



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

2021 INTERIM REPORT




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DEFINITION

“Acquisition”	the completion of the acquisition of 100% equity interests in Tak Shing International Holdings Limited and its subsidiaries by the Group on 4 February 2021
“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 and traded on the Main Board (Stock code: 1909)
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, Shenzhen Viking and the registered shareholders of Shenzhen Viking
“Director(s)”	the director(s) of the Company

“EUR”	the lawful currency of the Euro Zone
“GEM”	GEM of the Stock Exchange
“Group” or “we”	the Company and its subsidiaries
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares of the Company on GEM
“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
“MMORPG”	role-playing multiplayers 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
“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
“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
“PRC Consolidated Affiliated Entity”	the operating entity we control through the Contractual Arrangements, namely Shenzhen Viking
“Remuneration Committee”	the remuneration committee under the Board
“RMB”	Renminbi, the lawful currency of the PRC
“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 one-twelfth Hong Kong cent 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
“Shenzhen Viking”	Shenzhen Viking Network Technology Company Limited (深圳維京人網絡科技有限公司), a company incorporated in the PRC with limited liability, and a PRC Consolidated Affiliated Entity of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tak Shing International”	Tak Shing International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“THB”	Thai Baht, the lawful currency of Thailand
“USD”	United States dollars, the lawful currency of the United States of America
“WFOE” or “Tak Shing (SZ)”	Shenzhen Tak Shing Technology Limited (深圳德城 科技 有 限 公 司), a wholly foreign-owned enterprise incorporated in the PRC by Tak Shing International, and an indirect wholly-owned subsidiary of the Company
“%”	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 Listing Rules, unless the context otherwise requires.

COMPANY PROFILE

Executive Directors

Mr. SU Yi (*Chief Executive Officer*)
(appointed as a Chief Executive Officer on 11 February 2021)

Mr. ZHOU Kun

Mr. CHEN Di
(re-designated from an independent non-executive Director to an executive Director on 19 March 2021)

Mr. HUANG Yong
(re-designated from an executive Director to a non-executive Director, and resigned as Chief Executive Officer on 11 February 2021)

Non-executive Directors

Mr. ZHANG Yan (*Chairman*)

Mr. HUANG Yong
(re-designated from an executive Director to a non-executive Director, and resigned as Chief Executive Officer on 11 February 2021)

Ms. YANG Kan

Independent Non-executive Directors

Mr. CHAN King Fai

Mr. YANG Zhen

Ms. ZHUANG Renyan
(appointed on 19 March 2021)

Mr. CHEN Di
(re-designated from an independent non-executive Director to an executive Director on 19 March 2021)

Audit Committee

Mr. CHAN King Fai (*Chairman*)

Mr. YANG Zhen

Ms. ZHUANG Renyan
(appointed on 19 March 2021)

Mr. CHEN Di
(resigned on 19 March 2021)

Remuneration Committee

Mr. YANG Zhen (*Chairman*)
(appointed on 19 March 2021)

Mr. SU Yi
(appointed on 11 February 2021)

Ms. ZHUANG Renyan
(appointed on 19 March 2021)

Mr. HUANG Yong
(resigned on 11 February 2021)

Mr. CHAN King Fai

Mr. CHEN Di (*Chairman*)
(resigned on 19 March 2021)

Nomination Committee

Mr. ZHANG Yan (*Chairman*)

Mr. YANG Zhen

Ms. ZHUANG Renyan
(appointed on 19 March 2021)

Mr. CHEN Di
(resigned on 19 March 2021)

Joint Company Secretaries

Mr. WEI Dong

Mr. CHU Hon Leung

Authorised Representatives

Mr. SU Yi
(appointed on 11 February 2021)
Mr. HUANG Yong
(resigned on 11 February 2021)
Mr. CHU Hon Leung

Registered Office

Windward 3
Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Headquarters and Principal Place of Business in the PRC

9th Floor, Block 1
Chongwen Garden
Nanshan IPark
3370 Liuxian Avenue
Nanshan District
Shenzhen, Guangdong
PRC

Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

Ocorian Trust (Cayman) Limited
Windward 3
Regatta Office Park
PO 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

Hong Kong Legal Adviser

Li & Partners

Auditor

BDO Limited
Certified Public Accountants

Stock Code

1909

Company Website

www.firerock.hk

FINANCIAL HIGHLIGHTS (UNAUDITED)

	For the six months ended 30 June	
	2021 <i>HKD'000</i>	2020 <i>HKD'000</i> (restated)
Revenue	497,073	314,385
Gross profit	398,851	294,755
Profit	272,806	212,430

- For the six months ended 30 June 2021, the Group's revenue increased by approximately 58.1% from approximately HKD314.4 million for the six months ended 30 June 2020 to approximately HKD497.1 million.
- For the six months ended 30 June 2021, the Group's gross profit increased by approximately 35.3% from approximately HKD294.8 million for the six months ended 30 June 2020 to approximately HKD398.9 million.
- For the six months ended 30 June 2021, the Group's profit increased by approximately 28.4% from approximately HKD212.4 million for the six months ended 30 June 2020 to approximately HKD272.8 million.
- The Board does not recommend the payment of interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

The board of Directors of Fire Rock Holdings Limited is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries for the six months ended 30 June 2021. The interim results have been reviewed by the Audit Committee of the Company.

