



火岩控股

FIRE ROCK HOLDINGS

火岩控股有限公司

FIRE ROCK HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1909

2019 ANNUAL REPORT





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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 Friday, 17 April 2020
“ARPG”	action role-playing game, also known as the real-time combat role-playing game, in which the player character instantly responses 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
“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, the Shares of which are listed on the Main Board (Stock code: 1909)
“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”	GEM 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
“listing expenses”	the service fees incurred in relation to the Company’s transfer of listing from GEM to the Main Board
“Listing Rules”	the GEM Listing Rules and the Main Board Listing Rules
“Main Board”	the Main Board of the Stock Exchange
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“mobile games”	online games that are downloaded to and played on mobile devices including smartphones and tablets
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in appendix 10 of the Main Board Listing Rules
“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” or “China”	the People’s Republic of China excluding, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC 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”	the prospectus being issued on 29 January 2016 in connection with the Placing

DEFINITION

“R&D”	research and development
“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
“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 HKD0.01 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
“THB”	Thai Baht, the lawful currency of Thailand
“Transfer of Listing”	the transfer of listing of the Company from GEM to the Main Board on 27 June 2019
“virtual items”	virtual items which enhance players’ gaming experience, by, for example, enhancing the powers, abilities or attractiveness
“%”	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 Main Board 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 DIRECTORS

Mr. ZHANG Yan (Chairman)
Ms. YANG Kan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Fai
Mr. CHEN Di
Mr. YANG Zhen (appointed on 26 August 2019)
Mr. HE Yunpeng (resigned on 26 August 2019)

AUDIT COMMITTEE

Mr. CHAN King Fai (Chairman)
Mr. CHEN Di
Mr. YANG Zhen (appointed on 26 August 2019)
Mr. HE Yunpeng (resigned on 26 August 2019)

REMUNERATION COMMITTEE

Mr. CHEN Di (Chairman)
Mr. CHAN King Fai
Mr. HUANG Yong

NOMINATION COMMITTEE

Mr. ZHANG Yan (Chairman)
Mr. CHEN Di
Mr. YANG Zhen (appointed on 26 August 2019)
Mr. HE Yunpeng (resigned on 26 August 2019)

JOINT COMPANY SECRETARIES

Mr. WEI Dong
Mr. CHU Hon Leung

AUTHORISED REPRESENTATIVES

Mr. HUANG Yong
Mr. CHU Hon Leung

COMPLIANCE OFFICER

Mr. WU Zhe

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

9th Floor, Block 1
Chongwen Garden
Nanshan IPark
3370 Liuxian Avenue
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 54, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

China Merchant Bank, Shenzhen Branch
Bank of Communications Co., Ltd., Hong Kong Branch

COMPLIANCE ADVISER

Kingsway Capital Limited

HONG KONG LEGAL ADVISER

Li & Partners

AUDITOR

BDO Limited
Certified Public Accountants

STOCK CODE

1909

COMPANY WEBSITE

www.firerock.hk



FINANCIAL HIGHLIGHTS

RESULTS

	For the year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	303,978	160,700	80,304	44,977	30,062
Direct costs	(19,778)	(16,548)	(11,474)	(7,379)	(6,251)
Gross profit	284,200	144,152	68,830	37,598	23,811
Profit for the year	208,800	89,808	43,399	22,022	8,729

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Non-current assets	34,509	11,561	9,787	9,180	11,461
Current assets	394,678	201,710	119,517	94,011	34,417
Total assets	429,187	213,271	129,304	103,191	45,878
Non-current liabilities	26,071	8,966	4,844	336	1,481
Current liabilities	19,027	12,146	7,999	6,646	8,639
Total liabilities	45,098	21,112	12,843	6,982	10,120
Total equity	384,089	192,159	116,461	96,209	35,758

MAJOR FINANCIAL RATIOS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
Return on equity	72.5%	58.2%	40.8%	33.4%	31.2%
Return on total assets	65.0%	52.4%	37.3%	29.5%	24.3%
Current ratio (times)	20.7	16.6	14.9	14.1	4.0

REVENUE HIGHLIGHTS

	For the year ended 31 December									
	2019		2018		2017		2016		2015	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Revenue from										
online games	300,436	98.8	160,700	100.0	80,304	100.0	44,977	100.0	30,062	100.0
Self-operated	13,083	4.3	—	—	—	—	—	—	—	—
Licensed operated	287,353	94.5	160,700	100.0	80,304	100.0	44,977	100.0	30,062	100.0
Intellectual property										
right licensing	3,542	1.2	—	—	—	—	—	—	—	—
	303,978	100.0	160,700	100.0	80,304	100.0	44,977	100.0	30,062	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 report of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2019.

In 2019, we continued to cultivate in the research and development as well as innovation of products, in order to enrich our products portfolio and optimise the gaming experience of our game users. We adhered to our development philosophy of refining each detail of every product so as to release premium game products, which allowed us to cope well with the increasingly competitive industry landscape. Besides, we have actively expanded our modes and means of operation, for example, we allowed certain games to be operated independently in overseas markets outside mainland China, thereby enhancing the Group's competitive edge. As such, our revenue reached approximately RMB304.0 million, representing an increase of approximately 89.2% as compared to the same period in 2018; our profit amounted to approximately RMB208.8 million, representing an increase of approximately 132.5% as compared to the same period in 2018.

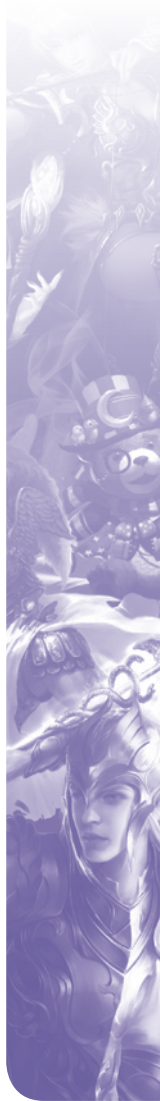
Overall speaking, we have a number of significant achievements in 2019, as summarised below:

- Our revenue reached approximately RMB304.0 million, representing an increase of approximately 89.2% as compared to 2018;
- Our revenue of mobile games amounted to approximately RMB297.8 million, representing an increase of approximately 92.3% as compared to 2018;
- The revenue of mobile games amounted to 98.0% of our total revenue;
- Profit amounted to approximately RMB208.8 million, representing an increase of approximately 132.5% as compared to 2018;
- We have started 4 new game development projects as at 31 December 2019;
- We commercially launched 3 new self-developed game series;
- Our operating net cash inflow amounted to approximately RMB151.9 million.

The listing of the Company's shares has been successfully transferred from GEM to the Main Board on 27 June 2019 upon the approval of the Stock Exchange, marking a new chapter of the corporate milestones.

As at 31 December 2019, we recorded a cash balance of approximately RMB147.9 million. As a result of our stable cash flow, sound assets position and the long-term prospect of the Company, I am pleased to announce that the Board recommended the payment of a final dividend of HKD0.09375 per share (equivalent to approximately RMB0.0825 per share), in form of a cash dividend, to the shareholders, amounting to HKD30.0 million (equivalent to approximately RMB26.4 million) in aggregate.

In 2020, we will keep on strengthening the investment intensity of research and development and optimising our game products, so as to provide premium gaming content and the best gaming experience for our game users, thereby unleashing the growth momentum of our principal business and contributing to our long term business operation. Meanwhile, we shall actively explore new business models, with the aim of expanding our business portfolio and enhancing the comprehensive competitiveness of the Company for future development.



CHAIRMAN'S STATEMENT

We have planned to implement the following development strategies and initiatives:

- Continuously strengthening our R&D capacity and focusing on the development of innovative new games, as well as to expand and enrich our diversified game product portfolio, while introducing different types of premium game products with different features, as to maintain our competitive edge in game research and development;
- Continuously optimising and updating existing game products to enhance players' gaming experience and extend the life cycle of game products, as well as to stabilize our sources of revenue;
- Proactively exploring overseas markets and accelerating the expansion of our global footprint so as to strengthen our competitiveness among international counterparts;
- Actively exploring the possibilities of external investment and cooperation so as to cope with the increasingly competitive industry landscape;
- Actively researching on new internet application technologies and products on the basis of our outstanding technical team and R&D capacity, and to provide licensing services with respect to quality intellectual property rights for our business partners;
- Actively assessing the new technology and concepts (such as 5G technology and cloud gaming) which cause material changes and impacts on the gaming industry, so as to stay in the leading position in game research and development.

The Board, our management and the staff of our Group share a common goal and are confident of the future development of the Group. With the implementation of the aforementioned development strategies, our persistent belief and the strong unity of our Group, we believe our continuous effort shall create greater value and returns for our Shareholders.

I would like to take this opportunity to express my sincere gratitude to the Board, the management and all staff of the Group for their dedication in the past year to furthering the development of the Group. I also express my gratitude for the continuous support and trust from our Shareholders, business partners and stakeholders. 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 Stock Exchange and other related institutions.

Zhang Yan
Chairman

Hong Kong, 9 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Overview

Our Group is a game developer principally engaged in the development of browser and mobile games. For the past few years, the Group strategically invested in the mobile games development business, therefore we developed and commercially launched numerous mobile game series, which captured the development opportunity from the constantly fast-growing mobile game industry and achieved satisfactory results. The substantial growth in the results for 2019 was mainly attributed to mobile games. During the year, the Group tried to introduce our self-developed game products in overseas markets and obtained positive results, which provided valuable experience for our future game operations business. Meanwhile, we have also developed computer software related to game operations and provided licensing services with respect to intellectual property rights to enterprises, thereby diversifying the revenue of the Group, which also enables us to have a closer relationship with our licensed operators. We expect an increase of the demand of such services in the future along with the increase in the number of licensed operators.

In terms of financial performance, our revenue increased by 89.2% from approximately RMB160.7 million for 2018 to approximately RMB304.0 million for 2019, of which the revenue of mobile games amounted to approximately RMB297.8 million, representing an increase of approximately 92.3% as compared to the same period in 2018. Revenue of mobile games amounted to 98.0% of our total revenue. Profit increased by 132.5% from approximately RMB89.8 million for 2018 to approximately RMB208.8 million for 2019.

In terms of game products, in 2019, the Group commercially launched three mobile game series, the Super Diglett Fighting (超級地鼠大亂鬥) series, the Royal Tycoon (皇家大亨) series and the Royal Fish Catching (皇家捕魚) series, which further expanded our game portfolio and diversified our revenue sources.

As at 31 December 2019, the Group has licensed 18 self-developed games series 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, the mobile version of G-game series, the mobile version of Sweeties Fighting (零食大亂鬥) series, the mobile version of War of the Sulfulons (薩弗隆戰記) series, the mobile version of Super Tycoon (超級大亨) series, the mobile version of Forest Gala (森林大聯歡) series, the mobile version of Fish Catching Contest (捕魚大亂鬥) series, the mobile version of the Super Cute Monster (超級逗萌獸) series, the mobile version of the Super Rich (超級大富翁) series, the mobile version of the Age of Star Wars (星戰紀) series, the mobile version of the Shaky Battle (晃晃大作戰) series and the mobile version of the Super Diglett Fighting (超級地鼠大亂鬥) series to various game operators for the operation, publication and distribution of such games within specified periods and within designated territories. Two mobile games series, namely the Royal Tycoon (皇家大亨) series and Royal Fish Catching (皇家捕魚) series were operated by the Group's overseas subsidiary on its own.

In 2019, despite being affected by the downslope trend in the browser games industry, the revenue of our browser games amounted to approximately RMB2.6 million, representing a significant drop compared to the same period in 2018 yet it managed to account for 0.9% of the Group's total revenue. In view of the market demand for browser games on mobile devices, we initiated the research and development on H5 games. As H5 games can be operated on various platforms with extensive user coverage, the Group considers that the market for browser games still has the potential for further growth and development. The Group will develop browser games products of higher quality using H5 technology in order to maintain its core competitiveness in the research and development of browser games.

MANAGEMENT DISCUSSION AND ANALYSIS

The listing of the Company's shares has been successfully transferred from GEM to the Main Board on 27 June 2019 upon the approval of the Stock Exchange. Listing on the Main Board enhanced the corporate profile and public recognition of the Company, which in turn enhanced the business prospects of the Company and added to its competitive strength, marking a new chapter of our corporate milestones.

Comparison of Business Objectives with Actual Business Progress

The following is a comparison between the Group's business objectives as set out in the Prospectus and actual business progress as at 31 December 2019:

Business objectives	Actual business progress for the reporting year ended 31 December 2019
Continual optimisation of our existing games on various platforms	We have spent approximately HKD2.9 million
Development of new games – Browser games	We have spent approximately HKD4.6 million
Development of new games – Mobile games	We have spent approximately HKD7.2 million
Acquiring of/investment in game developers and related companies	We have spent approximately HKD3.6 million
Enhancement and diversification of our game development capabilities	We have spent approximately HKD1.6 million
Working capital and other general corporate purposes	We have spent approximately HKD1.5 million
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	We are currently actively seeking opportunities to obtain/acquire the adaption rights of appropriate source materials

Industry Review

In 2019, although the global game industry remained highly competitive, the entire industry still achieved steady growth compared to the same period last year with the exceptionally outstanding performance of the PRC market. According to the "2019 Report on the Game Industry of China" (《二零一九年中國遊戲產業報告》) published by Gamma Data (伽馬數據), the total revenue for the game industry in China amounted to approximately RMB233.02 billion in 2019, representing an increase of 8.7% over the corresponding period last year, of which the revenue of mobile games reached RMB151.37 billion. The mobile games market in China accounted for approximately 30% of the global game market, secured a leading position among the global mobile games market. The actual sales revenue for China's self-developed online games in overseas market attained steady growth, of which the performance in the mobile games market was exceptionally prominent, thus overseas mobile games market will become the main arena for competition in the future.

In 2019, the revenue of mobile games in China amounted to 65% of the total revenue in the Chinese gaming industry, representing an increase of 13% over the corresponding period last year, while the revenue of browser games amounted to only 4.2% of the total revenue, representing a decrease of 23% over the corresponding period last year. The development of the industry was in line with the development strategies identified and established by the Group. During the year, the Group adopted the development strategies of committing substantial resources in the research and development of mobile games, while continuously optimising, improving quality and users' experience of existing browser games products, at the same time initiating the research and development on H5 games in view of the market demand for browser games on mobile devices, thus we maintained steady growth amid the increasingly competitive game market.

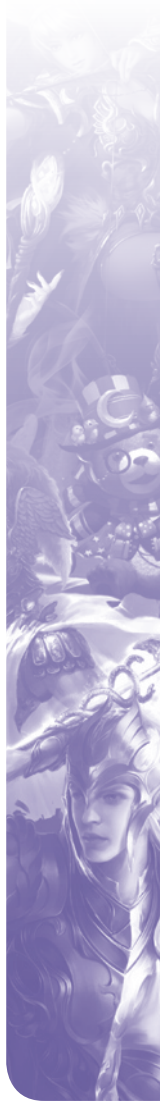
MANAGEMENT DISCUSSION AND ANALYSIS

Our Products

In 2019, we maintained our capabilities and advantages in the research and development for better capturing the development opportunity from the fast growing global mobile game markets. We boosted the investment in game research, which resulted in the development of two mobile games and two browser game with high quality and creative modes of play. Also, we continued to optimise and upgrade our existing games and we commercially launched three mobile game products during the year by capitalising on our strong accumulation of technological knowledge and our innovative creativity in the research and development, which further expanded our game portfolio. Meanwhile, we developed two computer software products, which diversified our revenue sources.

As at 31 December 2019, the Group has commercially launched 20 major games series in aggregate, including the mobile and browser versions of the Kings & Legends (王者召喚) series, the mobile and browser versions of the Hero's Crown (英雄皇冠) series, the browser version of the Heroines of Three Kingdoms (姬戰三國) series, the mobile version of the Endless Battles (無盡爭霸) series, the mobile version of the Legend of Fairies (萌仙記) series, the mobile version of the Road of Vengeance (復仇之路) series, the mobile version of the Number Drop series, the mobile version of the G-game series, the mobile version of the Sweeties Fighting (零食大亂鬥) series, the mobile version of War of the Sulfurons (薩弗隆戰記) series, the mobile version of the Super Tycoon (超級大亨) series, the mobile version of the Forest Gala (森林大聯歡) series, the mobile version of the Fish Catching Contest (捕魚大亂鬥) series, the mobile version of the Super Cute Monster (超級逗萌獸) series, the mobile version of the Super Rich (超級大富翁) series, the mobile version of the Age of Star Wars (星戰紀) series, the mobile version of the Shaky Battle (晃晃大作戰) series, the mobile version of the Super Diglett Fighting (超級地鼠大亂鬥) series, the mobile version of the Royal Tycoon (皇家大亨) series and the mobile version of the Royal Fish Catching (皇家捕魚) series. Besides, we have developed two computer software, namely the "Fire Element Mobile Software General Framework (火元素移動軟件通用框架)" and the "Fire Element Integrated Work Station System (火元素集成工作台系統)" and authorised the use of such software to enterprises such as business partners.

Among the aforesaid game series with successful commercial launch, the Kings & Legends (王者召喚) series, a fantasy tactics card game in Japanese style representing our first independently developed game, has been in the market for over 7 years since its commercial launch in March 2012. Its longer-than-average life cycle has been primarily attributable to our incessant effort in upgrading and optimising the game contents to appeal to players, increase their participation and enhance their game experience, which have also resulted in stable income for us. For the year ended 31 December 2019, revenue generated from the Kings & Legends (王者召喚) series accounted for approximately 0.7% of our total revenue for the year. The mobile version of the Sweeties Fighting (零食大亂鬥) series, a cartoon-style tower defense game commercially launched in May 2017, reported revenue of approximately RMB93.2 million for the year ended 31 December 2019, accounting for approximately 30.7% of our total revenue for the year. The mobile version of the Fish Catching Contest (捕魚大亂鬥) series, a fantasy hunting game commercially launched in December 2017, reported revenue of approximately RMB141.4 million for the year ended 31 December 2019, accounting for approximately 46.5% of our total revenue for the year. The success of the aforementioned game series has highlighted our emphasis on meticulous attention to details in product development and our research and development capabilities in delivering exquisite games, and has also bolstered our confidence in sustaining our operations through ongoing optimisation and upgrades of our premium games. Such success has also reflected the breakthrough we have achieved in the increasingly competitive market for mobile games and a greater market share we garnered thanks to our astute perception of and swift response to market developments, proactive approach to understand current trends and formulate lucid development strategies, and effort to seize opportunities in market developments on the back of our inherent strengths by committing significant resources to the research and development of mobile games.



MANAGEMENT DISCUSSION AND ANALYSIS

In terms of financial performance, the Group's revenue for the year ended 31 December 2019 amounted to approximately RMB304.0 million, increasing by approximately RMB143.3 million compared to approximately RMB160.7 million for the year ended 31 December 2018. Revenue generated from browser games and mobile games amounted to approximately RMB2.6 million and approximately RMB297.8 million, respectively, decreasing by approximately RMB3.2 million and increasing by approximately RMB142.9 million, respectively, as compared to approximately RMB5.8 million and approximately RMB154.9 million, respectively, for the same period of 2018. Revenue generated from mobile games accounted for 98.0% of the Group's revenue. Profit attributable to owners of the Company amounted to approximately RMB208.8 million for the year ended 31 December 2019, increasing by RMB119.0 million from approximately RMB89.8 million for the year ended 31 December 2018.

In terms of products, three mobile games, the Super Diglett Fighting (超級地鼠大亂鬥) series, the Royal Tycoon (皇家大亨) series and the Royal Fish Catching (皇家捕魚) series, were commercially launched in July 2019 to further enrich our portfolio of games. Two computer software, namely the "Fire Element Mobile Software General Framework (火元素移動軟件通用框架)" and the "Fire Element Integrated Work Station System (火元素集成工作台系統)" were licensed to business partners in October 2019. In addition, due to the business realignment of game operators, we underwent negotiation with licensed operators and discontinued the operation of seven game series on the platform of licensed operators, namely the browser version of the Hero's Crown (英雄皇冠) series and Heroines of Three Kingdoms (姬戰三國) series, and mobile version of the Super Rich (超級大富翁) series, the Age of Star Wars (星戰紀) series, the G-game series, the Number Drop series, and the Road of Vengeance (復仇之路) series in the third quarter of 2019, terminating the operation of such games.

As at 31 December 2019, there were 11 game series self-operated or under licenses to game operators for operation, launch and distribution (namely, in operation) within an agreed period in designated territories.

For the year ended 31 December 2019, revenue generated by our 5 leading game series in monetary amounts and as a percentage of total revenue are set out as follows: the mobile version of the Fish Catching Contest (捕魚大亂鬥) series commercially launched in December 2017 reported revenue of approximately RMB141.4 million for the year ended 31 December 2019, accounting for approximately 46.5% of our total revenue; the mobile version of the Sweeties Fighting (零食大亂鬥) series commercially launched in May 2017 reported revenue of approximately RMB93.2 million for the year ended 31 December 2019, accounting for approximately 30.7% of our total revenue; the mobile version of the Super Diglett Fighting (超級地鼠大亂鬥) series commercially launched in July 2019 reported revenue of approximately RMB21.7 million for the year ended 31 December 2019, accounting for approximately 7.1% of our total revenue; the mobile version of the Shaky Battle (晃晃大作戰) series commercially launched in July 2018 reported revenue of approximately RMB19.0 million for the year ended 31 December 2019, accounting for approximately 6.3% of our total revenue; the mobile version of the Royal Tycoon (皇家大亨) series self-operated through commercial launch in July 2019 reported revenue of approximately RMB11.9 million for the year ended 31 December 2019, accounting for approximately 3.9% of our total revenue.

