The mobile version of our Endless Battles (無盡爭霸) series was commercially launched in February 2016. Our revenue from the game series amounted to approximately RMB1.3 million for the three months ended 31 March 2017.

The mobile version of our Legend of Fairies (萌仙記) series was commercially launched in March 2016. Our revenue from the game series amounted to approximately RMB1.9 million for the three months ended 31 March 2017.

The mobile version of our Road of Vengeance (復仇之路) series was commercially launched in August 2016. Our revenue from the game series amounted to approximately RMB1.5 million for the three months ended 31 March 2017.

The mobile version of our Number Drop series was commercially launched in late March 2017. Our revenue from the game series amounted to approximately RMB0.01 million for the three months ended 31 March 2017.

The mobile version of our G-game series was commercially launched in late March 2017. Our revenue from the game series amounted to approximately RMB0.01 million for the three months ended 31 March 2017.

The table below sets forth the eight main series of games commercially launched by our licensed operators as of 31 March 2017:

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
Japanese	Kings and Legends	Browser	December 2012
	テイヴァイン・グリモワール/ Divine Grimoire	Browser	September 2012
German	のすたるじつくガールズ	Browser	November 2016
French	Kings and Legends	Browser	July 2013
Traditional Chinese	Kings and Legends	Browser	December 2013
Simplified Chinese	卡卡們的大亂鬥	Browser	June 2012
Turkish	王者召喚	Browser	March 2012
	EfsanelerinÖfkesi	Browser	July 2016
<i>Hero's Crown (英雄皇冠) series of games</i>			
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
New Malay	Death of Shadow (formerly known as: Wgame)	Mobile	February 2016
Simplified Chinese	魔戒外传	Mobile	April 2016



Language version	Game title	Platform	Initial commercial launch date
<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 (复仇之路) series of games</i>			
Simplified Chinese	复仇之路	Mobile	August 2016
<i>Number Drop series of games</i>			
Simplified Chinese	Number Drop	Mobile	March 2017
<i>G-game series of games</i>			
Simplified Chinese	G-game	Mobile	March 2017

As of 31 March 2017, we also had four game series under research and development, including the Sweeties Fighting (零食大亂鬥) series, the War of the Sulfulons (薩弗隆戰記) series, the Super Tycoon (超級大亨) series and the Forest Gala (森林大聯歡) series. It is intended that these four games will be developed into different genres and in different languages to be launched internationally. Subject to their development progress and market response, it is estimated that these four new games will be launched in 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 Sulfulons (薩弗隆戰記) series	ARPG	Second quarter 2017	Second quarter 2016
Super Tycoon (超級大亨) series	2D action leisure	Second quarter 2017	First quarter 2017
Forest Gala (森林大聯歡) series	3D horizontal catching	Second quarter 2017	First quarter 2017

Prospects

The Group will further optimise the quality of self-developed game products with its excellent research and development core capability as the base, the stable research and development team as the support and a longer research and development cycle as to ensure and elevate the quality of its self-developed products. The Group will persist in the simultaneous development model of various games which can assure the Group's competitiveness in research and development, and to maintain a multiple product portfolio. For our existing games, the Group will carry out ongoing update and optimisation of our games so as to enhance the bonding between game users and those games and generate stable revenue for us, we will at the same time raise the revenue generated from third-party internet platforms by mobile games launched during the Reporting Period in order to further enhance the growth potential of mobile games. Our research and development team will continue to introduce new modes of play for the games, release games in more language versions so as to cater for different players and license the games to operators for operation. In the short-to-mid term, the games should see continuing revenue growth from newly-acquired users.



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

FINANCIAL REVIEW

Revenue

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

During the three months ended 31 March 2017, 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 63.6% from approximately RMB8.8 million for the three months ended 31 March 2016 to approximately RMB14.4 million for the three months ended 31 March 2017. The increase in revenue was mainly due to the increase in revenue brought by the launch of four mobile games series successively in 2016, being Hero's Crown (英雄皇冠) game series, Endless Battles (無盡爭霸) game series, Legend of Fairies (萌仙記) game series and Road of Vengeance (復仇之路) game series.

Revenue by game platforms and revenue types

The table below sets forth the breakdown of revenue by game platforms and revenue types for each of the three months ended 31 March 2016 and 2017:

	For the three months ended 31 March			
	2017		2016	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
Browser version	5,960	41.4	8,655	98.6
License fees	1,250	8.7	725	8.3
Royalties	4,710	32.7	7,930	90.3
Mobile version	8,419	58.6	126	1.4
License fees	326	2.3	23	0.2
Royalties	8,093	56.3	103	1.2
	14,379	100.0	8,781	100.0

Revenue by game series

The table below sets forth the breakdown of revenue by game series for each of the three months ended 31 March 2016 and 2017:

	For the three months ended 31 March			
	2017		2016	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
Kings & Legends (王者召喚)	2,350	16.3	3,247	37.0
Hero's Crown (英雄皇冠)	7,178	49.9	5,303	60.4
Heroines of the Three Kingdoms (姬戰三國)	97	0.7	212	2.4
Endless Battles (無盡爭霸)	1,301	9.1	19	0.2
Legend of Fairies (萌仙記)	1,940	13.5	—	—
Road of Vengeance (復仇之路)	1,501	10.4	—	—
Number Drop	5	—	—	—
G-game	7	0.1	—	—
	14,379	100.0	8,781	100.0

Revenue by geographical markets

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

	For the three months ended 31 March			
	2017		2016	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
PRC ¹	12,606	87.7	5,600	63.8
PRC ^{2, 4}	534	3.7	252	2.9
PRC ^{3, 4}	638	4.4	566	6.4
North America ²	—	—	913	10.4
Asia Pacific (including Japan and Taiwan) ²	483	3.4	921	10.5
Europe ³	118	0.8	529	6.0
Total	14,379	100.0	8,781	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 in 2016. 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 in 2016. Both companies had commercially launched our games in Europe and North America.