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The table below sets forth the 11 main series of games which are commercially launched by our licensed operators or self-operated and are still in operation as at 31 December 2019:

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
Japanese	テイヴァイン・グリモワール/Divine Grimoire	Browser	September 2012
German	Kings and Legends	Browser	July 2013
French	Kings and Legends	Browser	December 2013
Traditional Chinese	卡卡們的大亂鬥	Browser	June 2012
Simplified Chinese	王者召喚	Browser	March 2012
<i>Hero's Crown (英雄皇冠) series of games</i>			
Simplified Chinese	魔界外传	Mobile	April 2016
<i>Sweeties Fighting (零食大亂鬥) series of games</i>			
Simplified Chinese	零食大乱斗	Mobile	May 2017/ June 2019*
<i>Super Tycoon (超級大亨) series of games</i>			
Simplified Chinese	超级大亨	Mobile	July 2017
<i>Forest Gala (森林大聯歡) series of games</i>			
Simplified Chinese	森林大联欢	Mobile	July 2017
<i>Fish Catching Contest (捕魚大亂鬥) series of games</i>			
Simplified Chinese	捕鱼大乱斗	Mobile	December 2017
<i>Super Cute Monster (超級逗萌獸) series of games</i>			
Simplified Chinese	超级逗萌兽	Mobile	December 2017
<i>Shaky Battle (晃晃大作戰) series of games</i>			
Simplified Chinese	晃晃大作战	Mobile	July 2018
<i>Super Diglett Fighting (超級地鼠大亂鬥) series of games</i>			
Simplified Chinese	超级地鼠大乱斗	Mobile	July 2019
<i>Royal Tycoon (皇家大亨) series of games</i>			
Thai	รอยัล คาสีโน	Mobile	July 2019
<i>Royal Fish Catching (皇家捕魚) series of games</i>			
Thai	เกมยิงปลาหารรษา	Mobile	July 2019

* It represents date of launch of enhanced and upgraded version of game series.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, we also had four game series under research and development, including the Super Bouncy (超級彈彈彈) series, the Jungle Treasure (叢林秘寶) series (tentative name), the Fighting Cells (戰鬥細胞) series (tentative name) and the Witty Pinball (智力彈球) series (tentative name). We also had four software products under research and development, including the Fight the Landlord Game AI System (鬥地主遊戲AI系統) (tentative name), the Nishui Tiangang Game Card Reader System (逆水天罡遊戲記牌器系統) (tentative name), the Texas Game AI System (德州遊戲AI系統) (tentative name) and the Good Friend Game Backstage Operation Management System (佳朋鸞遊戲後台運營管理系統) (tentative name). The Super Bouncy (超級彈彈彈) series was launched in January 2020.

Game/Software Title	Genre	Expected/(Actual) launch date	Start of game inception and evaluation
Super Bouncy (超級彈彈彈)	Turn-based RPG	First quarter of 2020 (actual)	First quarter of 2019
Jungle Treasure (叢林秘寶) (tentative name)	Leisure strategy	Second quarter of 2020	First quarter of 2019
Fighting Cells (戰鬥細胞) (tentative name)	H5	First quarter of 2021	Second quarter of 2019
Witty Pinball (智力彈球) (tentative name)	H5	First quarter of 2021	Third quarter of 2019
Fight the Landlord Game AI System (鬥地主遊戲AI系統) (tentative name)	Software	Second quarter of 2020	Third quarter of 2019
Nishui Tiangang Game Card Reader System (逆水天罡遊戲記牌器系統) (tentative name)	Software	Second quarter of 2020	Third quarter of 2019
Texas Game AI System (德州遊戲AI系統) (tentative name)	Software	Second quarter of 2020	Third quarter of 2019
Good Friend Game Backstage Operation Management System (佳朋鸞遊戲後台運營管理系統) (tentative name)	Software	Third quarter of 2020	Third quarter of 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

In 2020, the gaming industry and the market remain highly competitive. We will continue to operate with diligent and meticulous efforts and make the Company prosper, so as to further develop and grow.

For our primary business, the Group will continue to grow our strengths in research and development so as to develop exquisite games with higher quality, longer life-cycle and innovative game types. We will upgrade and optimise existing games, and keep on investing substantial resources in the R&D of mobile games. Besides, in the future, the Group intends to increase its research and development efforts, thoroughly explore users' game preference and needs, develop unique style and content, and develop browser games of higher quality using H5 technology or other new technology in order to maintain its core competitiveness in the research and development of browser games.

With the presence in Chinese game market, we will actively expand overseas markets and promote our games to new potential areas and regions. By further strengthening our position in major global markets, we strive to promote our competitiveness to the next level.

During our long research and development history, we have accumulated much experience and strong capacity in the development of internet application technology as well as established an outstanding technical team. In the future, we will continue to put in more effort in the R&D of intellectual property rights (computer software) and launch novel internet application technology and products, as well as providing premium intellectual property rights (computer software) licensing services for our business partners (including licensed operators), so as to enable a closer relationship between our business partners and us. We believe, employing intellectual property rights shall be an integral part of the Group's future development.

Besides, the Company will actively explore the possibilities of external strategic investment and cooperation, in particular business opportunities which can enhance the stability and diversity of our revenue, so as to cope with the increasing competition in the industry and the possible impacts caused by the constantly changing policies of the industry on the principal business of the Company.

Revenue

We are engaged in the development of browser, mobile games (including game design, programming and graphics) and computer software related to game operation, by which we license our self-developed browser games, mobile games to licensed operators around the world and provide intellectual property rights licensing services for enterprises. We also self-operate our self-developed game products in overseas markets.

During the year ended 31 December 2019, our revenue was mainly originated from our licensed operators/enterprises/game players 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 rights for specific games and services within an agreed period and designated territories; (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; (iii) intellectual property rights service fees which were charged monthly in accordance with the terms of the agreement; and (iv) revenue which was calculated based on the proportion of values converted upon the purchases of in-game virtual items with the values of the game credits consumed during gameplay which was purchased by game players through payment channels.

Our revenue increased by approximately 89.2% from approximately RMB160.7 million for the year ended 31 December 2018 to approximately RMB304.0 million for the year ended 31 December 2019. The increase in revenue was mainly due to the increase in revenue brought by the launch of several mobile game series successively from 2017 to 2019, being the Sweeties Fighting (零食大亂鬥) series, the Fish Catching Contest (捕魚大亂鬥) series, the Shaky Battle (晃晃大作戰) series and the Super Diglett Fighting (超級地鼠大亂鬥) series.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out a breakdown of our revenue for the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Revenue from online games*	300,436	98.8	160,700	100.0
Self-operated	13,083	4.3	—	—
Licensed operated	287,353	94.5	160,700	100.0
Intellectual property rights licensing	3,542	1.2	—	—
	303,978	100.0	160,700	100.0

Note :

* Details of the online game revenue are set forth in sections headed "Online Game Revenue by game platforms and revenue types", "Online Game Revenue by Game Product Series²" and "Online game License fees and royalties by game product series³".

Revenue by geographical markets

The following table sets forth our revenue from our games based on territories, as determined by the primary geographical market of the licensed operators, in absolute amounts and as a percentage of our revenue for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
The PRC (place of domicile)	289,846	95.4	159,344	99.2
Asia Pacific	13,490	4.4	662	0.4
Europe	620	0.2	694	0.4
North America	22	(Note)	—	—
Total	303,978	100.0	160,700	100.0

Note: The figures for these items are not shown due to rounding difference.

MANAGEMENT DISCUSSION AND ANALYSIS

Online Game 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 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Browser version	2,644	0.9	5,784	3.6
Royalties	2,644	0.9	5,784	3.6
Mobile version	297,792	99.1	154,916	96.4
License fees	816	0.3	2,017	1.3
Royalties	296,976	98.8	152,899	95.1
	300,436	100.0	160,700	100.0

Online Game Revenue by Game Product Series

The table below sets forth the breakdown of revenue by game series for each of the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Kings & Legends (王者召喚)	2,080	0.7	3,850	2.4
Hero's Crown (英雄皇冠)	571	0.2	3,797	2.4
Heroines of the Three Kingdoms (姬戰三國)	9	(Note)	107	0.1
Endless Battles (無盡爭霸)	—	—	357	0.2
Legend of Fairies (萌仙記)	—	—	828	0.5
Road of Vengeance (復仇之路)	1,358	0.5	3,046	1.9
Number Drop	275	0.1	3,110	1.9
G-game	1,129	0.4	3,142	2.0
Sweeties Fighting (零食大亂鬥)	93,202	31.0	51,783	32.2
War of the Sulfurons (薩弗隆戰記)	—	—	452	0.3
Super Tycoon (超級大亨)	152	0.1	287	0.2
Forest Gala (森林大聯歡)	721	0.2	1,414	0.9
Fish Catching Contest (捕魚大亂鬥)	141,354	47.0	65,796	40.9
Super Cute Monster (超級逗萌獸)	1,979	0.7	1,830	1.1
Super Rich (超級大富翁)	369	0.1	792	0.5
Age of Star Wars (星戰紀)	3,452	1.1	4,556	2.8
Shaky Battle (晃晃大作戰)	19,004	6.3	15,553	9.7
Super Diglett Fighting (超級地鼠大亂鬥)	21,698	7.2	—	—
Royal Tycoon (皇家大亨)	11,918	4.0	—	—
Royal Fish Catching (皇家捕魚)	1,165	0.4	—	—
	300,436	100.0	160,700	100.0

Note: The figure for this item is not shown due to rounding difference.

MANAGEMENT DISCUSSION AND ANALYSIS

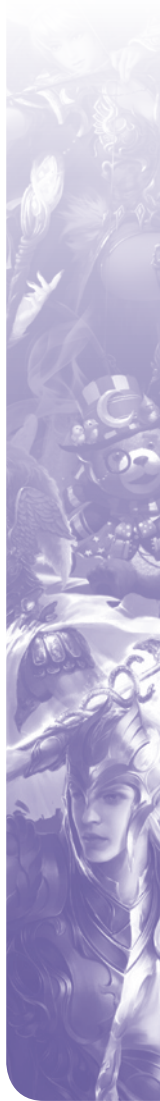
Online game License fees and royalties by game product series

The following table sets forth our license fees and royalties of our games series for each of the years ended 31 December 2019 and 2018:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Kings & Legends (王者召喚)		
• License fees	—	—
• Royalties	2,080	3,850
Hero's Crown (英雄皇冠)		
• License fees	—	254
• Royalties	571	3,543
Heroines of the Three Kingdoms (姬戰三國)		
• License fees	—	—
• Royalties	9	107
Endless Battles (無盡爭霸)		
• License fees	—	—
• Royalties	—	357
Legend of Fairies (萌仙記)		
• License fees	—	34
• Royalties	—	794
Road of Vengeance (復仇之路)		
• License fees	—	—
• Royalties	1,358	3,046
Number Drop		
• License fees	57	236
• Royalties	218	2,874
G-game		
• License fees	58	236
• Royalties	1,071	2,906
Sweeties Fighting (零食大亂鬥)		
• License fees	83	236
• Royalties	93,119	51,547
War of the Sulfurons (薩弗隆戰記)		
• License fees	—	369
• Royalties	—	83
Super Tycoon (超級大亨)		
• License fees	123	236
• Royalties	29	51
Forest Gala (森林大聯歡)		
• License fees	76	98
• Royalties	645	1,316
Fish Catching Contest (捕魚大亂鬥)		
• License fees	216	236
• Royalties	141,138	65,560
Super Cute Monster (超級逗萌獸)		
• License fees	—	—
• Royalties	1,979	1,830

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	For the year ended	
	2019	2018
	RMB'000	RMB'000
Super Rich (超級大富翁)		
• License fees	—	—
• Royalties	369	792
Age of Star Wars (星戰紀)		
• License fees	203	82
• Royalties	3,249	4,474
Shaky Battle (晃晃大作戰)		
• License fees	—	—
• Royalties	19,004	15,553
Super Diglett Fighting (超級地鼠大亂鬥)		
• License fees	—	—
• Royalties	21,698	—
Royal Tycoon (皇家大亨)		
• License fees	—	—
• Royalties	11,918	—
Royal Fish Catching (皇家捕魚)		
• License fees	—	—
• Royalties	1,165	—
Total	300,436	160,700



MANAGEMENT DISCUSSION AND ANALYSIS

Average MPU and ARPPU

The following table sets forth our average MPU and ARPPU of our main series of games for the years indicated:

	For the year ended 31 December	
	2019	2018
Kings & Legends (王者召喚)		
• Average MPU	1,394	2,227
• ARPPU (RMB) ⁴	122	143
Hero's Crown (英雄皇冠)		
• Average MPU	375	2,110
• ARPPU (RMB) ⁴	95	145
Endless Battles (無盡爭霸)		
• Average MPU	—	9,312
• ARPPU (RMB) ⁴	—	10
Legend of Fairies (萌仙記)		
• Average MPU	—	3,411
• ARPPU (RMB) ⁴	—	34
Road of Vengeance (復仇之路)		
• Average MPU	2,040	3,592
• ARPPU (RMB) ⁴	74	88
Number Drop		
• Average MPU	1,025	7,920
• ARPPU (RMB) ⁴	24	29
G-game		
• Average MPU	3,949	9,089
• ARPPU (RMB) ⁴	30	28
Sweeties Fighting (零食大亂鬥)		
• Average MPU	40,779	32,918
• ARPPU (RMB) ⁴	172	130
Fish Catching Contest (捕魚大亂鬥)		
• Average MPU	71,791	59,241
• ARPPU (RMB) ⁴	164	94
Age of Star Wars (星戰紀)		
• Average MPU	8,822	13,922
• ARPPU (RMB) ⁴	52	45
Shaky Battle (晃晃大作戰)		
• Average MPU	3,221	4,417
• ARPPU (RMB) ⁴	487	590
Super Diglett Fighting (超級地鼠大亂鬥)¹		
• Average MPU	17,145	—
• ARPPU (RMB) ⁴	211	—
Royal Tycoon (皇家大亨)²		
• Average MPU	42,659	—
• ARPPU (RMB) ⁴	36	—
Royal Fish Catching (皇家捕魚)³		
• Average MPU	9,223	—
• ARPPU (RMB) ⁴	15	—

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Notes:

1. The mobile version of Super Diglett Fighting (超級地鼠大亂鬥) series was commercially launched in July 2019.
2. The mobile version of Royal Tycoon (皇家大亨) series has been in operation separately conducted by an offshore subsidiary of the Group since July 2019.
3. The mobile version of Royal Fish Catching (皇家捕魚) series has been in operation separately conducted by an offshore subsidiary of the Group since July 2019.
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.

Direct costs

The Group's direct costs mainly consisted of staff costs and benefits, amortisation of intangible assets, channel costs charged by self-operated game platforms and others. The following table sets forth a breakdown of the Group's direct costs for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Staff costs and benefits	9,149	46.3	9,288	56.1
Amortisation of intangible assets	4,879	24.7	6,153	37.2
Self-operated channel costs	3,571	18.0	—	—
Others	2,179	11.0	1,107	6.7
Total	19,778	100.0	16,548	100.0

Staff costs and benefits represented salary and wages of staff who are responsible for making continuous enhancements to and maintenance of our commercially launched games. Staff costs and benefits for the year ended 31 December 2019 amounted to approximately RMB9.1 million, remained relatively stable as compared to approximately RMB9.3 million for the year ended 31 December 2018.

Amortisation of intangible assets represented the amortisation of intellectual properties for the commercially launched software and games. Amortisation of intangible assets for the year ended 31 December 2019 amounted to approximately RMB4.9 million, representing a decrease as compared to approximately RMB6.2 million for the year ended 31 December 2018.

Self-operated channel costs represented certain proportion of handling fees charged by cooperation platforms with respect to the two games launched, namely Royal Tycoon (皇家大亨) and Royal Fish Catching (皇家捕魚). Self-operated channel costs for the year ended 31 December 2019 amounted to approximately RMB3.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Others mainly comprised (i) other tax and surcharges; and (ii) outsourcing services fee for art/graphic design and audio production of sound effects and background music provided by third party service providers. In general, the increase in other tax and surcharges for the year ended 31 December 2019 was due to the significant increase in revenue.

Gross profit and gross profit margin

Our gross profit for the year ended 31 December 2019 amounted to approximately RMB284.2 million, representing an increase of approximately RMB140.0 million as compared to approximately RMB144.2 million for the year ended 31 December 2018. Our gross profit margin for the year ended 31 December 2019 amounted to approximately 93.5% and approximately 89.7% for the year ended 31 December 2018. The increase in our gross profit and gross profit margin was mainly due to the increase in revenue generated from the newly commercialised games during the year.

Other income

Our other income mainly consisted of interest income on short-term bank deposits and government grants. For the year ended 31 December 2019, our other income was approximately RMB4.9 million, compared with approximately RMB2.4 million in the same period of 2018. Such increase was mainly attributable to the increase of government grants of a PRC subsidiary of the Group received from the local government from approximately RMB0.9 million in 2018 to approximately RMB1.7 million and the gain arising from the disposal of shares in an associate and other increase during the year.

Research and development costs

Research and development costs primarily comprised (i) salaries for staff engaged in game software and other computer software products ("software products") development and upgrades; and (ii) fees associated with outsourcing production of non-technical elements of software products design and development to third party service providers, such as art/graphic design and audio production of sound effects and background music. The Group's software products development process typically involves several critical stages from software products inception and evaluation, software products development and programming to commercialisation. In the software products inception and evaluation stage, as programming has not yet been commenced and such planning stage could be classified as the research stage in accordance with the applicable accounting standards, costs incurred in software products inception and evaluation stage are expensed and recognised as software products research costs in the consolidated statement of profit or loss and other comprehensive income. In the software products development and programming stage, development and programming work are commenced, including developing the program source code for our software products, graphic design, audio production and character setting. Costs incurred in this stage would be classified as those incurred in the development stage in accordance with the applicable accounting standards and hence recognised as development costs as part of the intangible assets in the consolidated statement of financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of the Group's research and development costs incurred for the years indicated:

	For the year ended	
	31 December	
	2019	2018
	RMB'000	RMB'000
Research costs as recognised in consolidated statement of profit or loss and other comprehensive income:		
Age of Star Wars (星戰紀)	—	154
Shaky Battle (晃晃大作戰)	—	112
Royal Tycoon (皇家大亨)	—	219
Royal Fish Catching (皇家捕魚)	—	132
Sweeties Fighting 2 (零食大亂鬥 2)	—	221
Super Diglett Fighting (超級地鼠大亂鬥)	—	9
Super Bouncy (超級彈彈彈)	42	—
Jungle Treasure (叢林秘寶)	69	—
Fighting Cells (戰鬥細胞)	84	—
Witty Pinball (智力彈球)	187	—
Fire Element Mobile Software General Framework (火元素移動軟件通用框架)	46	—
Fire Element Integrated Work Station System (火元素集成工作台系統)	26	—
Fight the Landlord Game AI System (鬥地主遊戲AI系統)	36	—
Nishui Tiangang Game Card Reader System (逆水天罡遊戲記牌器系統)	38	—
Texas Game AI System (德州遊戲AI系統)	31	—
Good Friend Game Backstage Operation Management System (佳朋樂遊戲後台運營管理系統)	25	—
Subtotal	584	847

MANAGEMENT DISCUSSION AND ANALYSIS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Development costs as recognised in consolidated statement of financial position:		
Super Rich (超級大富翁)	—	436
Age of Star Wars (星戰紀)	—	1,328
Shaky Battle (晃晃大作戰)	—	432
Royal Tycoon (皇家大亨)	886	3,134
Royal Fish Catching (皇家捕魚)	1,496	1,100
Super Diglett Fighting (超級地鼠大亂鬥)	1,201	149
Sweeties Fighting 2 (零食大亂鬥 2)	1,585	—
Super Bouncy (超級彈彈彈)	1,921	—
Jungle Treasure (叢林秘寶)	2,425	—
Fighting Cells (戰鬥細胞)	1,756	—
Witty Pinball (智力彈球)	1,674	—
Fire Element Mobile Software General Framework (火元素移動軟件通用框架)	266	—
Fire Element Integrated Work Station System (火元素集成工作台系統)	215	—
Fight the Landlord Game AI System (鬥地主遊戲AI系統)	728	—
Nishui Tiangang Game Card Reader System (逆水天罡遊戲記牌器系統)	875	—
Texas Game AI System (德州遊戲AI系統)	718	—
Good Friend Game Backstage Operation Management System (佳朋鸞遊戲後台運營管理系統)	912	—
Subtotal	16,658	6,579
Total research and development costs	17,242	7,426

For the year ended 31 December 2019, the Group's overall research and development costs increased by approximately RMB9.8 million as compared to RMB7.4 million for the year ended 31 December 2018. The increase was mainly attributable to the decrease of approximately RMB0.3 million in research costs, as compared to the year ended 31 December 2018 and the increase of approximately RMB10.1 million in development costs as compared to the year ended 31 December 2018. Research costs decreased by RMB0.3 million as more software projects are added but with a relatively smaller scale and lower complexity. Furthermore, as a result of the research stages of mobile game series for the year ended 31 December 2019, including Royal Tycoon (皇家大亨), Royal Fish Catching (皇家捕魚), Sweeties Fighting 2 (零食大亂鬥 2), Super Diglett Fighting (超級地鼠大亂鬥), Super Bouncy (超級彈彈彈), Jungle Treasure (叢林秘寶), Fighting Cells (戰鬥細胞) and Witty Pinball (智力彈球) were of relatively larger scale and higher complexity, more manpower and resources were deployed for the new series of games, and the increase in the salaries and benefits for R&D personnel, leading to the increase in development costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution costs

Our distribution costs for the year ended 31 December 2019 amounted to approximately RMB7.2 million, representing an increase of approximately RMB6.5 million as compared to approximately RMB0.7 million in the same period of 2018. The increase was mainly due to the increase in the salaries and benefits of promotional personnel and the increase in promotional costs of games which are self-operated overseas.

Administrative expenses

The Group's administrative expenses primarily comprised salaries and employee benefits expenses, operating lease rental expenses, audit fees, legal and professional fees, listing expenses, depreciation of property, plant and equipment and others. The following table sets forth a breakdown of the Group's administrative expenses for the years indicated:

	For the year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Salaries and employee benefits	9,631	35.3	7,028	27.7
Operating lease rentals in respect of land and buildings under HKAS 17	—	—	2,655	10.5
Operating lease rentals in respect of servers	—	—	289	1.1
Depreciation of right-of-use assets	2,593	9.5	—	—
Audit, legal and professional fees	2,030	7.4	2,182	8.6
Listing expenses	5,398	19.8	3,937	15.5
Depreciation of property, plant and equipment	848	3.1	1,025	4.1
Exchange difference	541	2.0	2,028	8.0
Others	6,244	22.9	6,225	24.5
Total	27,285	100.0	25,369	100.0

The Group's administrative expenses for the year ended 31 December 2019 amounted to approximately RMB27.3 million, representing an increase of approximately 7.6% as compared to approximately RMB25.4 million for the year ended 31 December 2018. If the legal and professional fee incurred in relation to the Company's application for a transfer of listing from GEM to the Main Board for the year were excluded, the Group's administrative expenses for the year ended 31 December 2019 amounted to approximately RMB21.9 million, representing an increase of approximately 2.1% as compared to approximately RMB21.4 million for the year ended 31 December 2018. The increase in the Group's administrative expenses was mainly attributable to the increase in salaries, employee benefits of our administrative staff.

Income tax expense

Our income tax expense for the year ended 31 December 2019 amounted to approximately RMB44.7 million while we recorded approximately RMB29.1 million for the year ended 31 December 2018. The increase in our income tax expense was mainly because the profits of the PRC subsidiary of the Group increased significantly during the year as compared to the same period in 2018 as well as the increase in income tax expense withheld under the provisions of the PRC tax law with respect to the distribution of dividends to foreign investors by the PRC subsidiary of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year

Given the aforesaid reasons, profit attributable to owners of the Company increased by approximately 132.5% from approximately RMB89.8 million for 2018 to approximately RMB208.8 million for 2019.

LIQUIDITY AND FINANCIAL RESOURCES

In 2019, 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 2019, 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 returns and did not engage in any investments with high risks or involving speculative derivative instruments.

Cash and cash equivalents

As at 31 December 2019, our cash and cash equivalents amounted to approximately RMB147.9 million, compared with approximately RMB136.8 million as of 31 December 2018, which primarily consisted of cash at bank and cash on hand and which are mainly denominated in RMB (as to approximately 78.0%), USD (as to approximately 16.6%), THB (as to approximately 2.8%) and other currencies (as to approximately 2.6%).

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment and leasehold improvements. For the year ended 31 December 2019, our total capital expenditures amounted to approximately RMB5.0 million, represent the purchase of furniture and office equipment and leasehold improvement (2018: approximately RMB0.8 million, including the purchase of furniture and office equipment). 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 listing of the Company's shares had been transferred from GEM to the Main Board since 27 June 2019. The capital structure of the Group comprised issued share capital and reserves.

BORROWING AND GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 10.5% (31 December 2018: 9.9%).

CHARGE ON GROUP ASSETS

As at 31 December 2019, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 181 employees (31 December 2018: 109), mainly worked and are located in the PRC and Thailand. The table below sets forth the number of employees by function as at 31 December 2019 and 2018:

Department	2019		2018	
	Number of employees	% of total	Number of employees	% of total
Management	9	5.0%	7	6.4%
Project development	102	56.3%	66	60.6%
Game design	16	8.8%	12	11.0%
Programming	61	33.7%	35	32.1%
Art	25	13.8%	19	17.5%
Project Support	57	31.5%	24	22.0%
Marketing	18	9.9%	4	3.7%
Licensing and operator support	30	16.6%	14	12.8%
Information technology	9	5.0%	6	5.5%
Finance and administration	13	7.2%	12	11.0%
Total	181	100.0%	109	100.0%

The total remuneration of the employees of the Company was approximately RMB22.6 million for the year ended 31 December 2019 (2018: approximately RMB18.2 million).

The Company has established a remuneration committee with written terms of reference in compliance with the 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 with reference to their experience, responsibilities, workload and time devoted to the Group and performance 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 for other positions within the Group. The staff remuneration is reviewed regularly.

The Directors believe that maintaining a stable and motivated staff 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 organises various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building.

MANAGEMENT DISCUSSION AND ANALYSIS

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

On 29 November 2019, our Group transferred 3,150,000 shares (represented 45% of the issued share capital) of Newbie Media Co., Ltd (“Newbie Media”, an associated company of the Group in Thailand) held by it to Company A. Company A and its ultimate beneficial owners are third parties independent of the Group and its connected persons. The consideration of the Transfer was THB15,750,000, which was determined by the parties through arm’s length negotiation and with reference to the historical acquisition price, the current net assets value and the financial performance for the past financial years of Newbie Media. As all the applicable percentage ratios of the Transfer Agreement were below 5%, the transactions contemplated under the agreement did not constitute a notifiable transaction for the Company under Chapter 14 of Main Board Listing Rules, the requirements of reporting and announcement under Chapter 14 of the Main Board Listing Rules are not applicable.

Save for the investments mentioned above, there was no other significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant unrecorded contingent liabilities (31 December 2018: 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 and HKD. Approximately 4.6% of the revenue are denominated in currencies other than the functional currency of the operating units making the revenue for the year ended 31 December 2019 (2018: approximately 0.8%). Therefore, foreign exchange risk primarily arose from recognised assets in the Group when receiving or to receive foreign currencies from overseas cooperated counter parties.

95.4% (2018: approximately 99.2%) 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, HKD and THB.

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.

EVENTS AFTER THE REPORTING DATE

Saved as disclosed in Note 34 to the consolidated financial statements of this annual report, no significant event which needs to be disclosed has taken place after 31 December 2019 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE PLACING

The Shares of the Company were listed on GEM of the Stock Exchange on 18 February 2016, and the net proceeds from the Placing were approximately HKD28.9 million. As at 31 December 2019, the Group has spent approximately HKD7.2 million on the development of new games, approximately HKD2.9 million on the continual optimisation of our existing games on various platforms, approximately HKD1.5 million on working capital and general corporate purposes, approximately HKD1.6 million on enhancing its game development capabilities, approximately HKD3.6 million on opportunities to acquire/invest in game developers and approximately HKD4.6 million on developing new browser games. The Group is currently actively seeking opportunities to obtain/acquire the adaptation rights of appropriate source materials, plan the inception and research of browser games product, and enhance our game development capabilities.

No Share of the Company was issued at the time of the Transfer of Listing.

As at 31 December 2019, the Company's use of proceeds from the Placing is set out as follows:

	Original allocation <i>HKD million</i>	Original allocation <i>percentage</i>	31 December 2019 Amount used <i>HKD million</i>	31 December 2019 Amount used <i>percentage</i>	31 December 2019 Amount unused <i>HKD million</i>	31 December 2019 Amount unused <i>percentage</i>
Continual optimisation of our existing games on various platforms	2.9	10.0%	2.9	10.0%	—	—
Development of new games						
— Browser games	7.2	25.0%	4.6	15.9%	2.6	9.0%
Development of new games						
— Mobile games	7.2	25.0%	7.2	24.9%	—	—
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	3.6	12.5%	—	—	3.6	12.5%
Acquiring of/investment in game developers and related companies	3.6	12.5%	3.6	12.5%	—	—
Enhancement and diversification of our game development capabilities	2.9	10.0%	1.6	5.5%	1.3	4.5%
Working capital and other general corporate purposes	1.5	5.0%	1.5	5.2%	—	—
Total	28.9	100.0%	21.4	74.0%	7.5	26.0%

EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to owners of the Company of RMB208,789,246 (2018: RMB89,862,732) and the weighted average number of 320,000,000 ordinary shares (2018: 320,000,000 ordinary shares) in issue during the year.

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 2019 and 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK FACTORS FACED BY THE COMPANY AND RISK MITIGATION MEASURES

The Group principally engaged in the development and operation of our software and 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 above mentioned major risks and risk mitigation measures are set forth in Note 33 “Financial risk management” to the consolidated financial statements in this annual report.

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

(i) Risks relating to our business

For the years ended 31 December 2019 and 2018, all of the Group’s five largest customers were third party licensed operators licensed to operate the Group’s self-developed games within designated territories. We rely heavily on our 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. Besides, a significant portion of our revenue was generated from a small number of games, as the Fish Catching Contest (捕魚大亂鬥) and Sweeties Fighting (零食大亂鬥) game series contributed approximately 46.5% and 30.7% of our revenue for the year ended 31 December 2019 respectively. Any significant adverse impacts to these games could materially affect our business. In response, we adopted the following measures in 2019 to manage those risks: we capitalised on our strengths in R&D and extended our advantages in game research and development to the development of software, provided enterprises with computer software and intellectual property right licensing services. We also actively attempted to adopt the self-operation model for our games and looked for new competent licensed operators so we could minimise our reliance on major licensed operators; we continued to provide new premium licensed game products for licensed operators and upgraded our existing game products to attract and retain our players and enhance the players’ gaming experience and consumption power; we consolidated our relationship with business partners to attain mutually beneficial cooperation.

(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 rigorous 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 and maintain their experience in our games portfolio, and incentivise game players to increase their spending on our games. Furthermore, we also continue to focus on research and development of new games and explore new markets to maintain our competitiveness in gaming industry.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Risks relating to policies

The operation of online games of the Group is subject to supervision and management by a number of government authorities in the PRC. As the revenue of the Group is mainly derived within the PRC, any changes in policies by governmental regulatory bodies, such as the State Administration of Radio, Film, and Television (國家廣播總局) and the Ministry of Culture and Tourism (文化和旅遊部), may also affect the market, which may in turn impact our results of operations.

The Group allowed the self-operation of two games abroad, namely the Royal Fish Catching (皇家捕魚) and the Royal Tycoon (皇家大亨) in 2019. These measures reduce the risks relating to the competitive game market in the PRC and risks relating to the adjustments in policies regarding the issuance of game permits; expand and broaden the sales of the Company's games to overseas markets, and in turn increase and widen the Group's revenue sources.

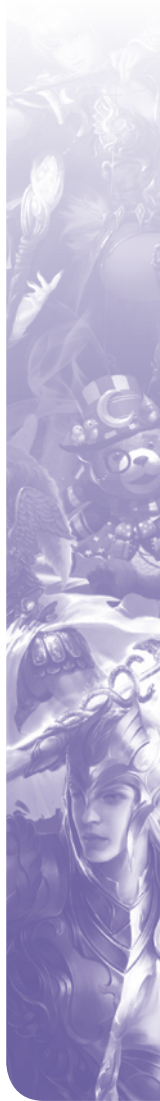
MANAGEMENT OF RISKS

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 reports to the Board regarding the consideration and investigation of risk management and internal control matters.

ENVIRONMENT POLICY AND PERFORMANCE

Having considered our industry characters, the Group has done planning, organising, implementing, operational, reviewing and assessment work 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 the idea of environmental protection to save water and electricity and conduct waste separation. The Group promoted electronic informatisation management to build "paperless" office.

The Group has implemented internal recycling and reusing program on a continual 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.



MANAGEMENT DISCUSSION AND ANALYSIS

COMPLIANCE WITH LAWS AND REGULATIONS

The Company is aware of the importance of complying with relevant laws and regulations. The Company has committed human resources to guarantee our constant compliance with provisions and codes, and build good relationship with supervising authorities through effective communication. From the date of Listing to 31 December 2019, to the knowledge of Directors, the Company is in compliance with the Securities and Futures Ordinance (“SFO”), the Main Board Listing Rules (applicable after the Transfer of Listing) and the GEM Listing Rules (applicable to the period before the Transfer of Listing) and other relevant codes and regulations. During the year under review, the Group has complied, to the best of our knowledge, with the SFO, the Main Board Listing Rules (applicable after the Transfer of Listing) and the GEM Listing Rules (applicable to the period before the Transfer of Listing), The Code on Takeover and Mergers and Share Buy-backs, 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 its employees, licensed operators and suppliers have material impact on our business and sustainable 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. Also, the management is considering other measures to retain staff and keep the staff turnover stable. The Company also has conditionally adopted the share option scheme as recognition and reward 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(l) to the consolidated financial statements.

The customers of the Group are mainly 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. In addition, we began to provide computer software service relating to game operation for our major licensed operators during the year and provided enterprises with licenses for intellectual property rights, so as to enable a closer relationship for both parties.

The main suppliers of the Group included the companies providing outsourcing services such as graphic designs, sound effects, background music, subsequent 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINAL DIVIDENDS

Dividend Policy

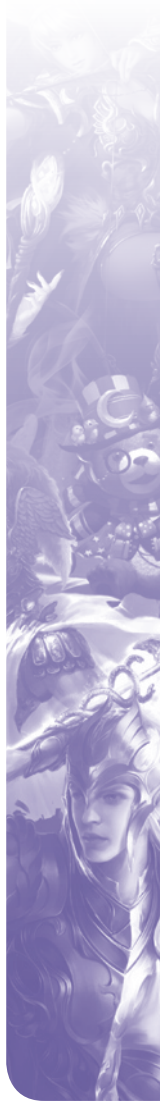
The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

In addition, as our Company is a holding company registered in the Cayman Islands and our operations are conducted through our subsidiaries, one of which is incorporated in the PRC, the availability of funds to pay distributions to Shareholders and to service our debts depends on dividends received from these subsidiaries.

Dividends

On 30 July 2019, the Company paid a final dividend for 2018 amounting to HKD24.0 million (approximately RMB21.1 million) in aggregate, in form of a cash dividend of HKD0.075 (equivalent to approximately RMB0.066) per share to the shareholders whose names appear on the register of members of the Company as at 5 July 2019.

Saved as disclosed above, no dividends were declared or paid during the year ended 31 December 2019. During the board meeting held on 9 March 2020, the Board recommended the payment of a final dividend of HKD0.09375 per share (equivalent to approximately RMB0.0825 per share), in form of a cash dividend, to the shareholders. The proposed final dividend for 2019 is expected to be paid to the shareholders on or around 20 May 2020, subject to the shareholders' approval at the Annual General Meeting ("AGM") to be convened and subject to further announcement(s) in respect to the book closure date, record date and payment date.



MANAGEMENT DISCUSSION AND ANALYSIS

CLOSURE OF REGISTER OF MEMBERS FOR THE ANNUAL GENERAL MEETING

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 14 April 2020 to Friday, 17 April 2020, during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 17 April 2020 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 9 April 2020.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

For the purpose of determining Shareholders' entitlement to the final dividend, the register of members of the Company will be closed from Friday, 24 April 2020 to Monday, 27 April 2020, during which period no transfer of shares will be registered. The record date for determination of entitlement to the final dividend shall be Monday, 27 April 2020. Shareholders whose names appear on the register of members of the Company on Monday, 27 April 2020 will be entitled to the final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 23 April 2020.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Group for the year ended 31 December 2019.

INTRODUCTION

We are committed to maintain high level of corporate governance as the Board recognises that sound and effective corporate governance is the 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 Corporate Governance Code (the “Code”) set out in Appendix 14 of the Main Board Listing Rules (applicable to the period after the Transfer of Listing) and the corporate governance code set out in Appendix 15 of the GEM Listing Rules (applicable to the period before the Transfer of Listing). The Directors believe, for the year ended 31 December 2019, the Company has complied with all the code provisions set out in the respective codes.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code (applicable to the period after the Transfer of Listing) and the required standard of dealings regarding directors’ securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (applicable to the period before the Transfer of Listing) as its own code of conduct regarding securities transactions by the Directors. 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 of all Directors, the Company confirms that the Directors have complied with the required standard set out in the Model Code and Rules 5.48 to 5.67 of the GEM Listing Rules during the year ended 31 December 2019 and up to the date of this report.

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 with their terms of references to board committees. Details of the respective committees’ terms of reference are available at the Stock Exchange’s and the Company’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 operational matters. All Directors contributed precious business experience, knowledge and professional skills 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 authorised by the Board before entering into any material transactions.

CORPORATE GOVERNANCE REPORT

The Board is subject to the code provisions D.3.1 of the Code 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 year ended 31 December 2019 and up the date of this report, the Board consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The Directors are:

Executive Directors

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

Non-executive Directors

Mr. ZHANG Yan (Chairman)
Ms. YANG Kan

Independent non-executive Directors

Mr. CHAN King Fai
Mr. CHEN Di
Mr. YANG Zhen (appointed on 26 August 2019)
Mr. HE Yunpeng (resigned on 26 August 2019)

The list of Directors (by category) is disclosed in all corporate communications issued by the Company pursuant to the Main Board 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 Main Board 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 year ended 31 December 2019, the Board at all times met the requirements of the Main Board 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 Rule 3.13 of the Main Board 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 independent by reference to the provisions on independence set out in the Main Board Listing Rules.

CORPORATE GOVERNANCE REPORT

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, 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, 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.

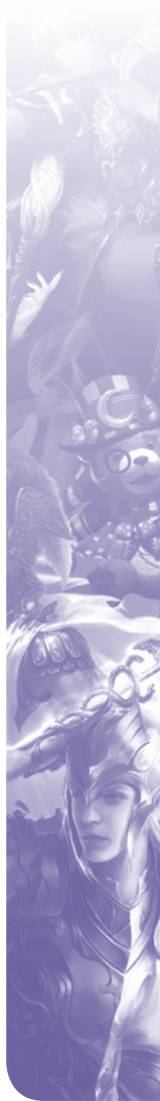
The Company had re-elected, appointed and re-designated certain Directors at the Annual General Meeting on 19 June 2019.

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' 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 code provision A.6.5 of the Code, regarding continuing professional development programme for directors. For the year ended 31 December 2019, all Directors participated in the training regarding director responsibilities and duties by the Company's legal advisers in relation to the Main Board Listing Rules. Such programmes were related to corporate governance, listed company and directors' continuing obligations.



CORPORATE GOVERNANCE REPORT

A summary of the training received by the Directors for the year ended 31 December 2019 is set out below:

Name of Director	Corporate governance	Listed company and directors' continuing obligations
Executive Directors		
Mr. Huang Yong (Chief Executive Officer)	✓	✓
Mr. Rao Zhenwu	✓	✓
Mr. Wu Zhe	✓	✓
Non-executive Directors		
Mr. Zhang Yan (Chairman)	✓	✓
Ms. Yang Kan	✓	✓
Independent Non-executive Directors		
Mr. Chan King Fai	✓	✓
Mr. Chen Di	✓	✓
Mr. Yang Zhen (appointed on 26 August 2019)	✓	✓
Mr. He Yunpeng (resigned on 26 August 2019)	✓	✓

DIRECTORS' LIABILITY INSURANCE

The Company strictly complied with the principle and provisions of the Main Board Listing Rules. As at 31 December 2019, 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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Board convened five 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	Extraordinary General Meeting
Executive Directors						
Mr. Huang Yong	5/5	N/A	1/1	N/A	1/1	1/1
Mr. Wu Zhe	5/5	N/A	N/A	N/A	1/1	1/1
Mr. Rao Zhenwu	5/5	N/A	N/A	N/A	1/1	1/1
Non-executive Directors						
Mr. Zhang Yan	5/5	N/A	N/A	1/1	1/1	1/1
Ms. Yang Kan	5/5	N/A	N/A	N/A	1/1	1/1
Independent Non-executive Directors						
Mr. Chan King Fai	5/5	2/2	1/1	N/A	1/1	1/1
Mr. He Yunpeng*	4/5	2/2	N/A	1/1	1/1	1/1
Mr. Yang Zhen**	2/5	N/A	N/A	N/A	N/A	N/A
Mr. Chen Di	5/5	2/2	1/1	1/1	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 19 June 2019 at which external auditor was present to address queries and questions.

* Mr. He Yunpeng resigned from the Company on 26 August 2019.

** Mr. Yang Zhen was appointed as an independent non-executive director of the Company and a member of the audit committee and remuneration committee of the Company on 26 August 2019.

CORPORATE GOVERNANCE REPORT

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.

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 Group 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 Group.

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

Pursuant to 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.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Group has established the remuneration committee on 24 January 2016 with written terms of reference in compliance with B1.2 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;
- (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. Chen Di, Mr. Chan King Fai and Mr. Huang Yong. Mr. Chen Di is the chairman of the remuneration committee. During the year ended 31 December 2019, the remuneration committee convened one meeting to discuss the matters set out above.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to code provision B.1.5 of the Code, details of the annual remuneration of the senior management by band for the year ended 31 December 2019 are as follows:

Remuneration band	Number of individuals
Nil to HKD1,000,000	3

Details of the remuneration of each Director for the year ended 31 December 2019 are set out in Note 14 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

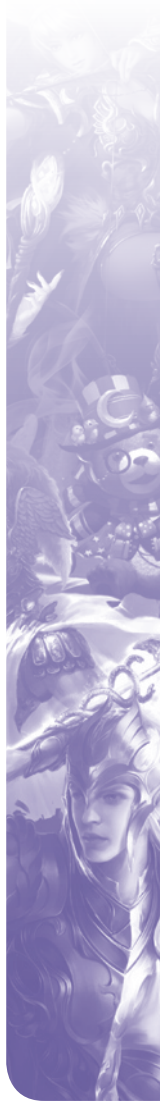
Audit Committee

We established the audit committee with written terms of reference in compliance with the requirements of the Listing Rules and the Code. 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;
- 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 Listing Rules and legal requirements in relation to financial reporting;

CORPORATE GOVERNANCE REPORT

- 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;
- 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;



CORPORATE GOVERNANCE REPORT

- 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. Yang Zhen and Mr. Chen Di. The chairman of the audit committee is Mr. Chan King Fai, who holds the appropriate professional qualifications as required under Rules 3.10(2) of the Main Board Listing Rules. During the year ended 31 December 2019, the audit committee convened two meetings to discuss the matters set out above.