Direct costs

Our direct costs for the three months ended 31 March 2017 amounted to approximately RMB2.1 million, representing an increase of approximately 90.9% as compared to approximately RMB1.1 million for the same period in 2016. The increase in our direct costs was mainly because we commercially launched new games, which resulted in the increase in amortisation of our intangible assets. Two new browser games, being Hero's Crown (英雄皇冠) and Heroines of the Three Kingdoms (姬戰三國) and the mobile version of Endless Battles (無盡爭霸) were just commercially launched at the end of the same period in 2016, therefore the amortisation of the intangible assets of these three new games was lower than that of the current period. The increase in the amortization of the intangible assets during the Reporting Period was due to the amortization of the intangible assets in the current period for the mobile version of Road of Vengeance (復仇之路) subsequently launched in the same period of 2016.

Gross profit and gross profit margin

Our gross profit for the three months ended 31 March 2017 amounted to approximately RMB12.2 million, representing an increase of approximately 58.4% as compared to approximately RMB7.7 million for the three months ended 31 March 2016. Our gross profit margin for the three months ended 31 March 2017 amounted to approximately 85.1% and approximately 87.5% for the three months ended 31 March 2016.

The increase in our gross profit was mainly due to the increase in revenue brought by the launch of four mobiles game series in 2016, being the 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.

The decrease in gross profit margin was mainly due to the increase in the amortization of intangible assets of the games successively launched in 2016 during the Reporting Period.

Other income

Our other income mainly consisted of interest income of short term bank deposits. For the three months ended 31 March 2017, our other income was approximately RMB0.03 million, compared with approximately RMB0.03 million for the same period of 2016.

Game research costs

Our game research costs for the three months ended 31 March 2017 amounted to approximately RMB0.2 million, remaining relatively stable as compared to approximately RMB0.2 million for the three months ended 31 March 2016. It was mainly due to the fact that two games were in the game inception and evaluation stage during the Reporting Period and the same period in 2016.

Distribution costs

Our distribution costs for the three months ended 31 March 2017 amounted to approximately RMB0.2 million, remaining relatively stable as compared to RMB0.2 million for the same period in 2016.

Administrative expenses

Our administrative expenses for the three months ended 31 March 2017 amounted to approximately RMB2.1 million, representing a decrease of approximately 53.3% as compared to approximately RMB4.5 million for three months ended 31 March 2016. Without taking into account the listing related expenses, our administrative expenses for the three months ended 31 March 2017 amounted to approximately RMB2.1 million, representing an increase of approximately 90.9% as compared to approximately RMB1.1 million for the three months ended 31 March 2016. The increase in our administrative expenses was mainly due to the increase in legal and professional fees upon the successful listing of our Group of the GEM of Stock Exchange as well as the increase in rentals for our operating premises.



Income tax expense

Our income tax expenses for the three months ended 31 March 2017 amounted to approximately RMB1.2 million while we recorded RMB0.8 million for the three months ended 31 March 2016. The increase in our income tax expenses was mainly because the profits of the PRC subsidiary of the Group increased significantly during the Reporting Period as compared to the same period in 2016.

Profit for the period

Given the aforesaid reasons, profit attributable to owner of the Company increased by approximately 309.5% from approximately RMB2.1 million for the three months ended 31 March 2016 to approximately RMB8.6 million for the three months ended 31 March 2017.

Earnings per share

The calculation of earnings per share is based on the profit attributable to owners of the Company as at 31 March 2017 of RMB8.6 million (2016: RMB2.1 million), and the weighted average number of 154,740,000 ordinary shares (2016: 154,740,000 ordinary shares).

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence as at 31 March 2017 and 2016.

Dividends

The Board does not recommend the payment of any dividend for the three months ended 31 March 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

The Group is committed to achieving a high standard of corporate governance, to protect interests of our Shareholders and other stakeholders, improve corporate value and accountability.

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

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

Directors' Securities Transactions

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

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the three months ended 31 March 2017.

Disclosure of Interest as Per Registers Kept Pursuant to the SFO

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

As of 31 March 2017, the Directors and the chief executive of our Company had the interests in the Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of part XV of the SFO):

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

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

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

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

Save as disclosed above, as of 31 March 2017, none of the Directors or chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7

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

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

So far as is known to the Directors or chief executive of the Company, on 31 March 2017, the following persons had, or were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

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

Competing Interest

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

Contracts with Controlling Shareholders

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

Directors' Interest in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted as of 31 March 2017 or at any time during the Reporting Period.

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

The Shares were listed on the GEM of the Stock Exchange on 18 February 2016. Neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2017.

Interest of Compliance Adviser

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

By order of the Board
Zhang Yan
Chairman

Hong Kong, Friday, 12 May 2017

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