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. Yang Zhen and Mr. Chen Di. Mr. Zhang Yan is the chairman of the nomination committee. During the year ended 31 December 2019, the nomination committee convened one meeting to discuss the matters set out above.

CORPORATE GOVERNANCE REPORT

Policy of Board Diversity and the Execution

When identifying suitable candidates for directorship, the nomination committee carries out the selection process by making reference to the skills, experience, background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

In considering the appointment of Mr. Yang Zhen, the Board, with the assistance and recommendation from the Nomination Committee of the Company, has reviewed the structure, size, composition and diversity of the Board from a number of aspects, including but not limited to age, gender, geographical background, length of service, and the professional experience, skills and expertise he can provide. The Board is of the view that during his tenure as Independent Non-Executive Director, he has made positive contributions to the Company's strategy, policies and performance with his independent advice, comments, judgment from the perspective of his respective background coupled with his general understanding of business of the Group. He also contributes to the diversity of the Board in age and geographical background. Holding not more than seven listed company directorship, he is able to devote sufficient time and attention to perform the duties as an Independent Non-Executive Director. In view of the above, his appointment is considered to be of benefit to the Company.

Directors' Responsibilities for the Financial Reporting

The Directors are responsible for the preparation of the Group's and the Company's consolidated financial statements for the year ended 31 December 2019.

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 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 information and position.

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 organisational 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 2019, 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.

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

Mr. Wei Dong and Mr. Chu Hon Leung are our joint company secretaries.

For details of Mr. Wei Dong and Mr. Chu Hon Leung, 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 year.

NON-COMPETITION UNDERTAKING

A deed of non-competition (the “Deed of Non-Competition”) was executed by each of the Substantial Shareholders (as defined in the Prospectus, being Mr. Zhang Yan, Sulfulon International, Mr. Wu Zhe, R&P Global, Mr. Huang Yong, Raglon International, Mr. Rao Zhenwu and Meteor Technology (as defined in the Prospectus), collectively referred to as “Covenantors”) in favour of the Company. The Covenantors had confirmed to the Company that they had provided the Group all information necessary for the enforcement of the undertakings contained in the Deed of Non-Competition and had complied with the Deed of Non-Competition for the year ended 31 December 2019.

The independent non-executive Directors have reviewed and confirmed that each of the Covenantors had complied with the Deed of Non-Competition which has been enforced by the Company in accordance with its terms, and that there was no Business Opportunity being directed by the Covenantors to the Company as provided under the Deed of Non-Competition.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the Directors’ remunerations and the five individuals with the highest emoluments are disclosed in Note 14 to the consolidated financial statements in this annual report in accordance with the provisions of the Main Board 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 RMB0.6 million for the year ended 31 December 2019 and the fees in relation to the reviewing services provided by BDO Limited during the Company’s application for the transfer of listing from GEM to Main Board, amounted to approximately RMB0.7 million. Apart from that, there was no non-audit services provided during the year.

MATERIAL CHANGES IN CONSTITUTIONAL DOCUMENTS

On 24 January 2016, the Articles of Association was adopted with effect from the date of Listing. On 8 August 2019, the Company amended and restated the Articles of Association. Save as disclosed above, there was no change in the Articles of Association during the year.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

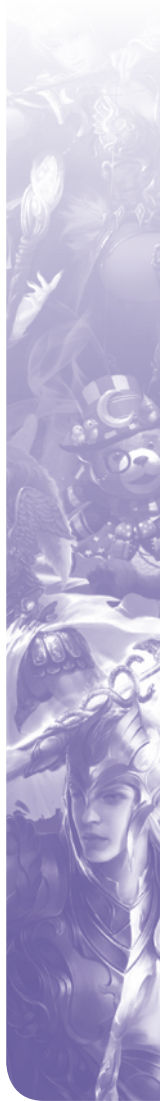
The Company has adopted shareholders communication policy with objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company. The Company believes, effective communications with Shareholders 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 Shareholders and investors to make an informed investment decision.

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 Main Board website www1.hkexnews.hk 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, where updated information of business development and operation, finance resources, corporate governance practices and other materials are available for public inspection;
- (iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management. 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; 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



CORPORATE GOVERNANCE REPORT

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 Main Board Listing Rules and the poll voting results will be posted on the Hong Kong Stock Exchange's 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

ABOUT THE REPORT

As a responsible corporate citizen, we pay great attention to corporate sustainability with a commitment to corporate social responsibility. This is the Environmental, Social and Governance report (the “ESG Report”) of Fire Rock Holdings Limited (the “Company”, together with its subsidiaries as the “Group” or “we” or “us” or “our”) for the year ended 31 December 2019 focusing on our environmental and social responsibility.

The Group believe that a more thorough analysis of our business performance could be carried out by attaching value to environmental, social and governance factors, improving our workflows for sustainable development in the future. The Board of the Company is responsible for our risk assessment and analysis for securing an effective system of our risk management and internal control on environmental, social and governance issues.

Scope and Reporting Period

Unless otherwise stated, the ESG report covers the environmental and social performance by the subsidiaries of the Company — Shenzhen Fire Element Network Technology Co., Ltd, Shenzhen Fire Element Network Science and Technology Co., Ltd. (collectively named as “Shenzhen Fire Element”) and Firerock Co., Ltd (“Firerock Co.”) in Thailand for the period from 1 January 2019 to 31 December 2019 (the “Reporting Period”).

Reporting Standards

The ESG report has been prepared in accordance with the disclosure requirements of “ESG Reporting Guide” set out in Appendix 27 of the Listing Rules and considered and approved by the Board. For details of our corporate governance practice, please refer to the “Corporate Governance Report” included in this annual report.

Our Approach to Sustainable Development

We will continue to maintain high standards of corporate governance and provide our customers the products and services with higher quality. In addition to maintaining steady growth in our business, we have introduced the concept of environmental, social and governance into our mission, value, business and systems in order to pursue all-round sustainable development of the Group and build our green future.

Opinions and Feedbacks from Stakeholders

Dialogue with stakeholders is a vital factor in formulating our ESG strategies. Should you have any question or suggestion, please email us at lizj@firerock.hk to help us improve our ESG performance.

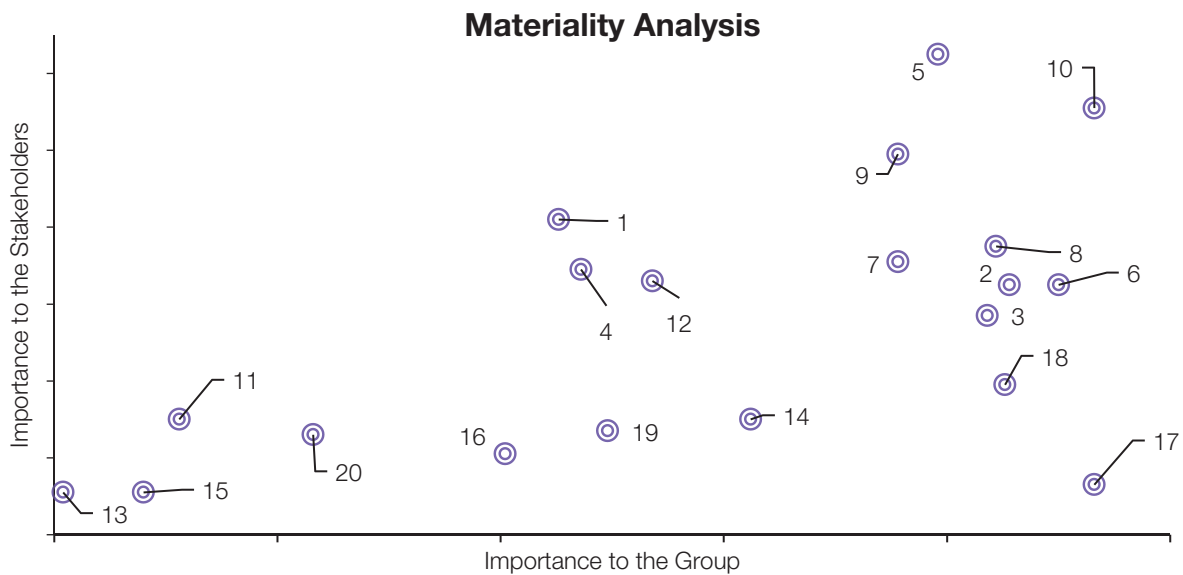


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Dialogue with Stakeholders and Materiality Identification

The opinions and views of different stakeholders allow the Group to understand their most concerned issues on environmental, social and governance. Our key stakeholders are shareholders, business partners, game players, suppliers, employees, governments and the community at large. The communication channels with our stakeholders include meetings, interviews, enquiry hotlines, official website, email, financial reports, statutory reports and general meetings.

We are aware that the concerns and expectations of stakeholders may change with the passage of time. During the year, the findings of an online survey conducted with stakeholders have been the basis of preparation of the materiality matrix analysis as well as the guideline on preparing the ESG Report. The top right hand corner of the following chart indicates the most concerned issues of materiality by the stakeholders and our management. Results show that the five most important issues are employee benefits, handling of players' complaints, training and development, players' satisfaction and occupational health and safety.



Issues

- | | |
|---|--|
| 1. Game development capabilities | 11. Preventing child and forced labour |
| 2. Game related health and safety issues | 12. Equal opportunity, diversity and anti-discrimination |
| 3. Protection of the privacy of players/operators | 13. Management of gas emissions |
| 4. Product responsibility | 14. Resources management |
| 5. Handling of players' complaints | 15. Solid wastes management |
| 6. Players' satisfaction | 16. Green procurement |
| 7. Relationship with employees | 17. Suppliers management |
| 8. Occupational health and safety | 18. Protection of intellectual property rights |
| 9. Training and development | 19. Anti-corruption |
| 10. Employee benefits | 20. Social contributions |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR BUSINESS DEVELOPMENT

Headquartered in Shenzhen, China, the Group is a game developer focusing on the development of browser and mobile games. To attract more players from different parts of the world to experience our games, we offer our games in multiple language versions, including English, Japanese, Thai, French, German, simplified Chinese and traditional Chinese. To consolidate our position in the market, we have licensed various well-established game operators to operate, publish and distribute specific games within designated territories. At present, our browser and mobile games can be found on third party internet platforms, such as Facebook, Apple's App Store, Google Play and other third party game publishing platforms designated by our licensed operators.

SOCIAL

Employment and Labour Practices

Our practice is to ensure fair treatment to every job applicant and every employee and no employment discrimination caused by age, nationality, race, religion, sexual orientation, gender, marital status, pregnancy, disability and political stances. To provide equal employment opportunity, our talent acquisition is in strict accordance with the principles of fairness, impartiality and openness. We have a number of recruitment channels, such as staff referrals, online recruitment, campus recruitment and recruitment agencies. All employment decisions are made after an assessment of the individual abilities and qualities of job applicants through interviews. New employees are supported by our human resources department to settle in as quickly as possible to a productive role, the induction and monthly follow-ups allow our human resources department to understand about the performance of the new employees and provide them assistance, if necessary. We adopt a 5-day work week with a total of 40 working hours. Employees are entitled to statutory national holidays, marriage leaves, bereavement leaves, maternity leaves, carer's leaves and nursing leaves, etc.

We have adopted "Regulations for the Remuneration Regime" and "Administrative Regulations for Appraisal of Staff Performance" to implement a fair and reasonable mechanism for remuneration management, appraisal and reward. Remuneration of an employee is determined based on his/her overall qualification and individual performance, such as academic records, work experience and competence. We provide discretionary bonus, social insurance such as pension scheme, medical, unemployment, work injury and maternity insurance, and housing provident fund in compliance with the laws and regulations of the business location, and also purchase supplementary medical insurance on serious illnesses for our staff. Attractive benefits are in place for retaining talents, and regular review on remuneration system is performed to maintain its competitiveness by making necessary adjustments. Meanwhile, outstanding performers or those employees suitable for higher positions will be offered opportunity for promotion or salary raise in due course. Moreover, priority is accorded to internal promotion or re-designation in filling of management or professional technical vacancies, external hiring may also be considered in appropriate conditions.

Any kinds of appointment, promotion or termination of labour contract by the Company during the Reporting Period have been in compliance with local laws and regulations and based on sound reasons. We strictly prohibit any act of improper or unreasonable termination of employment.

Compliance with laws and regulations

We have strictly observed the laws and regulations relating to employment, including but not limited to the "Labour Law of the PRC", "Labour Contract Law of the PRC", "Law on the Prevention of Occupational Disease of the PRC" and "Social Insurance Law of the PRC" as well as "Working of Alien Act", "Social Security Act" and "Workmen's Compensation Act" in Thailand. To the best of the knowledge of the Directors of the Group, in the Reporting Period, the Group was not subject to any significant administrative sanctions or punishments as a result of any violation of employment laws or regulations.

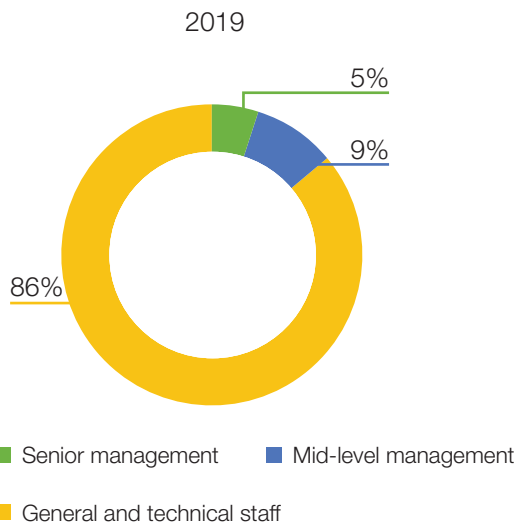


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

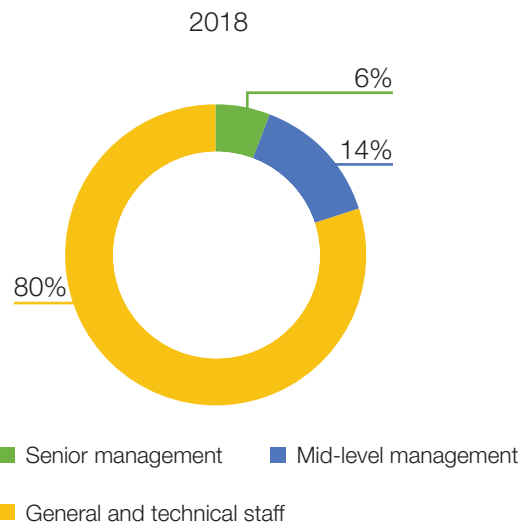
Analysis of Staff Distribution

As shown in our statistical analysis, as at 31 December 2019, we had 181 employees comprising 131 male and 50 female employees, of which 146 were full-time staff based in mainland China, 34 were full-time staff based in Thailand and 1 was full-time staff based in Hong Kong. Detailed statistics on employees are set out as follows:

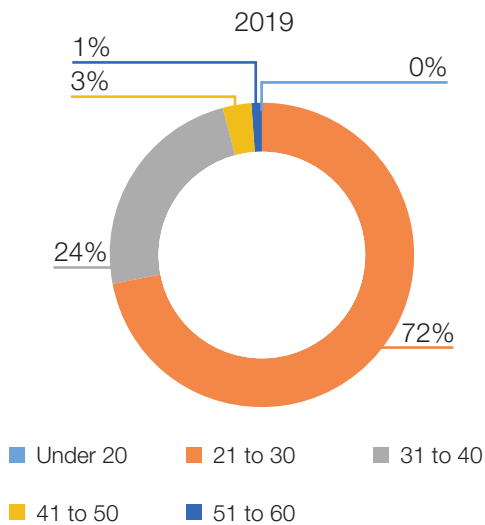
Employment Type



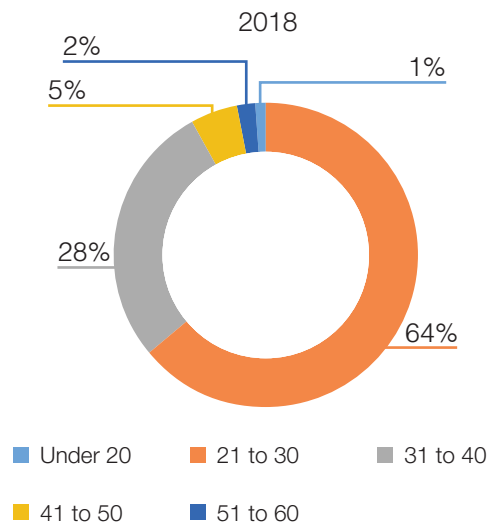
Employment Type



Age Group



Age Group



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Staff Development and Training

As the Group is of the view that talents form the foundation for business development, we aim to recruit, groom and fulfill the talents of high-calibre staff, and provide the talents support for career development in order to achieve win-win results. To enhance our people's professional skills and knowledge in market changes, we have organised industry-related training courses and seminars and encouraged our people to participate into diversified training programmes for self-worth increase and competency enhancement.

The in-service trainings we provide are divided into conceptual, management and professional categories. Outstanding performers are invited to participate into the key training and nurturing programme for turning them into internal management of the Company in an orderly manner, allowing them to gain their career achievements.

Certain training topics of the Group during the Reporting Period are as follows:

- Employee induction
- Game illustration
- Management and operation of intellectual property rights
- Management of research and development project
- Self-enhancement for professional managers
- Corporate culture of pursuing excellence
- Project management
- Experience exchange on special visual effects
- Team management

	2019	2018	Unit
Employee training analysis			
Total training hours	2,268	767	Hour
Average training hours	3.31	2.25	No of hour/person
Percentage of employees trained by gender			
Male	80.03	77.42	%
Female	19.97	22.58	%
Percentage of employees trained by employment type			
Senior management	5.51	14.08	%
Mid-level management	15.76	24.63	%
General and technical staff	78.73	61.29	%
Average hours of training received per employee by gender			
Male	3.25	2.23	No of hour/person
Female	3.53	2.32	No of hour/person
Average hours of training received per employee by employment type			
Senior management	18.14	3.63	No of hour/person
Mid-level management	6.34	2.57	No of hour/person
General and technical staff	1.27	1.81	No of hour/person

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Occupational Health and Safety

We endeavour to provide a safe, healthy and comfortable workplace for our employees. We have been strictly in compliance with pertinent laws and regulations, such as the “Law on the Prevention of Occupational Disease of the PRC”, “Emergency Response Law of the PRC” and “Occupational Health Safety and Working Environment Act of the Kingdom of Thailand”. To prevent occupational diseases and secure the health and rights of our staff, staff awareness of occupational diseases is enhanced through various promotional activities. We have purchased commercial insurances for our staff and provided them a comprehensive body check plan every year for all-inclusive health protection in terms of disease prevention, accidents, severe diseases and hospital treatment. In addition to the provision of ergonomic desk and chair in office, staff members are encouraged to participate in the sports activities, such as basketball and badminton organised weekly by the Company for preventing physical problems possibly caused by excessive sedentary behaviors by exercising regularly and appropriately. Also, we have arranged relevant safety training for staff and worked with the building management to conduct fire emergency drills in the office premises. Such training can provide staff with some basic knowledge required in the event of a fire, such as the use of fire extinguishers, so that they are better equipped for escape and self-rescue.

During the Reporting Period, the Group did not encounter any work injury or fatal work accidents.



Fire emergency drill



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Staff Remuneration and Welfare

With a view to rewarding our staff for their contribution to the Group, we offer all kinds of benefits to our staff including incentives for appreciating their excellent performance, small birthday gifts, greeting cards, sport activities, tea-time, etc. on top of competitive remuneration packages. Furthermore, we organize staff activities in the forms of gala dinner, games or otherwise regularly to enhance the sense of belonging to the Group among our employees.

Golden Gulf Leisure and Encouragement Camp



Tea-time



Festive Benefits



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

 Badminton Competition

 Birthday Party


Inspiring Creativity

In order to increase their interests at work, enable employees to experience an innovative work atmosphere and stimulate their creative thinking, we organized various contests and activities for employees in addition to daily work. Participants are required to prepare a proposal in relation to particular game theme, demonstrating their creativity and the game concept. The proposal will be evaluated on the basis of creativity, pertinency of the theme and originality of the content. In case that outstanding proposals are adopted, participants will be awarded additional bonus to recognize their exceptional performance.

Labour standards

The Group is in strict compliance with laws and regulations such as the “Labour Law of the PRC”, “Labour Contract Law of the PRC”, “Laws of the PRC on Protection of Minors” and “Regulations Banning Child Labour”, as well as “Labour Protection Act” and “Labour Relations Act” in Thailand, among others. Meanwhile, the Group does not hire candidates aged under 18 as staff or recruit child workers who have not reached the statutory minimum age under local laws. Our HR Department requires candidates to confirm their actual age by producing valid identifications during the hiring process before entering the Group.

In addition, we have formulated the “HR Operating Guide for Work”, which stipulates staff working hours. Any form of slavery, physical punishment and threat of violence are strictly prohibited. In case that any employment of child and forced labour is found, action will be taken immediately to terminate such employment.

During The Reporting Period, there is no occurrence of any employment of child labour or forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supply Chain Management

As graphic designs and audio production are involved in the programming stage of game development, our suppliers mainly include outsourcing companies that provide art and audio production services. Outstanding suppliers will be selected according to designated process. Firstly, commercial officer will select and seek quotations from at least 2 suppliers for our evaluation. Newly approached suppliers are required to provide sample workpieces while suppliers with which we have collaborated before are required to submit their previous work portfolio for assessment. Comprehensive assessment will be conducted in consideration of artistic style, quotation, quality of service, business relationships and other criteria by assessors. At the end of each year, commercial officer will also conduct an annual evaluation in relation to the quality and the timeliness of delivery of services by such suppliers in accordance with the “Annual Evaluation Form for Outsourcing Suppliers”. We believe that stringent control and monitoring as well as regular evaluation can effectively reduce supply chain risk.

PRODUCT RESPONSIBILITY

Building a Green and Healthy Online Environment

Maintaining close communication with licensed operators is crucial to our operations as it allows us to better understand the market response of such games. Therefore, we opted to cooperate with quality licensed operators. Our commercial officer will select licensed operators based upon their background, advantages, features and their recent development. We will evaluate their performance at the end of each year and assess their game promotional capabilities and problem-solving capabilities. We will continue to work with those licensed operators with outstanding performance in the coming year. Enquiries of game players are categorized and handled by different parties. Daily technical issues are handled by the operation centre of the Company and the nature of such complaints are identified by the Chief Business Officer. If such complaints are related to the attitude towards customers, game quality or of a much higher severity, managers of respective departments will be notified immediately for further action.

Moreover, as our games are offered to games players all over the world, we are required to comply with relevant law and regulations of the regions where licensed operations are being conducted, respect local religions and customs, as well as promote and develop game products conveying a healthy and positive outlook. Meanwhile, protection of the mental and physical health of adolescents represents our core concern. We collaborate with licensed operators to implement the following measures for our game products with the aim of preventing minors from being addicted to online games:

- Approval from competent regulatory authorities is required in compliance with relevant national requirements;
- Age limit is specified in the game description when the game series is launched;
- Content and language filtering functions are embedded in the game to create a green and healthy online environment;
- Duration is set for teenagers in staying online daily

We strictly adhered to the laws and regulations relating to product responsibility, including but not limited to “Administrative Regulations on Online Publishing Services”, “Administrative Measures for Internet Information Services” and “Provisional Measures for the Administration of Online Games” in China, “Electronic Transactions Act”, “Computer Crime Law” and “Personal Data Protection Law” in Thailand. To the best of the knowledge of the Directors of the Company, the Group did not violate any of such rules during the Reporting Period.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Data Security and Privacy Protection

Accepting and agreeing the terms and conditions set out by us and the licensed operators. All information pertaining to registration, game roles, value top-up, game experience and in-game items maintained in licensed operators' operational platforms and game product systems through internet interface during the process of game play are regarded private and personal data of the game players. Thus, we exercise cautious care and adopt adequate measures to protect such information from leaking to other third parties.

In order to safeguard the privacy of our game players, we have established internal procedures for privacy protection which include the following:

- Code programming authority is set according to departmental functions and projects handled so that staff can only access to information within a limited scope;
- Authority of user access to the database system is subject to regular staff review to prevent illicit operation by unauthorised personnel;
- A fire wall is set to block the unauthorised access to our user database by external parties;
- Encrypted installation is set up for the transmission and storage of game players' sensitive information (such as user passwords) in the database;
- Data back-up is implemented with storage in various locations on servers each month to reduce the risk of data loss;
- Employees are required to sign a confidentiality agreement to acknowledge their responsibility to keep information (including personal information of clients and intellectual properties) confidential.

In order to continue our success in implementing a sustainable development plan, collecting valuable comments and feedback from game players is crucial in enhancing the quality of our products and services. We maintain close liaison with licensed operators and provide comprehensive technical guidance and assistance to licensed staff through different channels, such as service centres and service hotlines.

To the best of the knowledge of the Directors of the Company, the Group did not experience any incidents of data or information loss, nor was it aware of any violation of relevant laws and regulations relating to the health and safety of products and services, advertisements and labels during the Reporting Period.

INTELLECTUAL PROPERTY RIGHTS

We are committed to adopting a range of measures to protect our intellectual property rights in order to protect the achievements of our research and development teams. Of which, the "Handbook for the Management of Intellectual Property Rights" sets out the delegation and responsibility of employees in the preparation and use of confidential information. The standard labour contract signed by our employees contains a provision requiring employees to keep confidential our privileged business information.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to let all of our employees better aware of the importance of intellectual property rights, we require them to bear in mind our managerial principles, that is “standardize management, brave innovation, prioritise technology, protect property rights”. The general manager of the Company is the first person responsible for the management of our intellectual property rights. The general manager shall assign dedicated staff to be responsible for the filing, registration, transfer and handling of infringement disputes in relation to internet domain names, trademarks, patents and software copyrights, in order to protect the Company’s intangible assets and intellectual property rights.

In addition, we also enter into confidentiality agreements with service providers and licensed operators to protect our intangible assets such as game copyrights, trademarks, trade secrets and other intellectual property rights. We monitor our intellectual property rights on an ongoing basis and take appropriate actions, such as engaging third-party intellectual property agents for professional advice and assistance, if any acts of infringement are found. Where necessary, we will take legal actions to defend our legal rights and interests.

During the Reporting Period, we registered 8 software copyrights. To the best of the knowledge of the Directors of the Company, the Group did not commit any material violation of the “Patent Law of the PRC”, “Trademark Law of the PRC”; “Copyright Law of the PRC”, “Measures for the Administration of Internet Domain Names of China”, “Administrative Measures for Software Products”, and “Patent Act”, “Copyright Act”, “Trademark Act” in Thailand or other relevant laws and regulations during the Reporting Period.

ENVIRONMENTAL

Emissions, Use of Resources and the Environment and Natural Resources

The Group’s core business is dependent on internet technologies and related equipment, the Group does not produce any packaging materials or generate any substantial amount of directly discharged greenhouse gases, it only generates small amount of general wastes such as wastewater or household wastes in its daily operations.

Resources and Emissions Management

During the Reporting Period, outsourced electricity for computers and other office equipment, air-conditioners and lighting is the major source of our greenhouse gas emission. The Group had no direct and significant greenhouse gas emissions (scope 1). Other greenhouse gas emissions and energy consumption data are set out as follows:

	2019	2018	Unit
Greenhouse gas emissions (scope 2) — electricity consumption	145.47	126.77	Tonnes of CO ² e
Intensity of greenhouse gas emissions (scope 2) — Greenhouse gas emission per sq.m. in GFA — electricity consumption	0.09	0.08	Tonnes of CO ² e/sq.m.
Total electricity consumption	270,988.78	234,372.75	kWh
Intensity — Electricity consumption per sq.m. in GFA	174.47	152.61	kWh/sq.m.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Although our business operation do not have any significant impact on the environment and natural resources, we nevertheless are confident and committed to the control of electricity consumption and reduction of greenhouse gas emission. During the Reporting Period, we implemented the following measures:

- Temperature of air conditioners set at 26°C
- Use of LED lightbulbs in offices
- Posting of energy conservation notices in most places of our office to require employees to switch off all unnecessary electrical appliances after office hours
- Encourage employees to shut-down all unused lighting devices and unnecessary electronic appliances and devices during lunchtime
- Priority in procurement for brands with outstanding energy-efficient performance with respect to commonly-used computer equipment
- Promotion of energy-saving culture to staff through electronic inter-communication systems

Water Consumption Management

During the Reporting Period, our consumption of water takes place mainly in our offices. At present, there is no problem of accessing water source. To encourage water conservation among employees, we have posted reminders for water conservation in the restrooms. Shenzhen Fire Element consumed a total of 840 cubic metres (2018: 840 cubic metres) of water, representing a water consumption intensity of 0.54 cubic metre per square metre (2018: 0.60 cubic metre per square metre)¹.

Waste Management

The major activity of our daily operations generates mainly non-hazardous wastes, such as paper and daily trash. During the Reporting Period, we generated approximately 8.11 tonnes (2018: 7.94 tonnes) of non-hazardous wastes, with an intensity of not more than 0.01 tonne/square metre (2018: 0.01 tonne/square metre). During the Reporting Period, we replaced 7 obsolete toner cartridges and 1 ink cartridge (weighing not more than 0.1 tonne) in our printers, which was the same as in 2018. We will arrange, on a best effort basis, suppliers to collect and recycle or carry out non-hazardous treatment.

To reduce the volume of waste generation, we have actively implemented the following measures:

- Electronic documents are used for work or circulation wherever possible to facilitate the paperless office
- With respect to printing, printable area of paper is maximised by adopting optimal page layout and encouraging two-sided printing
- Notices are posted in office areas to encourage staff to consider their needs before using papers

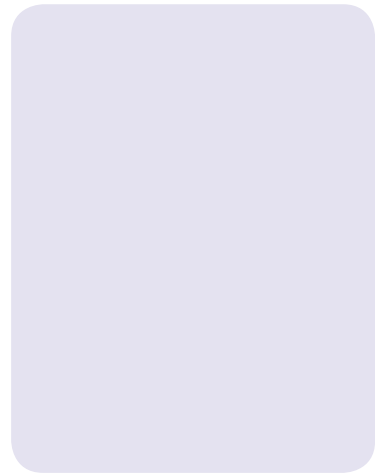
¹ As Firerock Co. operated in leased office premises in Thailand of which both the water supply and discharge were solely controlled by the respective building management which considered the provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible. Hence, the data for the Reporting Period was collected from the offices of Shenzhen Fire Element only.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, in order to enhance the environmental awareness among our employees, Shenzhen Fire Element held a beach cleaning campaign and recycled the waste collected.



Beach cleaning campaign



Compliance with laws and regulations

The Group strictly adhered to various environmental laws and regulations, including but not limited to the “Law of the People’s Republic of China on Environmental Protection”, “Law of the People’s Republic of China on Energy Conservation”, “Law of the People’s Republic of China on Prevention and Control of Environmental Pollution by Solid Waste”, “Law of the People’s Republic of China on Prevention and Control of Water Pollution”, “Law of the People’s Republic of China on Prevention and Control of Atmospheric Pollution”, “Law of the People’s Republic of China on Environmental Impact Assessment”, and “Hazardous Substance Act”, “Public Health Act” and “Cleanliness and Orderliness Act” in Thailand. During the Reporting Period and to the best of the knowledge of the Directors of the Company, the Group was not subject to any significant administrative sanctions or punishments as a result of any violation of environmental laws or regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-CORRUPTION

We are in strict compliance with the laws and regulations of the Chinese and Thai government regarding corruption, bribery, extortion, fraud and money laundering, which include the “Anti-Unfair Competition Law”, the “Interim Provisions on Prohibiting Commercial Bribery of the PRC”, the “Anti-Money Laundering Law of the People’s Republic of China” in China, and the “The Organic Act on Prevention and Suppression of Corruption 2018” and the “Anti-dumping Measure” in Thailand.

We uphold a high ethical standard and we require all Directors and staff members of the Group to act like we do. We strictly prohibit any form or any level of bribery and corruption. To this end, we have established “Procedures on Reporting Bribery and Corruption”. The procedures stipulates that all allegations of corruption – whether internal or involving third-party business partners, would be undergone thorough investigation and following-up actions and report to the Board. We have also established comprehensive channels for complaints which employees can anonymously report unethical and illegal conducts confidentially without much pressure. We will set up fraud investigation unit for more serious cases so that the cases could receive a fair and just investigation.

During the Reporting Period, the Group was not aware of any violations of bribery, extortion, fraud and money laundering which would have a significant impact on the Group. No legal action concerned with corrupt practices was brought against the Group during the Reporting Period.

COMMUNITY INVESTMENT

In order to contribute to the society and foster positive relationships with the communities in which we operate, we actively participate in various charitable activities and voluntary work so as to fulfill our commitment of giving back to the society and supporting the long-term development of the communities. During the Reporting Period, we donated HKD1 million to The Community Chest of Hong Kong and RMB0.1 million to the Poverty Alleviation Scheme of the people’s government of Ma’ai Town, Debao County, Guangxi Province, so as to express our gratitude towards them.

PROSPECT

We insist to take corporate sustainable development as the core of our development and strive for innovation with the aim of providing high quality game products and experience to game players. In 2020, we will continue to enhance corporate governance, keep on improving environmental protection initiatives, encourage employees to strengthen their professional skills, attract talents with competitive remuneration and actively care for the community, in order to achieve sustainable and healthy development of the society, economy and environment as well as a harmonious coexistence of the Company and the society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

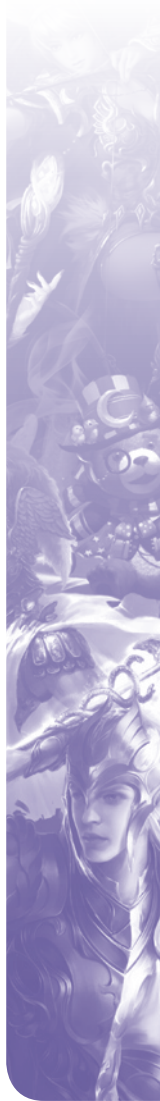
Major Scopes, Aspects, General Disclosures and KPIs		Chapters/ Declaration	Pages
A. Environment			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental	59
KPI A1.1	Types of emissions and respective emissions data.	Resources and Emissions Management	59
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Resources and Emissions Management	59
KPI A1.3	Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Waste Management	60
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Waste Management	60
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Resources and Emissions Management	59
		Waste Management	60
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Management	60
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental	59
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kwh in '000s) and intensity (e.g. per unit of production volume, per facility).	Environmental	59
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water Consumption Management	60

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scopes, Aspects, General Disclosures and KPIs		Chapters/ Declaration	Pages
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environmental	59
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Consumption Management	60
KPI A2.5	Total packaging material used for finished products (in tonnes), and if applicable, with reference to per unit produced.	N/A	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental	59
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental	59
B. Social			
Employment and Labour Standards			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Social	51
KPI B1.1:	Total workforce by gender, employment type, age group and geographical region.	Analysis of Staff Distribution	52
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety	54
KPI B2.1	Number and rate of work-related fatalities.	Occupational Health and Safety	54
KPI B2.2	Lost days due to work injury.	Occupational Health and Safety	54
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	54

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scopes, Aspects, General Disclosures and KPIs		Chapters/ Declaration	Pages
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Staff Development and Training	53
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Staff Development and Training	53
KPI B3.2	The average training hours completed per employee by gender and employee category.	Staff Development and Training	53
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards	56
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards	56
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards	56
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	57
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility	57
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Rights	58
KPI B6.4	Description of quality assurance process and recall procedures.	N/A	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data Security and Privacy Protection	58



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Scopes, Aspects, General Disclosures and KPIs	Chapters/ Declaration	Pages
Aspect B7: Anti-corruption		
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption	62
KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	62
KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	62
Aspect B8: Community Investment		
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment	62

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. ZHANG Yan (Chairman)
Ms. YANG Kan

Independent Non-executive Directors

Mr. CHAN King Fai
Mr. CHEN Di
Mr. YANG Zhen (appointed on 26 August 2019)

BOARD OF DIRECTORS

Our Board currently consists of eight Directors, comprising three executive Directors, two 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 49, 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 19 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 40, 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 40, 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 38, 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.

Ms. YANG Kan (楊侃)

Non-executive Director

Ms. Yang Kan, aged 43, was appointed as a non-executive Director on 30 June 2017. Ms. Yang has worked in the marketing industry for over 10 years. She worked at China Eastern Airlines from 2003 to 2012 and promoted to manager. She was responsible for human resources management and corporate image promotions during which she gained extensive knowledge in corporate operations management. She worked as an executive director of China 33 Media Group Limited, which is listed on GEM of the Hong Kong Stock Exchange (Stock Code: 8087) from February 2015 to August 2015. Ms. Yang graduated from the Huazhong University of Science and Technology (華中科技大學) with a bachelor's degree in international economic and trade.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Fai (陳京暉)

Independent non-executive Director

Mr. Chan King Fai, aged 49, was appointed as an independent non-executive Director on 24 January 2016.

Mr. Chan has over 16 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 (with its name changed to ZH International Holdings Limited in July 2015) from August 2011 to July 2015 (stock code: 0185), which is listed on the Main Board of the Stock Exchange. Since March 2008, he has been an executive director of Promotion Technology Limited, a company which provides company secretary services in Hong Kong. Since May 2017, he has been an independent non-executive director of Singapore eDevelopment Limited, a company listed on Singapore Exchange.

DIRECTORS AND SENIOR MANAGEMENT

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.

Mr. YANG Zhen (楊振)

Independent non-executive Director

Mr. Yang Zhen, aged 39, was appointed as an independent non-executive Director on 26 August 2019.

Mr. Yang has over 15 years of experience in IT field. He has been working as general manager in the online gaming department of SINA Corporation firm since 2007. He obtained a bachelor degree in industrial automation engineering from The Liaoning University of Science and Technology (遼寧科技大學) in 2002 and EMBA from China Europe International Business School in 2016.

Mr. CHEN Di (陳迪)

Independent non-executive Director

Mr. Chen Di, aged 40, was appointed as an independent non-executive Director on 30 June 2017.

Mr. Chen has worked in the banking, finance and securities industry for over 9 years with extensive assets management experience. He worked in the securities department of Overseas Chinese Town Group from July 2004 to August 2010 and participated in the merger and reorganisation matters of its subsidiary companies. Then, he established Shenzhen Qianhai Xiaobai Interactive Capital Management Limited (深圳前海小白互動資本管理有限公司) in December 2014, invested in enterprises such as Shenzhen Zhuohua Network and Technology Limited (深圳市灼華網絡科技有限公司) and Beijing Dingdong Lemon Science and Technology Limited (北京叮咚檸檬科技有限公司) and provided advices for their development. He also established Shenzhen Xiaobai Zhitong Equity Investment Partnership (Limited Partnership)* (深圳市小白志同股權投資合夥企業(有限合夥)) in February 2016 and successfully got the copyright of the brand buzzy bee in the PRC. Mr. Chen obtained a bachelor's degree in e-commerce awarded by the Liaoning Science and Technology University (遼寧科技大學) in June 2004. He also obtained a master's degree in applied psychology awarded by Peking University (北京大學) in July 2012.

* for identification purposes only

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 51, 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 28 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.

Mr. YUAN Zhen (袁臻)

Chief marketing officer

Mr. Yuan, aged 32, is our chief marketing officer. Upon joining the Group in 2017, Mr. Yuan worked as the chief marketing officer of Shenzhen Fire Element. Mr. Yuan is responsible for the management of marketing and maintenance during the operation of the game product, as well as the monitoring of intellectual property and assisting the chief product officer in project management.

Mr. Yuan possesses over 8 years of experience in the computing industry. From November 2011 to May 2013, Mr. Yuan worked at Xi'an Green Valley Network Technology Company Limited* (西安綠谷網絡技術有限公司) and was responsible for the operation and management of a client game, the Dragon Legend* (龍之傳奇) series. From June 2013 to December 2015, he acted as an operational officer at JiaTang.com and was responsible for the operation and management of a mobile game, the Monkey King* (全民西遊系列) series. From December 2015 to May 2016, he worked at qianz.com in Shenzhen as an operational office and participated in the strategic plan matters of the company.

Mr. Yuan obtained a diploma in e-commerce from Xi'an Technological College (西安工業科技學院) in June 2011 and a diploma in business administration from Dalian University of Technology (大連理工大學) in July 2015.

* for identification purposes only

DIRECTORS AND SENIOR MANAGEMENT

Mr. XIANG Bin (向斌)

Chief information officer

Mr. Xiang, aged 37, 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.

JOINT COMPANY SECRETARIES

Mr. Wei Dong and Mr. Chu Hon Leung 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)” above in this section.

Mr. Chu, aged 37, has been a practicing solicitor in Hong Kong since 2009 and is currently an associate of Li & Partners. Mr. Chu had been in private practice as a solicitor with local and international law firms in Hong Kong and was an in-house counsel with a leading PRC asset management company. Mr. Chu obtained his bachelor degree in commerce from Macquarie University in Sydney, Australia, his graduate diploma in law from The College of Law in London, United Kingdom and graduated from the City University of Hong Kong with the postgraduate certificate in laws.

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 2019.

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. During the year, the Group extended its business scope to applied computer software R&D and self-operation of mobile device games.

For the principal activities and other details of the subsidiaries of the Company, please refer to Note 30 to the consolidated financial statements.

RESULTS

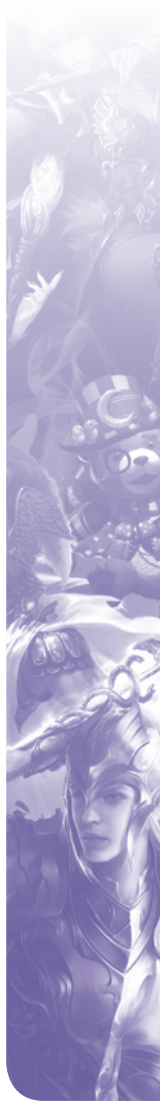
The results of the Group for the year ended 31 December 2019 are set out in the financial statements on page 6 of this annual report.

BUSINESS REVIEW

Details of the Group's business review (including discussion of the Group's performance during the year, risks factors faced and risk mitigation measures, details of the Group's compliance with the law and regulation which are of a material effect and the future business development of the Group) are set out in the sections headed, "Management Discuss and Analysis" and "Environmental, Social and Governance Report" in this annual report. Those review and discussion constitute part of the Directors' Report.

SHARE CAPITAL

For the year ended 31 December 2019, details of the movements in share capital of the Company during the year are set out in the Note 24 to the consolidated financial statements.



DIRECTORS' REPORT

USE OF PROCEEDS FROM PLACING

The Company's shares were listed on GEM of the Stock Exchange on 18 February 2016 and net proceeds from the Placing were approximately HKD28.9 million. Listing of the Shares has been transferred to the Main Board from GEM on 27 June 2019. As at 31 December 2019, the Group has spent approximately HKD21.4 million, in aggregate, of the proceeds from the Placing (approximately HKD7.2 million on development of new games on mobile devices platform, approximately HKD4.6 million on development of new browser games, approximately HKD2.9 million on the continual optimisation of our existing games on various platforms, approximately HKD1.6 million on enhancing our game development capabilities, approximately HKD3.6 million on the acquisition/investment of game developers and related companies and approximately HKD1.5 million for working capital and other general corporate uses). The Group is currently developing browser games and actively seeking opportunities to obtain/acquire the adaptation rights of appropriate source materials, opportunities to acquire/invest in game developers.

	Original allocation <i>HKD'm</i>	Original allocation <i>Percentage</i>	Used amount as at 31 December 2019 <i>HKD'm</i>	Used amount as at 31 December 2019 <i>Percentage</i>	Unused amount as at 31 December 2019 <i>HKD'm</i>	Unused amount as at 31 December 2019 <i>Percentage</i>
Continual optimisation of existing games on various platforms	2.9	10.0%	2.9	10.0%	—	—
Development of new game series — browser games	7.2	25.0%	4.6	15.9%	2.6	9.0%
Development of new game series — mobile games	7.2	25.0%	7.2	24.9%	—	—
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	3.6	12.5%	—	—	3.6	12.5%
Acquisition of/investment in game developers and related companies	3.6	12.5%	3.6	12.5%	—	—
Enhancement and diversification of game development capabilities	2.9	10.0%	1.6	5.5%	1.3	4.5%
Working capital and other general corporate purposes	1.5	5.0%	1.5	5.2%	—	—
Total	28.9	100.0%	21.4	74.0%	7.5	26.0%

RESERVES

For the year ended 31 December 2019, details of the changes in the reserves of the Group are set out in the consolidated statement of changes in equity and Note 25 to the consolidated financial statements. As at 31 December 2019, the distributable reserves of the Company approximately amounted to RMB301.4 million.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

Our major customers are licensed operators. For the year ended 31 December 2019, the revenue contributed from our five largest licensed operators accounted for approximately 99.0% of our total revenue, while our single largest licensed operator contributed approximately 72.0% 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 2019, purchases from our five largest suppliers accounted for approximately 78.6% of our total purchases, while purchases from our single largest suppliers accounted for approximately 28.1% 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 five 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 6 in the annual report. The summary does not form part of the audited consolidated 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 report, and form part of the "Directors' Report".

CHARITY DONATION

For the year ended 31 December 2019, the Group devoted HKD1,000,000 to the Community Chest and RMB100,000 to some schools in Maai Town Debao County Guangxi Provinces.

PROPERTY, PLANT AND EQUIPMENT

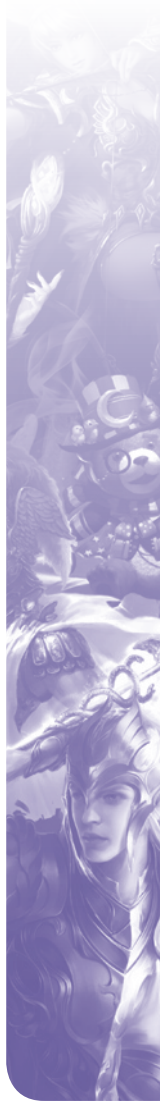
Details of the changes in property, plant and equipment during the year ended 31 December 2019 are set out in the Note 15 to the consolidated financial statements.

BORROWING

As at 31 December 2019, the Group did not have any bank or other borrowings.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.



DIRECTORS' REPORT

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 Main Board Listing Rules for the reporting period and up to the date of this report.

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, each of the independent non-executive Directors and the non-executive Directors has signed a letter of appointment with the Company, 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.

At the Annual General Meeting held on 19 June 2019, certain directors were re-appointed, appointed and re-designated by the Company.

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 Rule 3.13 of Main Board 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.

DIRECTORS' REPORT

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

As at 31 December 2019, 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 Appendix 10 of the Main Board Listing Rules, as follows:

Name	Capacity	Number of Shares ¹	Percentage of Shareholdings
Zhang Yan ²	Interest in controlled corporation	124,000,000	38.75%
Huang Yong ³	Interest in controlled corporation	13,592,000	4.25%
Wu Zhe ⁴	Interest in controlled corporation	3,320,000	1.04%
Rao Zhenwu ⁵	Interest in controlled corporation	3,080,000	0.96%

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 124,000,000 Shares held by Sulfulon International Limited by virtue of the SFO.
3. 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 13,592,000 Shares held by Raglon International Limited 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 3,320,000 Shares held by R&P Global 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 3,080,000 Shares held by Meteor Technology Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2019, 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 Appendix 10 of the Main Board Listing Rules relating to securities transactions by Directors to be notified to our Company and the Stock Exchange.

DIRECTORS' REPORT

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, as at 31 December 2019, 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	124,000,000	38.75%
Mr. Zhang Yan ²	Interest of controlled corporation	124,000,000	38.75%
Ms. Zheng Xin ³	Interest of spouse	124,000,000	38.75%
Raglon International Limited	Beneficial owner	13,592,000	4.25%
Mr. Huang Yong ⁴	Interest of controlled corporation	13,592,000	4.25%
Ms. Pan Li ⁵	Interest of spouse	13,592,000	4.25%
R&P Global Limited	Beneficial owner	3,320,000	1.04%
Mr. Wu Zhe ⁶	Interest of controlled corporation	3,320,000	1.04%
Ms. Xu Yao ⁷	Interest of spouse	3,320,000	1.04%
Meteor Technology International Limited	Beneficial owner	3,080,000	0.96%
Mr. Rao Zhenwu ⁸	Interest of controlled corporation	3,080,000	0.96%
Ms. Chen Xuanqi ⁹	Interest of spouse	3,080,000	0.96%

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 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. 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 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. 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 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. 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 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.

DIRECTORS' REPORT

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

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 2019.

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 2019.

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 the Main Board 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 2019, the total number of Shares available for issue under the Share Option Scheme is 16,000,000 Shares, representing 5% 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

DIRECTORS' REPORT

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.

Upon acceptance of an option to subscribe for shares granted pursuant to the scheme (the "Option"), the eligible participant shall pay HKD1.00 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in note 27 to the consolidated financial statements.

CONNECTED TRANSACTIONS

The Company has not entered into any connected transactions as defined under the Listing Rules for the year ended 31 December 2019. For the avoidance of doubt, none of the related party transactions undertaken by the Group during the year ended 31 December 2019 constituted connected transaction of the Company under the Listing Rules.

NON-COMPETITION UNDERTAKING OF DIRECTORS

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

DIRECTORS' REPORT

- 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 2019.

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, Kingsway Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 19 June 2019, neither the Compliance Adviser nor its directors, employees or associates (as defined in the Main Board Listing Rules) had any interests in relation to the Company which is required to be notified to the Company pursuant to the Main Board Listing Rules.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "Code") set out in Appendix 14 of the Main Board Listing Rules (applicable to the period after the Transfer of Listing) and the corporate governance code set out in Appendix 15 of the GEM Listing Rules (applicable to the period before the Transfer of Listing). Save as disclosed in this report, the Company has complied with all the code provisions set out in the respective codes 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.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract 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 or an entity connected with 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.

DIRECTORS' REPORT

REVIEW BY AUDIT COMMITTEE

The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2019 and made recommendations and advice.

By order of the Board

Zhang Yan

Chairman

Hong Kong, 9 March 2020

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 87 to 138, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) 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.

BDO Limited
 香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

INDEPENDENT AUDITOR'S REPORT

Impairment assessment of intangible assets

(Refer to Note 16 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 values of the Group's intangible assets as at 31 December 2019 were RMB19,381,004. Management has performed an impairment review in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". The recoverable amounts are determined based on value in use calculations, which involved significant assumptions and judgements made by management concerning the estimated future cash flows and the discount rate applied to future cash flow forecast.

Our response:

Our procedures in relation to management's impairment assessment of intangible assets 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.

INDEPENDENT AUDITOR'S REPORT

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.

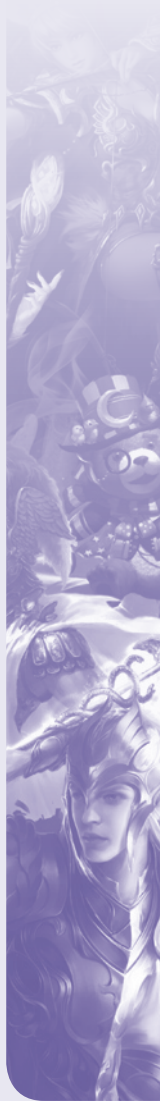
AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 HKSAs 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 HKSAs, 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.



INDEPENDENT AUDITOR'S REPORT

- 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.

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, 9 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB	2018 RMB
Revenue	7	303,978,018	160,700,166
Direct costs		(19,777,680)	(16,547,634)
Gross profit		284,200,338	144,152,532
Other income	7	4,881,336	2,353,761
Research costs		(583,792)	(846,522)
Distribution costs		(7,209,045)	(742,204)
Administrative expenses		(27,285,068)	(25,369,225)
Finance costs	8	(362,815)	—
Operating profit		253,640,954	119,548,342
Share of loss of investment accounted for using equity accounting		(176,591)	(615,175)
Profit before income tax	9	253,464,363	118,933,167
Income tax expense	10	(44,664,820)	(29,125,365)
Profit for the year		208,799,543	89,807,802
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
— Exchange differences on translation of foreign operations		3,368,540	2,050,037
— Exchange differences reclassified to profit or loss upon disposal of investment accounted for using equity method		15,503	—
Other comprehensive income for the year		3,384,043	2,050,037
Total comprehensive income for the year		212,183,586	91,857,839
Profit attributable to:			
Owners of the Company		208,789,246	89,862,732
Non-controlling interests		10,297	(54,930)
		208,799,543	89,807,802
Total comprehensive income attributable to:			
Owners of the Company		212,176,496	91,913,342
Non-controlling interests		7,090	(55,503)
		212,183,586	91,857,839
		RMB cents	RMB cents
Earnings per share			
Basic and diluted	12	65.25	28.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB	2018 RMB
Non-current assets			
Property, plant and equipment	15	5,636,036	1,506,674
Intangible assets	16	19,381,004	7,602,162
Right-of-use assets	17	9,492,211	—
Investment accounted for using equity method	18	—	2,451,697
		34,509,251	11,560,533
Current assets			
Trade receivables	19	140,513,173	64,194,508
Prepayment, deposits and other receivables		5,663,418	733,200
Short-term bank deposits	20	100,609,632	—
Cash and cash equivalents	20	147,891,166	136,782,849
		394,677,389	201,710,557
Current liabilities			
Lease liabilities	17	2,668,934	—
Trade and other payables	21	15,906,407	5,062,681
Deferred revenue	22	139,559	954,666
Tax payables		311,741	6,129,047
		19,026,641	12,146,394
Net current assets		375,650,748	189,564,163
Total assets less current liabilities		410,159,999	201,124,696
Non-current liabilities			
Lease liabilities	17	7,070,751	—
Deferred revenue	22	—	65,752
Deferred tax liabilities	23	19,000,000	8,900,000
		26,070,751	8,965,752
Net assets		384,089,248	192,158,944
Equity			
Share capital	24	2,669,060	2,669,060
Reserves	25	381,692,323	189,525,273
Total equity attributable to owners of the Company		384,361,383	192,194,333
Non-controlling interests		(272,135)	(35,389)
Total equity		384,089,248	192,158,944

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 2019

	Attributable to owners of the Company										
	Share capital RMB	Share premium* RMB	Capital reserve* RMB	Merger reserve* RMB	Statutory reserve* RMB	Share-based payment reserve* RMB	Foreign exchange reserve* RMB	Retained profits* RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
At 1 January 2018	1,347,236	35,021,914	11,201,260	10,000,000	12,179,207	—	126,870	46,584,801	116,461,288	—	116,461,288
Profit for the year	—	—	—	—	—	—	—	89,862,732	89,862,732	(54,930)	89,807,802
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations	—	—	—	—	—	—	2,050,610	—	2,050,610	(573)	2,050,037
Total comprehensive income for the year	—	—	—	—	—	—	2,050,610	89,862,732	91,913,342	(55,503)	91,857,839
Dividends (Note 11)	—	—	—	—	—	—	—	(16,522,800)	(16,522,800)	—	(16,522,800)
Appropriation to statutory reserve (Note 25(d))	—	—	—	—	320,793	—	—	(320,793)	—	—	—
Non-controlling interests arising on establishment of a non wholly-owned subsidiary	—	—	—	—	—	—	—	—	—	20,114	20,114
Issuance of bonus shares (Notes 11 and 24)	1,321,824	—	—	—	—	—	—	(1,321,824)	—	—	—
Equity-settled share-based transactions (Note 26)	—	—	—	—	—	342,503	—	—	342,503	—	342,503
At 31 December 2018	2,669,060	35,021,914	11,201,260	10,000,000	12,500,000	342,503	2,177,480	118,282,116	192,194,333	(35,389)	192,158,944
At 1 January 2019	2,669,060	35,021,914	11,201,260	10,000,000	12,500,000	342,503	2,177,480	118,282,116	192,194,333	(35,389)	192,158,944
Profit for the year	—	—	—	—	—	—	—	208,789,246	208,789,246	10,297	208,799,543
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations	—	—	—	—	—	—	3,371,747	—	3,371,747	(3,207)	3,368,540
– Exchange differences reclassified to profit or loss upon disposal of investment accounted for using equity method	—	—	—	—	—	—	15,503	—	15,503	—	15,503
Total comprehensive income for the year	—	—	—	—	—	—	3,387,250	208,789,246	212,176,496	7,090	212,183,586
Dividends (Note 11)	—	—	—	—	—	—	—	(21,498,720)	(21,498,720)	—	(21,498,720)
Appropriation to statutory reserve (Note 25(d))	—	—	—	—	333,719	—	—	(333,719)	—	—	—
Non-controlling interests arising on capital injection of a non wholly-owned subsidiary	—	—	—	—	—	—	—	—	—	7,760	7,760
Equity-settled share-based transactions (Note 26)	—	—	—	—	—	942,499	—	—	942,499	—	942,499
Deemed disposal of partial interest in a subsidiary without losing of control (Note 30)	—	—	—	—	—	—	—	546,775	546,775	(251,596)	295,179
At 31 December 2019	2,669,060	35,021,914	11,201,260	10,000,000	12,833,719	1,285,002	5,564,730	305,785,698	384,361,383	(272,135)	384,089,248

* The aggregate balances of these reserve amounts of RMB381,692,323 and RMB189,525,273 are included as reserves as at 31 December 2019 and 2018 respectively in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 RMB	2018 RMB
Cash flows from operating activities		
Profit before income tax	253,464,363	118,933,167
Adjustments for:		
Amortisation of intangible assets	4,879,006	6,153,168
Impairment loss of intangible assets	—	864,159
Depreciation of property, plant and equipment	847,992	1,028,670
Depreciation of right-of-use assets	2,592,536	—
Interest income	(1,779,275)	(1,404,687)
Finance costs	362,815	—
Gain on disposal of investment accounted for using equity method	(792,047)	—
Share of loss of investment accounted for using equity method	176,591	615,175
Share-based payment expenses	942,499	342,503
Operating profit before working capital changes	260,694,480	126,532,155
Increase in trade receivables	(76,221,494)	(35,312,525)
(Increase)/Decrease in prepayments, deposits and other receivables	(1,672,151)	1,381,086
Increase in trade and other payables	10,675,873	2,103,907
Decrease in deferred revenue	(874,960)	(2,036,100)
Cash generated from operating activities	192,601,748	92,668,523
Interest paid	(362,815)	—
Tax paid	(40,382,225)	(20,540,309)
Net cash generated from operating activities	151,856,708	72,128,214
Cash flows from investing activities		
Interest received	1,779,275	1,404,687
Additions of intangible assets	(16,657,848)	(6,579,150)
(Increase)/Decrease in short-term bank deposits	(100,609,632)	10,000,000
Acquisition of investment accounted for using equity method	—	(3,163,268)
Purchases of property, plant and equipment	(4,965,746)	(782,574)
Net cash (used in)/generated from investing activities	(120,453,951)	879,695
Cash flows from financing activities		
Dividends paid	(21,120,560)	(17,385,296)
Repayment of principal portion of lease liabilities	(2,345,366)	—
Capital injection from non-controlling shareholder	387,981	20,114
Net cash used in financing activities	(23,077,945)	(17,365,182)
Net increase in cash and cash equivalents	8,324,812	55,642,727
Cash and cash equivalents at beginning of the year	136,782,849	78,533,972
Effect of foreign exchange rate changes	2,783,505	2,606,150
Cash and cash equivalents at end of the year	147,891,166	136,782,849
Analysis of cash and cash equivalents		
Cash at banks and on hand	123,579,832	88,020,849
Short-term bank deposits with original maturity of less than three months	24,311,334	48,762,000
	147,891,166	136,782,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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 is located at 9th Floor, Block 1, Chongwen Garden, Nanshan IPark, 3370 Liuxian Avenue, Nanshan District, Shenzhen, Guangdong, The People’s Republic of China (the “PRC”).

The Company is an investment holding company. The Company and its subsidiaries (collectively the “Group”) are principally engaged in software, browser and mobile games development, including the design, programming, graphics and licensing of its games in the PRC and overseas markets, as well as licensing of its software to business partners. In addition, the Group also self-operates its games in overseas markets.

The consolidated financial statements for the year ended 31 December 2019 were approved and authorised for issue by the board of directors on 9 March 2020.

2. ADOPTION OF HKFRSs

(a) Adoption of new or revised HKFRSs — effective on 1 January 2019

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12 Income Tax; HKAS 23 Borrowing Costs; HKFRS 3 Business Combinations; HKFRS 11 Joint Arrangements
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Except for as explained below, the adoption of these new or amended HKFRSs has no impact on the Group’s consolidated financial statements.

HKFRS 16, Leases

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 “Leases” (“HKAS 17”), HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” (“HK(IFRIC)-Int 4”), HK(SIC)-Int 15 “Operating Leases — Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17.

Definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (“the underlying asset”) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and (b) the right to direct the use of the identified asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2. ADOPTION OF HKFRSs (Continued)*(a) Adoption of new or revised HKFRSs — effective on 1 January 2019 (Continued)***HKFRS 16, Leases (Continued)***Accounting as a lessee*

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset is recognised at cost and comprise: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease. The Group measures the right-of-use assets applying a cost model. Under the cost model, the right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2. ADOPTION OF HKFRSs (Continued)*(a) Adoption of new or revised HKFRSs — effective on 1 January 2019 (Continued)***HKFRS 16, Leases (Continued)**

Lease liability (Continued)

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Impacts on the transition

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

RMB

Reconciliation of operating lease commitment to lease liabilities

Operating lease commitment as of 31 December 2018	3,027,689
Less: future interest expenses	(360,528)
<hr/>	
Total lease liabilities as of 1 January 2019	2,667,161

The Group has elected to recognise the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. For these right-of-use assets, the Group has applied HKAS 36 "Impairment of Assets" on 1 January 2019 to assess if there was any impairment as on that date.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2. ADOPTION OF HKFRSs (Continued)*(a) Adoption of new or revised HKFRSs — effective on 1 January 2019 (Continued)***HKFRS 16, Leases (Continued)**

Impacts on the transition (Continued)

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating lease, the Group recognised right-of-use assets of RMB2,667,161 and lease liabilities of RMB2,667,161 as at 1 January 2019 (Note 17).

HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12 "Income Taxes", by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings.

As a result of initially applying HK(IFRIC)-Int 23, the management applied the preferential tax rate to calculate the current income tax on the assumption that the PRC subsidiary will meet the conditions and qualify for the preferential treatment (Notes 5(v) and 10).

(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 consolidated 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 1 (Revised) and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKFRS 9, HKAS 39, HKFRS 7	Interest Rate Benchmark Reform ¹

¹ Effective for annual periods beginning on or after 1 January 2020

The directors do not expect that the new or revised HKFRSs as listed above will have a material impact on the consolidated financial statements of the Group upon application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated 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 (“HKD”). However, the consolidated 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.

(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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(b) Subsidiaries (Continued)**

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) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

The Group discontinues the use of the equity method from the date when the investment ceases to be associates. The difference between the carrying amount of the associate at the date the equity method was discontinued and any proceeds from disposing of the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associates had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(d) Property, plant and equipment (Continued)**

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(m)).

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.

(e) Intangible assets**(i) Game and software intellectual properties**

Game and software intellectual properties are initially recorded at cost and included internally generated intangible assets (i.e. capitalised development costs as detailed in Note 4(e)(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 and software intellectual properties.

(ii) Research and development costs

Costs associated with research activities are expensed in profit or loss as incurred. Costs that are directly attributable to development activities (relating to the design and testing of new or improved products controlled by the Group) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(e) Intangible assets (Continued)****(ii) Research and development costs (Continued)**

As mentioned in note (i) above, capitalised development costs are transferred to game and software intellectual properties for amortisation when the intangible assets are available for use. The Group initially determines the useful lives of its game and software intellectual properties based on the contracted period of license granted to the Group's licensed operators (the "Licensed Operators") which is normally 2 years for games and 3 years for software and subsequently reviews the estimated useful lives on a periodic basis. The useful lives of particular game and software intellectual properties will be extended if that game and software intellectual properties are popular resulting in extension of the contract period in the existing licensing agreements, or more licensing agreements being agreed with 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.

(f) Leasing (accounting policies applied from 1 January 2019)

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for which at the commencement date have a lease term of 12 months or less. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

(i) Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease. The Group measures the right-of-use assets applying a cost model. Under cost model, the right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

(ii) Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(f) Leasing (accounting policies applied from 1 January 2019) (Continued)****(ii) Lease liability (Continued)**

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Leasing (accounting policies applied until 31 December 2018)

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.

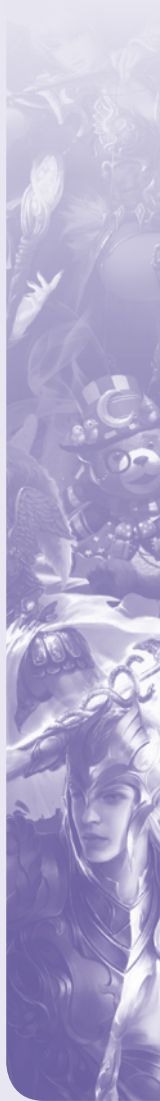
The Group as lessee

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.

(g) Financial instruments**(i) Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(g) Financial instruments (Continued)****(ii) Impairment loss on financial assets**

The Group has elected to measure loss allowances for trade receivables using the simplified approach in HKFRS 9 “*Financial Instruments*” (“HKFRS 9”) and has calculated expected credit losses (“ECLs”) based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired or a default event occur when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

The gross carrying amount of a financial asset is written off to the extent that there is no reasonable expectation of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(g) Financial instruments (Continued)****(iii) Financial liabilities (Continued)****Financial liabilities at amortised cost**

Financial liabilities at amortised cost including trade and other payables and lease liabilities 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.

(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 HKFRS 9.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(h) Revenue recognition**

The Group is principally engaged in the development and operation of self-developed browser and mobile games and provision of software licensing services.

(a) License fees and Royalties

The Group's revenue is mainly 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 that it is not the primary obligor in the rendering services to game players. Accordingly, the Group considers that the Licensed Operators as their customers and the License fees and Royalties reported in the consolidated 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 is recognised in profit or loss over the time that granting the right to the license operators to operate the Group's self-developed games within the contracted period. Royalties is recognised in profit or loss at the point in time and 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.

(b) Game operation income

The Group operates self-developed mobile games under free-to-play model. Game players purchase game credits which are virtual currency for acquisition of in-game virtual items for better in-game experience. The Group sells prepaid game credits through cooperation with various third party game distribution platforms and payment channels. These game distribution platforms include major online application stores.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)*(h) Revenue recognition (Continued)***(b) Game operation income (Continued)**

The Group has evaluated the respective roles and responsibilities of the Group, third-party distribution platforms and third-party payment channels in the delivery of game experiences to the paying players ("Paying Players") in determining if the Group is acting as principal or as an agent in the arrangement. The Group is responsible for the hosting the self-developed 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 that it is the primary obligor in the rendering services to game players. Accordingly, the Group considers that the Paying Players as their customers and the game operation income reported in the consolidated financial statements are on gross basis. Service charges by third-party distribution platforms and third-party payment channels are recorded as direct costs. Third-party distribution platforms and third-party payment channels collect the payment from the Paying Players and remit the cash net of commission charges which are pre-determined according to the relevant terms entered into between the Group and the third-party distribution platforms or third-party payment channels.

Upon the sales of game credits or in-game virtual items, the Group typically has an implied obligation to provide the services which enable the game credits or in-game virtual items to be displayed, used or converted into other in-game virtual currencies/items in the games. As a result, the proceeds received from sales of game credits or in-game virtual items are initially recorded as deferred revenue. The attributable portion of the deferred revenue relating to values of the game credits consumed and in-game virtual items converted are recognised as revenue upon the consumption of game credits and virtual items by Paying Players.

(c) Software licensing services

The software licensing services represent the provision of license of the Group's self-developed software within a specific period of time, customisation to interface with customers' data sources together with unspecific modification, upgrade or update in accordance with the customers' requirement throughout the contract period. The software launched to customers are either for internal use on subscription basis or as a component of mobile games for deployment to the market.

The Groups determines that the unspecific modification, upgrade, or updates are critical to the continued utility of the software and the customer's ability to benefit from the software will decline significantly without the unspecific modification to software based on market response to the enterprises' games. Therefore, the software license over the contract period, customisation and unspecific modification services are not distinct from each other and is identified as one performance obligation.

Some contracts of software licensing services contains extra billing when the usage of the software exceed certain limit, which give raise to variable consideration. The Group estimates the volume of consumption at contract inception and constrained until the associated uncertainty is subsequently resolved.

Revenue from the software licensing services is billed monthly and recognised ratably over the period in which the services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(h) Revenue recognition (Continued)****(d) Interest income**

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

(i) Cash and cash equivalents and short-term bank deposits

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. Short-term deposits comprise deposits with banks with original maturities of more than three months.

(j) 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 the 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 the 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.

(k) 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 the 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 statements, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(l) 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 the reporting period. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(iii) Share award scheme

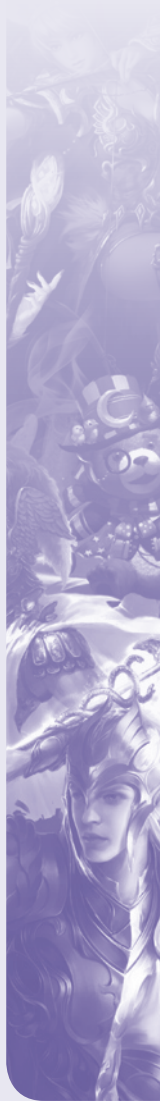
All services received in exchange for the grant of any awarded shares are measured at fair value. These are indirectly determined by reference to the fair value of the awarded shares granted. Its value is appraised at the grant date and expense is recognised over the vesting period. The major shareholder of the Company gave their shares of the Company to eligible staffs. These shares were transferred to the eligible staffs on the grant date and were held under the custody of an independent financial institution.

(m) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, intangible assets, right-of-use assets and investment accounted for using equity method 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(n) 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.

(o) Provisions and contingent liabilities

Provisions are stated at amortised cost and 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.

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.

(p) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**(p) Related parties (Continued)**

- (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 Group's parent.

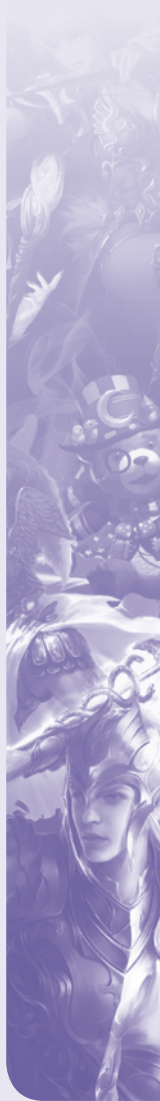
Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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

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(e)(ii), the Group initially determines the useful lives of its game and software intellectual properties based on the contracted period of license granted to the Group's Licensed Operators which is normally 2 years for games and 3 years for software and subsequently reviews the estimated useful lives on a periodic basis.

The useful lives of particular game and software intellectual properties will be extended if that game and software intellectual properties are popular resulting in extension of the contract period in the existing licensing agreements, or more licensing agreements being agreed with 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.

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 could 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 in the cash flow projections, could materially affect the net present value used in the impairment assessment 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 provide an impairment loss to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)***(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) Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for grouping of various customers that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the game and software development sector, the historical default are adjusted. At the end of each reporting period, the historical observed default rates are updated and changes in forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' default in the future.

(v) Income taxes

The Group is subject to income taxes in the PRC and Thailand. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current tax liabilities in the period in which such determination is made.

Certain subsidiaries of the Group were each entitled to a preferential enterprise income tax rate for a specified period subject to certain conditions. Management generally applies the applicable preferential tax rate to calculate current income tax (Note 10) on the assumption that the subsidiaries will meet the conditions and qualify for the preferential treatment. The consequence of any failure to meet the conditions and any change in the applicable tax rate is adjusted in the year in which the information becomes known.

(vi) Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implication a lease, and therefore, it uses an incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiaries' stand-alone credit rating).

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6. SEGMENT INFORMATION**(a) Reportable segments**

The Group determines its operating segments based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions.

For the year ended 31 December 2019, the Group has two reportable segments. These segments are managed separately as each business offers different products and services which require different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Game and software development — Software, browser and mobile games development and licensing services for earning License fees and Royalties from the Licensed Operators and business partners
- Game operation — Mobile game operation for earning game operation income

For the year ended 31 December 2018, there was only one business segment in the internal reporting to the chief operating decision makers, which is game development. There was no game operation business during the year ended 31 December 2018, and the Group's assets and capital expenditure were principally attributable to this business segment. Accordingly, no segment information in respect of the year ended 31 December 2018 is presented in the consolidated financial statements.

	2019 RMB	2018 <i>RMB</i>
Revenue from contracts with customer:		
Game and software development	290,894,940	160,700,166
Game operation	13,083,078	—
	303,978,018	160,700,166

Certain corporate income and expenses are not allocated to the operating segments as they are not included in the measure of the segment's profit that is used by the chief operating decision-maker for assessment of segment performance.

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6. SEGMENT INFORMATION (Continued)*(a) Reportable segments (Continued)*

Information regarding the Group's reportable segments is set out below.

	For the year ended 31 December 2019		
	Game and software development RMB	Game operation RMB	Total RMB
Revenue from external customers	291,094,940	13,083,078	304,178,018
Inter-segment revenue	(200,000)	—	(200,000)
Reportable segment revenue	290,894,940	13,083,078	303,978,018
Reportable segment profit	260,786,731	703,742	261,490,473
Interest income	1,555,538	6,972	1,562,510
Government grant	1,705,200	—	1,705,200
Finance costs	333,285	29,530	362,815
Depreciation and amortisation	8,134,336	185,198	8,319,534
Income tax expense	44,664,820	—	44,664,820
Reportable segment assets	418,799,036	6,979,677	425,778,713
Reportable segment liabilities	41,629,852	2,457,184	44,087,036
Additions to non-current assets	30,912,532	86,833	30,999,365

Reconciliation of reportable segment profit, assets and liabilities:

	2019 RMB
<i>Profit before income tax</i>	
Reportable segment profit	261,490,473
Unallocated corporate income	1,008,812
Unallocated corporate expenses	(9,034,922)
Consolidated profit before income tax	253,464,363
<i>Assets</i>	
Reportable segment assets	425,778,713
Unallocated corporate assets	3,407,927
Consolidated total assets	429,186,640
<i>Liabilities</i>	
Reportable segment liabilities	44,087,036
Unallocated corporate liabilities	1,010,356
Consolidated total liabilities	45,097,392

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT INFORMATION (Continued)**(b) Disaggregation of revenue from contracts with customers by geographic market and timing of revenue**

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.

In the following table, revenue is disaggregated by primary geographical markets and the timing of revenue recognition.

	2019 RMB	2018 RMB (Re-presented)**
Primary geographical markets*		
The PRC (place of domicile)	289,846,405	159,344,122
Asia Pacific	13,489,854	661,908
Europe	620,065	694,136
North America	21,694	—
	303,978,018	160,700,166

* Based on the location of Licensed Operators and game operation.

** The comparative figures have been re-presented to conform with the current year's presentation.

	2019 RMB	2018 RMB
Timing of revenue recognition		
Over time	4,357,805	2,017,502
At a point in time	299,620,213	158,682,664
	303,978,018	160,700,166

	2019 RMB	2018 RMB (Re-presented)**
Non-current assets		
The PRC	33,639,734	9,059,473
Thailand	258,956	—
Hong Kong	610,561	2,501,060 [#]
	34,509,251	11,560,533

[#] As at 31 December 2018, total non-current assets included investment accounted for using equity method.

** The comparative figures have been re-presented to conform with the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT INFORMATION (Continued)*(c) Information about major Licensed Operators*

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

	2019 <i>RMB</i>	2018 <i>RMB</i>
Licensed Operator A	219,000,319	126,457,269
Licensed Operator B	49,756,142	N/A*
	268,756,461	126,457,269

* The revenue of Licensed Operator B did not contribute 10% or more of the Group in 2018.

7. REVENUE AND OTHER INCOME

	2019 <i>RMB</i>	2018 <i>RMB</i>
Revenue		
License fees and Royalties	287,353,431	160,700,166
Game operation income	13,083,078	—
Software licensing service	3,541,509	—
	303,978,018	160,700,166
Other income		
Government grants (<i>Note</i>)	1,705,200	917,900
Interest income	1,779,275	1,404,687
Gain on disposal of investment accounted for using equity method	792,047	—
Others	604,814	31,174
	4,881,336	2,353,761

Note:

During the year ended 31 December 2019, the Group received government grants from the PRC government for awarding the contribution to economic growth and technology development amounting to RMB700,000 (2018: RMB300,000) and RMB454,700 (2018: RMB100,000) respectively and subsidising the operating lease rentals of office premises and copyright registration of self-developed games amounting to RMB508,000 (2018: RMB508,000) and RMB42,500 (2018: RMB9,900) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. FINANCE COSTS

	2019 <i>RMB</i>	2018 <i>RMB</i>
Interest on lease liabilities	362,815	—

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2019 <i>RMB</i>	2018 <i>RMB</i>
Auditors' remuneration	643,065	557,847
Amortisation of intangible assets*	4,879,006	6,153,168
Depreciation of property, plant and equipment**	847,992	1,028,670
Depreciation of right-of-use assets	2,592,536	—
Impairment loss of intangible assets	—	864,159
Total minimum lease payments for leases previously classified as operating leases under HKAS 17, in respect of		
— Land and buildings	—	2,654,919
— Servers	—	288,571
Short-term leases expenses	160,866	—
Legal and professional fees	6,784,511	5,560,869
Exchange loss, net	540,939	2,027,801
Staff costs (including directors' remuneration) (Note 13)	22,570,737	18,243,469

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. INCOME TAX EXPENSE

	2019 RMB	2018 RMB
Current year — PRC Enterprise Income Tax (“EIT”)		
— Tax for the year	25,946,920	19,918,554
— (Over)/Under provision in respect of prior years	(282,100)	306,811
— Dividends withholding tax	8,900,000	4,000,000
	34,564,820	24,225,365
Deferred tax (<i>Note 23</i>)	10,100,000	4,900,000
	44,664,820	29,125,365

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 2019 and 2018.

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.

According to the tax law Caishui (2016) No.49 jointly issued by the Ministry of Finance of the PRC and other government authorities, an entity can register for the National Important Software Enterprise (“NISE”) in tax bureau if the entity complies with relevant requirements. Based on management’s assessment, Shenzhen Fire Element Network Technology Co. Ltd (“Shenzhen Fire Element”), one of the subsidiaries of the Company, met those requirements in 2019. Therefore, a preferential corporate income tax rate of 10% was estimated to be applied by Shenzhen Fire Element for the year ended 31 December 2019. The application of preferential tax rate as explained above is after the assumption and estimates made by the management of the Group (*Note 5(v)*).

For the year ended 31 December 2018, Shenzhen Fire Element was qualified as a “Hi-Tech Enterprise” and was entitled to a preferential tax rate of 15%.

For the year ended 31 December 2019, Shenzhen Fire Element Network Science and Technology Company Limited, another subsidiary incorporated in the PRC, was eligible to be classified as small enterprise by the local bureau. The first RMB1,000,000 assessable profits is taxed at 5% and assessable profits above RMB1,000,000 but less than RMB3,000,000 is taxed at 10%. For the year ended 31 December 2018, the subsidiary was subject to statutory tax rate of 25%.

Firerock Co., Ltd. (“Firerock”) is a subsidiary incorporated in Thailand and is subject to corporate income tax at 20% of net profit. No Thailand Corporate Income Tax has been provided for the year ended 31 December 2019 as the Group has sufficient tax losses brought forward to offset against the current year’s estimated assessable profit. No Thailand Corporate Income Tax has been provided for the year ended 31 December 2018 as the Group has no estimated assessable profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. INCOME TAX EXPENSE (Continued)

Pursuant to the PRC EIT Law, a 10% withholding tax (unless reduced by tax treaties/arrangements) 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.

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 <i>RMB</i>	2018 <i>RMB</i>
Profit before income tax	253,464,363	118,933,167
Tax on profit before income tax, calculated at the applicable tax rate of 25%	63,366,091	29,733,292
Effect on different tax rates of foreign operations	840,094	1,056,721
Tax effect of non-deductible expenses for tax purpose	1,681,424	2,738,898
Tax effect of non-taxable income for tax purpose	(171,054)	(505,756)
Effect of tax exemption granted to PRC subsidiaries	(39,875,636)	(13,104,601)
Dividends withholding tax	19,000,000	8,900,000
(Over)/Under provision in respect of prior years	(282,100)	306,811
Tax effect of utilisation of tax losses previously not recognised	(142,917)	—
Tax effect of tax losses not recognised	248,918	—
Income tax expense	44,664,820	29,125,365

11. DIVIDENDS

On 22 June 2018, the Company paid a final dividend for 2017, in form of HKD20.0 million (equivalent to approximately RMB16.5 million) in cash (or HKD0.125 (equivalent to approximately RMB0.103) per share) and 160,000,000 bonus shares of approximately RMB1.3 million on the basis of 1 share for every share held to the shareholders (Note 24).

On 30 July 2019, the Company paid a final dividend for 2018, in the form of HKD24.0 million (equivalent to approximately RMB21.1 million) in cash (or HKD0.075 (equivalent to approximately RMB0.066) per share).

Subsequent to the end of the reporting period, a final dividend, in the form of a cash dividend of HKD0.09375 per share (equivalent to approximately RMB0.0825 per share) in respect of the year ended 31 December 2019 has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The proposed final dividends have not been recognised as a liability in the Group's consolidated financial statements.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB208,789,246 (2018: RMB89,862,732) and 320,000,000 ordinary shares (2018: 320,000,000 ordinary shares) outstanding during the year.

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 2019 and 2018.

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13. STAFF COSTS

	2019 RMB	2018 RMB
Staff costs (including directors' emoluments (Note 14(a)) comprise:		
Salaries, allowances and benefits in kind	20,048,123	16,569,583
Contributions to defined retirement pension scheme	1,580,115	1,331,383
Share-based payment expenses (Note 26)	942,499	342,503
	22,570,737	18,243,469

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

The emoluments of the directors are set out below:

Year ended 31 December 2019

	Fees RMB	Salaries, allowances and benefits in kind RMB	Contributions to defined retirement pension scheme RMB	Discretionary bonus RMB	Total RMB
<i>Executive directors</i>					
Mr. Huang Yong	—	403,201	11,686	362,000	776,887
Mr. Wu Zhe	—	312,204	11,326	48,000	371,530
Mr. Rao Zhen Wu	—	312,230	11,686	48,000	371,916
<i>Non-executive directors</i>					
Mr. Zhang Yan	—	312,230	11,686	48,000	371,916
Ms. Yang Kan	158,404	—	—	—	158,404
<i>Independent Non-executive directors</i>					
Mr. Chan King Fai	158,404	—	—	—	158,404
Mr. He Yunpeng (resigned on 26 August 2019)	—	—	—	—	—
Mr. Chen Di	158,404	—	—	—	158,404
Mr. Yang Zhen (appointed on 26 August 2019)	66,002	—	—	—	66,002
Total	541,214	1,339,865	46,384	506,000	2,433,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**14. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS
(Continued)****(a) Directors' emoluments (Continued)****Year ended 31 December 2018**

	Fees <i>RMB</i>	Salaries, allowances and benefits in kind <i>RMB</i>	Contributions to defined retirement pension scheme <i>RMB</i>	Discretionary bonus <i>RMB</i>	Total <i>RMB</i>
<i>Executive directors</i>					
Mr. Huang Yong	—	395,250	11,965	131,000	538,215
Mr. Wu Zhe	—	306,000	11,605	12,000	329,605
Mr. Rao Zhen Wu	—	306,000	11,965	12,000	329,965
<i>Non-executive directors</i>					
Mr. Zhang Yan	—	306,000	11,965	24,000	341,965
Mr. Zhang Xiongfeng (resigned on 5 October 2018)	126,962	—	—	—	126,962
Ms. Yang Kan	152,354	—	—	—	152,354
<i>Independent Non-executive directors</i>					
Mr. Chan King Fai	152,354	—	—	—	152,354
Mr. He Yunpeng	—	—	—	—	—
Mr. Chen Di	152,354	—	—	—	152,354
Total	584,024	1,313,250	47,500	179,000	2,123,774

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2018: one) was director of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining four (2018: four) highest paid individuals during the year ended 31 December 2019 were as follows:

	2019 <i>RMB</i>	2018 <i>RMB</i>
Salaries, allowances and benefits in kind	1,731,723	1,661,566
Discretionary bonus	1,169,000	135,700
Share-based payment expenses	345,171	59,986
Contributions to defined retirement pension scheme	46,384	35,498
	3,292,278	1,892,750

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**14. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS
(Continued)****(b) Five highest paid individuals (Continued)**

The emoluments of each of the above non-director highest paid individuals were all within the band of Nil to HKD1,000,000 for the years ended 31 December 2019 and 2018.

During the year ended 31 December 2019, Mr. He Yunpeng waived the emoluments of HKD120,000 (equivalent to approximately RMB105,603) as an independent non-executive director of the Company (2018: waived the emoluments of HKD180,000 (equivalent to approximately RMB152,354)).

During the years ended 31 December 2019 and 2018, 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 current and prior years.

(c) Senior management

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

	2019 <i>No. of individuals</i>	2018 <i>No. of individuals</i>
Nil — HKD1,000,000	3	3

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15. 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 2018	3,372,317	147,514	455,628	3,975,459
Additions	770,032	12,542	—	782,574
Exchange alignment	3,545	355	11,116	15,016
At 31 December 2018 and 1 January 2019	4,145,894	160,411	466,744	4,773,049
Additions	1,230,335	20,705	3,714,706	4,965,746
Exchange alignment	14,295	1,545	5,402	21,242
At 31 December 2019	5,390,524	182,661	4,186,852	9,760,037
Accumulated depreciation				
At 1 January 2018	1,849,330	96,561	283,126	2,229,017
Charge for the year	871,598	21,399	135,673	1,028,670
Exchange alignment	827	41	7,820	8,688
At 31 December 2018 and 1 January 2019	2,721,755	118,001	426,619	3,266,375
Charge for the year	786,461	21,231	40,300	847,992
Exchange alignment	4,120	286	5,228	9,634
At 31 December 2019	3,512,336	139,518	472,147	4,124,001
Net carrying value				
At 31 December 2019	1,878,188	43,143	3,714,705	5,636,036
At 31 December 2018	1,424,139	42,410	40,125	1,506,674

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16. INTANGIBLE ASSETS

	Game and software intellectual properties <i>RMB</i>	Development costs <i>RMB</i>	Total <i>RMB</i>
Cost			
At 1 January 2018	20,830,837	1,248,425	22,079,262
Additions	—	6,579,150	6,579,150
Transfer from development costs	3,445,131	(3,445,131)	—
At 31 December 2018 and 1 January 2019	24,275,968	4,382,444	28,658,412
Additions	—	16,657,848	16,657,848
Transfer from development costs	10,046,493	(10,046,493)	—
At 31 December 2019	34,322,461	10,993,799	45,316,260
Accumulated amortisation and impairment			
At 1 January 2018	14,038,923	—	14,038,923
Charge for the year	6,153,168	—	6,153,168
Impairment for the year	864,159	—	864,159
At 31 December 2018 and 1 January 2019	21,056,250	—	21,056,250
Charge for the year	4,879,006	—	4,879,006
At 31 December 2019	25,935,256	—	25,935,256
Net carrying value			
At 31 December 2019	8,387,205	10,993,799	19,381,004
At 31 December 2018	3,219,718	4,382,444	7,602,162

As there were certain intellectual properties recorded loss during the year ended 31 December 2018, management recognised an impairment loss of RMB864,159 in the consolidated statement of profit or loss and other comprehensive income to write down the carrying amount of those intellectual properties to their recoverable amounts. The recoverable amounts were determined by value in use calculation based on cash flow projections which represented the approved budget covering the licensing period. The pre-tax discount rate used for the impairment assessment for the year ended 31 December 2018 ranged from 64% to 116%.

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17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group leases a number of office premises in the jurisdictions from which it operates, including the PRC, Hong Kong and Thailand. The leases of buildings comprise only fixed payments over the lease terms.

Right-of-use assets

	<i>RMB</i>
Cost	
At 31 December 2018	—
Initial application of HKFRS 16 (<i>Note 2(a)</i>)	2,667,161
At 1 January 2019	2,667,161
Additions	9,375,771
Exchange alignment	88,233
At 31 December 2019	12,131,165
Accumulated depreciation	
At 31 December 2018	—
Initial application of HKFRS 16	—
At 1 January 2019	—
Charge for the year	2,592,536
Exchange alignment	46,418
At 31 December 2019	2,638,954
Net carrying value	
At 31 December 2019	9,492,211
At 1 January 2019	2,667,161

There is one lease of office premises in the PRC that contains an extension option. The Group determines that it is reasonably certain to exercise the extension option and the lease term covers this extended period. Except for the above, there are no extension or termination options on the Group's leases.

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17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)*Lease liabilities*

	31 December 2019		1 January 2019	
	Present value of minimum lease payment <i>RMB</i>	Total minimum lease payment <i>RMB</i>	Present value of minimum lease payment <i>RMB</i>	Total minimum lease payment <i>RMB</i>
Maturity analysis:				
Within 1 year	2,668,934	3,065,076	2,112,820	2,302,054
After 1 year but within 2 years	1,976,968	2,267,292	544,338	603,004
After 2 years but within 5 years	5,093,783	5,433,261	10,003	17,520
	9,739,685	10,765,629	2,667,161	2,922,578
Less: Unearned interest		(1,025,944)		(255,417)
		9,739,685		2,667,161
Analysed as:				
Non-current		7,070,751		554,341
Current		2,668,934		2,112,820
		9,739,685		2,667,161

At 31 December 2019, the Group has committed to pay rental expenses of RMB279,347 for short-term leases.

Reconciliation of liabilities arising from financing activities:

	2019 <i>RMB</i>
Initial application of HKFRS 16 (Note 2(a))	2,667,161
Changes from cash flows:	
Repayment of lease liabilities	(2,345,366)
Other changes:	
Addition of new leases	9,375,771
Exchange alignment	42,119
At 31 December	9,739,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

	2019 <i>RMB</i>	2018 <i>RMB</i>
Share of net assets	—	2,451,697

Details of the Group's equity investment at the end of the reporting period is as follows:

Name	Place of incorporation and operation	Registered and Issue capital	Percentage of interests held by the Group		Principal activity
			2019	2018	
Newbie Media Co., Ltd. ("Newbie")	Thailand	Thai Baht ("THB") 35,000,000	—	45%	Advertising management and planning for online game

The above investment in Newbie is accounted for using the equity method in the Group's consolidated financial statements.

During the year ended 31 December 2019, the Group entered into a share transfer agreement to dispose of the entire 45% equity interest of Newbie to an independent third-party, at the consideration of THB15,750,000 (equivalent to approximately RMB3,505,787). The disposal transaction was completed on 29 November 2019. A gain on disposal of investment accounted for using equity method amounted to RMB792,047 was recognised in profit or loss (Note 7). As at 31 December 2019, the consideration was not settled and included as other receivables in the consolidated statement of financial position.

Summarised financial information of the investment accounted for using equity method, adjusted any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2018 <i>RMB</i>
Current assets	6,471,836
Non-current assets	26,325
Current liabilities	(1,049,945)
Net assets	5,448,216
Group's share of the net assets of investment accounted for using equity method	2,451,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. INVESTMENT ACCOUNTED FOR USING EQUITY METHOD (Continued)

	For the period from 1 January 2019 to 29 November 2019 <i>RMB</i>	For the period from 1 February 2018 (date of incorporation) to 31 December 2018 <i>RMB</i>
Revenue	4,519,409	1,603,208
Loss for the period	(392,425)	(1,367,055)
Other comprehensive income	195,087	(160,637)
Total comprehensive income	(197,338)	(1,527,692)

19. TRADE RECEIVABLES

The Group normally allows credit period within 120 days to its Licensed Operators, third party game distribution platforms and payment channels. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 33(a).

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

	2019 <i>RMB</i>	2018 <i>RMB</i>
0–30 days	43,732,675	17,864,763
31–60 days	35,176,491	16,118,351
61–90 days	35,382,527	16,611,439
91–120 days	25,567,860	12,907,026
more than 120 days	653,620	692,929
	140,513,173	64,194,508

No impairment allowance under the expected credit losses approach was provided as the management considered that there has not been a significant change in credit quality based on historical experience and the impairment allowance has no significant financial impact on the Group's trade receivables as at 31 December 2019 and 2018.

The Group does not hold any collateral over these balances.

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

	2019 <i>RMB</i>	2018 <i>RMB</i>
Cash at banks and on hand	123,579,832	88,020,849
Short-term bank deposits with original maturity of less than three months	24,311,334	48,762,000
Cash and cash equivalents	147,891,166	136,782,849
Short-term bank deposits with original maturity of more than three months	100,609,632	—
	248,500,798	136,782,849

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 twelve 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 the reporting period is shown as follows:

	2019 <i>RMB</i>	2018 <i>RMB</i>
Euro ("EUR")	40,724	40,888
HKD	3,880,836	51,638,709
United States dollars ("USD")	95,175,547	91,639
THB	4,119,918	943,999
RMB	145,283,773	84,067,614
	248,500,798	136,782,849

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.

21. TRADE AND OTHER PAYABLES

	2019 <i>RMB</i>	2018 <i>RMB</i>
Trade payables	114,156	—
Other payables	6,113,901	2,295,070
Accruals	9,678,350	2,767,611
	15,906,407	5,062,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

21. TRADE AND OTHER PAYABLES (Continued)

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

	2019 RMB	2018 RMB
Less than 30 days	114,156	—

22. DEFERRED REVENUE

	2019 RMB	2018 RMB
Current	139,559	954,666
Non-current	—	65,752
	139,559	1,020,418

As at 31 December 2019, deferred revenue represented unamortised portion of income received in respect of in-game purchase paid by the Paying Players from the Group's game operation segment. As at 31 December 2018, deferred revenue represented deferred license fees received from the Licensed Operators for obtaining the exclusive rights granted to them under the Group's game and software development segment. Deferred revenue is classified as contract liability under HKFRS 15 "Revenue from Contracts with Customers".

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts amounted to RMB139,559 (2018: RMB1,020,418). The Group will recognise the expected revenue in future when or as the service is rendered, which is expected to occur over the next 12 months (2018: next 12 to 24 months).

	2019 RMB	2018 RMB
Movements in deferred revenue		
At 1 January	1,020,418	3,056,518
Increase as a result of receiving in-game purchase paid by the Paying Players but revenue not recognised	139,559	—
Decrease as a result of recognising revenue during the year that was included in the deferred revenue at the beginning of the year	(971,442)	(2,017,502)
Others	(48,976)	(18,598)
At 31 December	139,559	1,020,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. DEFERRED TAX LIABILITIES

	2019 RMB	2018 RMB
At 1 January	8,900,000	4,000,000
Charged to profit or loss for the year (Note 10)	10,100,000	4,900,000
At 31 December	19,000,000	8,900,000

Deferred tax liabilities have not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiary amounting to RMB46,314,676 at 31 December 2019 (2018: RMB676,042) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

As at 31 December 2019, the Group has unused tax losses arising from Hong Kong of approximately RMB2,918,495 (2018: RMB1,354,544) that are available indefinitely and unused tax losses arising from Thailand of approximately RMB2,330,151 (2018: RMB2,801,828) that will expire in five years, available for offsetting against future profits of the companies in which the losses arose. Certain amounts of unused tax losses are subject to approval from the local tax authorities. No deferred tax assets have been recognised due to the unpredictability of future profit streams against which the tax losses can be utilised.

24. SHARE CAPITAL

	2019		2018	
	Number	Amount RMB	Number	Amount RMB
Authorised:				
Ordinary shares of HKD0.01 each				
At 1 January and 31 December	500,000,000	4,199,383	500,000,000	4,199,383
Issued and fully paid:				
Ordinary shares of HKD0.01 each				
At 1 January	320,000,000	2,669,060	160,000,000	1,347,236
Issuance of bonus shares (Note)	—	—	160,000,000	1,321,824
At 31 December	320,000,000	2,669,060	320,000,000	2,669,060

Note:

On 22 June 2018, the Company issued 160,000,000 bonus shares to the shareholders on the basis of 1 bonus share for every share (Note 11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2019 and 2018 are 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 HKD28,000,000 (equivalent to approximately RMB22,094,240) in aggregate 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 represented an inter-group loan provided to Fire Rock International (HK) Limited ("Fire Rock (HK)").

On 21 April 2015, Fire Rock (HK) paid a cash consideration of HKD13,800,000 (equivalent to approximately RMB10,892,980) to Mr. Zhang Yan, Mr. Wu Zhe, Mr. Rao Zhen Wu and Mr. Huang Yong, the shareholders of Shenzhen Fire Element in exchange for their equity interests in Shenzhen Fire Element as part of the Group's reorganisation in 2016. 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.

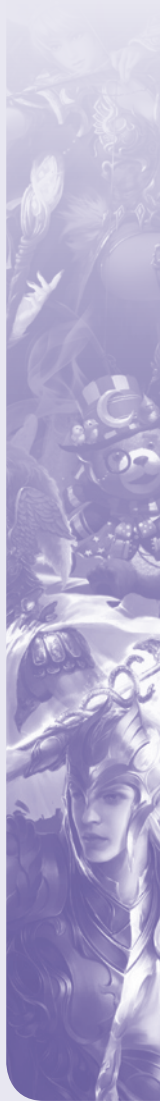
The above transactions represented an integral part of the Group's reorganisation and in substance are accounted for by the Group as a single arrangement. Accordingly, the capital reserve of the Group reflects the cash inflow of HKD14,200,000 (equivalent to approximately RMB11,201,260) to the Group during 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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25. RESERVES (Continued)

(d) Statutory reserve (Continued)

The Company

	Share premium <i>RMB</i>	Capital reserve <i>RMB</i>	Foreign exchange reserve <i>RMB</i>	Share-based payment reserve <i>RMB</i>	Retained profits <i>RMB</i>	Total <i>RMB</i>
At 1 January 2018	35,021,914	22,094,240	551,275	—	42,031,622	99,699,051
Profit for the year	—	—	—	—	72,497,756	72,497,756
Other comprehensive income for the year:						
— Exchange differences on translation of financial statements	—	—	3,600,428	—	—	3,600,428
Total comprehensive income for the year	—	—	3,600,428	—	72,497,756	76,098,184
Dividends (<i>Note 11</i>)	—	—	—	—	(16,522,800)	(16,522,800)
Issuance of bonus shares (<i>Notes 11 and 24</i>)	—	—	—	—	(1,321,824)	(1,321,824)
Equity-settled share-based transactions (<i>Note 26</i>)	—	—	—	342,503	—	342,503
At 31 December 2018 and 1 January 2019	35,021,914	22,094,240	4,151,703	342,503	96,684,754	158,295,114
Profit for the year	—	—	—	—	160,181,844	160,181,844
Other comprehensive income for the year:						
— Exchange differences on translation of financial statements	—	—	3,431,471	—	—	3,431,471
Total comprehensive income for the year	—	—	3,431,471	—	160,181,844	163,613,315
Dividends (<i>Note 11</i>)	—	—	—	—	(21,498,720)	(21,498,720)
Equity-settled share-based transactions (<i>Note 26</i>)	—	—	—	942,499	—	942,499
At 31 December 2019	35,021,914	22,094,240	7,583,174	1,285,002	235,367,878	301,352,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. SHARE AWARD SCHEME

The Company operates a share award scheme (the "Scheme") to incentive its employees. On 12 September 2018, 708,000 award shares amounted to HKD3.8 million (equivalent to approximately RMB3.3 million) were granted to 47 eligible employees and the award shares were held under custody of Ping An of China Securities (Hong Kong) Company Limited. The award shares are unconditionally vested to the eligible employees after 3-year employment with the Group for the period from 12 September 2018 to 11 September 2021. The price of the shares granted of HKD5.39 (equivalent to approximately RMB4.71) was set as the Stock Exchange closing price of the Company's shares on the date of the offer.

Movement in the number of award shares of the Company is as follows:

	2019 <i>Number</i>	2018 <i>Number</i>
At 1 January	708,000	—
Granted	—	708,000
Retrieved due to termination of employment	(82,000)	—
At 31 December	626,000	708,000

During the year ended 31 December 2019, share-based payment expenses of RMB942,499 (2018: RMB342,503) has been recognised by the Group as staff costs in profit or loss (Note 13).

27. RELATED PARTY TRANSACTIONS

- (a) Except for those disclosed elsewhere in the consolidated financial statements, the Group did not enter into any related party transactions with its related parties during the years ended 31 December 2019 and 2018.
- (b) Members of key management comprise only of the directors whose emoluments are set out in Note 14.

28. OPERATING LEASE COMMITMENTS

Future minimum rental payable under non-cancellable operating lease in respect of rented premises of the Group as at 31 December 2018 were as follows:

	2018 <i>RMB</i>
Within one year	2,389,816
In the second to fifth year inclusive	637,873
	3,027,689

The Group leased premises under operating leases arrangement as at 31 December 2018. The leases run for periods between one and three years. None of the lease included any contingent rental.

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29. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2019 RMB	2018 RMB
Non-current assets			
Interests in subsidiaries		1,283,860	341,361
Current assets			
Prepayments, deposits and other receivables		28,999	44,537
Amounts due from subsidiaries	<i>30</i>	133,579,716	73,399,686
Dividend receivables		169,000,000	80,100,000
Cash and cash equivalents		3,378,927	10,571,378
		305,987,642	164,115,601
Current liabilities			
Accruals		1,010,356	1,301,870
Amounts due to subsidiaries	<i>30</i>	2,239,878	2,190,918
		3,250,234	3,492,788
Net current assets		302,737,408	160,622,813
Net assets		304,021,268	160,964,174
Equity			
Share capital	<i>24</i>	2,669,060	2,669,060
Reserves	<i>25</i>	301,352,208	158,295,114
Total equity		304,021,268	160,964,174

On behalf of the Board

Huang Yong
Director

Wu Zhe
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name	Form of business structure	Place of incorporation	Place of operations	Description of shares held	Proportion of effective equity interests held by the Company		Principal activities
					2019	2018	
Directly held:							
Fire Rock International Limited	Corporation	The British Virgin Islands	Hong Kong	Ordinary Share of HKD1	100%	100%	Investment holding
Indirectly held:							
Fire Rock (HK)	Corporation	Hong Kong	Hong Kong	Ordinary Share of HKD1	100%	100%	Investment holding and licensing browser games
Shenzhen Fire Element	Corporation	The PRC	The PRC	Registered capital of RMB25,000,000	100%	100%	Software, browser and mobile games development, including the game design, programming and graphics
Shenzhen Fire Element Network Science and Technology Company Limited	Corporation	The PRC	The PRC	Registered capital of RMB5,000,000	100%	100%	Software, browser and mobile games development, including the game design, programming and graphics
Firerock	Corporation	Thailand	Thailand	Registered capital of THB6,666,665 (2018: THB5,000,000)	73.5%*	98.0%	Mobile game operation

* On 27 December 2019, Firerock received capital injection of THB1,666,665 (equivalent to approximately RMB387,981) from an independent third party, and the proportion of effective equity interests held by the Company was decreased from 98.0% to 73.5%. As a result, the net liabilities of Firerock attributable to non-controlling interest increased by RMB251,596 and the retained profits attributable to owners of the Company increased by RMB546,775. The transaction has been accounted for as an equity transaction with the non-controlling interests.

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

31. 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 2019 was RMB384,089,248 (2018: RMB192,158,944).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. 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(g):

	2019 RMB	2018 RMB
Financial assets		
<i>At amortised cost:</i>		
Trade receivables	140,513,173	64,194,508
Deposits and other receivables	4,899,654	599,838
Short-term bank deposits	100,609,632	—
Cash and cash equivalents	147,891,166	136,782,849
	393,913,625	201,577,195
Financial liabilities		
<i>At amortised cost:</i>		
Lease liabilities	9,739,685	—
Trade and other payables	13,231,911	4,199,309
	22,971,596	4,199,309

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, lease liabilities as well as trade and other payables. Due to their short-term nature, the carrying values of these financial instruments approximate their fair values.

33. 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.

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33. FINANCIAL RISK MANAGEMENT (Continued)**(a) Credit risk (Continued)**

In respect of trade receivables, individual credit evaluations are performed on the Licensed Operators, third-party game distribution platforms and payment channels. 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 the trade debtors. Also, management reviews regularly the recoverable amount of individual trade and other receivables to ensure that adequate impairment provision is made for irrecoverable amount.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each trade debtors. The default risk of the industry and country in which the trade debtors also has an influence on credit risk but to a lesser extent. As at 31 December 2019, two Licensed Operators with the highest trade receivables balance (2018: two Licensed Operators) were approximately RMB133,883,000 (2018: RMB60,905,000) and represented approximately 95% (2018: approximately 95%) of the total balance of trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and current market condition in relation to each debtor's exposure and time value of money where appropriate. The ECLs also incorporate forward looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle the trade receivables.

The credit risks for deposits and other receivables of the Group are considered immaterial as the counterparty have a low risk of default. The Group assessed that the ECLs for the balances are immaterial under the 12 months ECLs method. Accordingly, no loss allowance provision was recognised for the years ended 31 December 2019 and 2018.

The maximum exposure to credit risk in respect of the financial instruments are their carrying values.

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.

The Group does not hold collateral as security. The Group does not provide any guarantees which would expose the Group to credit risk.

The credit policy has been followed by the Group since prior year and is considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

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33. FINANCIAL RISK MANAGEMENT (Continued)**(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 reporting period of the Group's financial liabilities, which are estimated based on contractual undiscounted cash flow (including interest payment computed using contractual rates or, if floating, based on the current rates at the end of the reporting period) and the earliest date the Group may be required to pay.

	Carrying amount RMB	Total contractual undiscounted cash flows RMB	Within 1 year or on demand RMB	More than 1 year but less than 2 years RMB	More than 2 years but less than 5 years RMB
At 31 December 2019					
Trade and other payables	13,231,911	13,231,911	13,231,911	—	—
Lease liabilities (<i>Note</i>)	9,739,685	10,765,629	3,065,076	2,267,292	5,433,261
Total	22,971,596	23,997,540	16,296,987	2,267,292	5,433,261
			Carrying amount RMB	Total contractual undiscounted cash flows RMB	Within 1 year or on demand RMB
At 31 December 2018					
Other payables and accruals		4,199,309	4,199,309	4,199,309	

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balance as at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated.

(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.

Lease liabilities bear weighted average incremental borrowing rate of 4.75% as at 1 January 2019 and 31 December 2019. The directors of the Company consider the interest rate risk is not significant as the benchmark lending rate suggested by the People's Bank of China remains constant for many years.

As at 31 December 2019 and 2018, the Group has no other interest-bearing liabilities, which may expose the Group to any interest rate risk.

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33. FINANCIAL RISK MANAGEMENT (Continued)**(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) and HKD. The Group's subsidiary in Thailand has minimal transactional currency risk exposure as most of the financial assets and liabilities held by this subsidiary are denominated in its functional currency.

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

	Assets	
	2019 RMB	2018 RMB
EUR	735,160	897,356
USD	95,217,824	441,148
JPY	24,637	101,872
HKD	80	80

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 2019			
	Appreciates against RMB	Increase in profit for the year and retained profits RMB	Depreciates against RMB	Decrease in profit for the year and retained profits RMB
EUR	5%	32,950	5%	(32,950)
USD	5%	3,975,479	5%	(3,975,479)
JPY	5%	1,109	5%	(1,109)
HKD	5%	4	5%	(4)

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33. FINANCIAL RISK MANAGEMENT (Continued)*(d) Currency risk (Continued)*

		Year ended 31 December 2018		
	Appreciates against RMB	Increase in profit for the year and retained profits <i>RMB</i>	Depreciates against RMB	Decrease in profit for the year and retained profits <i>RMB</i>
EUR	5%	39,178	5%	(39,178)
USD	5%	19,109	5%	(19,109)
JPY	5%	4,457	5%	(4,457)
HKD	5%	3	5%	(3)

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.

34. EVENT AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global business environment. Up to the date of these financial statements, COVID-19 has not resulted in material impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of these financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.