Business Review and Prospects

Review

The Group is a well-established game developer and operator. In an increasingly competitive industry environment, the Group will continue to make every endeavour for a better future.

Online Game Business

During the Reporting Period, the Group continued to leverage on its advantages in developing online games. With our emphasis on developing delicate products, we focused on the development of premium games and initiated the R&D of new mobile games. We commercially launched two self-developed game series in the Reporting Period and delivered satisfactory results. In addition, we continued to upgrade our existing games with increased inputs and launched updated versions with the objectives to enhance players' gaming experience, extend the life cycle of games and maintain the sources of our revenue.

During the Reporting Period, the Group delivered excellent results in its game publishing and operation business. On 4 February 2021, the Group completed the acquisition of 100% equity interest in Tak Shing International. Tak Shing International is principally engaged in online games operating service in the PRC, whose subsidiary is one of the Company's licensed operators that distributed several premium online games developed by the Company. The successful acquisition of Tak Shing International further enhanced the stability and diversity of the Group's primary business, integrated and synergised the online marketing expertise of the acquired business, and enriched the resources of the teams of experienced experts and management as well as existing users. The acquisition also served as an opportunity to enhance control over the distribution channels and reduce the dependence on licensed game operators, enhance comprehensive competitiveness and risk aversion ability by integrating a diverse range of resources, thereby promoting the position of the Group in the industry.

In addition, we continued to expand the business of our self-developed games overseas and our overseas revenue has been surging.

As of 30 June 2021, there were a total of 23 game series that were developed by ourselves, licensed from third-parties or commercially launched by licensed operators and still in operation, of which: 12 were self-developed and still in operation, 11 were licensed from third-parties and still in operation. As of 30 June 2021, we had 9 game series under development.

The table below sets forth the 12 series of games self-developed by the Group and are still in operation as of 30 June 2021:

Language version	Game title	Platform	Initial commercial launch date
<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>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
Simplified Chinese	捕鱼大乱斗之龙族秘宝	Mobile	April 2021
<i>Super Cute Monster (超級逗萌獸) series of games</i>			
Simplified Chinese	超级逗萌兽	Mobile	December 2017
<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	ร้อยล้านเศรษฐี	Mobile	July 2019

Language version	Game title	Platform	Initial commercial launch date
Thai	<i>Royal Fish Catching (皇家捕魚) series of games</i> เกมยิงปลาพรรษา	Mobile	July 2019
Simplified Chinese	<i>Age of Star Wars (星戰紀) series of games</i> 星战纪	Mobile	June 2018/ March 2020*
Thai	<i>Jungle Treasure (叢林秘寶) series of games</i> ล่าสมบัติแห่งพงไพร	Mobile	May 2020
Thai	<i>Bull Hunter (獵牛達人) series of games</i> นักล่ากระทิง	Mobile	December 2020
Thai	<i>Fighting Cells (戰鬥細胞) series of games</i> Battle Cell	Mobile	April 2021
Simplified Chinese	<i>Super Tycoon (超級大亨) series of games</i> 超級大亨	Mobile	July 2017/ June 2021*

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

The table below sets forth the 9 game series under our research and development as of 30 June 2021:

Game title	Genre	Expected launch date	Start of game inception and evaluation
Witty Pinball (智力彈球) series (tentative name)	H5	Third quarter of 2021	Third quarter of 2019
Demon Conquer of the East Sea (東海降魔) series (tentative name)	Leisure	Fourth quarter of 2021	First quarter of 2020
Feng Ling Dominion — Overlord of the Martial Arts World (風凌天下之武林盟主) series (tentative name)	MMORPG	Fourth quarter of 2021	Third quarter of 2020

Game title	Genre	Expected launch date	Start of game inception and evaluation
XY3 series (tentative name)	Card game	Fourth quarter of 2021	Fourth quarter of 2020
Family & Friends Happy Battle (親朋歡樂激鬥) series (formerly known as TD series)	Single-player leisure	Third quarter of 2021	Fourth quarter of 2020
South American Chamber (南美大廳) series (tentative name)	Leisure	Third quarter of 2021	Fourth quarter of 2020
Indonesian Chamber (印尼大廳) series (tentative name)	Leisure	Third quarter of 2021	Fourth quarter of 2020
Middle East Chamber (中東大廳) series (tentative name)	Leisure	First quarter of 2022	First quarter of 2021
Fish Catching Contest — Cute Pets' Paradise (捕魚大亂鬥之萌寵樂園) series (tentative name)	Single-player leisure	Second quarter of 2022	Second quarter of 2021

Internet Application Technology Business

During the Reporting Period, the Group launched open testing in Thailand on bonus point platforms that connect game users and shops. The Group believes that as the number of bonus point platforms and game users continued to increase and the related functions gradually improved, the unique positioning of developing a one-stop ecosystem for game and bonus point platforms can enhance the user traffic on those platforms as well as expanding the revenue base of the Group.

During the Reporting Period, the Group continued to enhance R&D in intellectual properties rights (computer software) and our intellectual property business continued to grow. We have 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, while forging a closer relationship with our licensed operators. As of 30 June 2021, we had 3 intellectual properties rights (computer software) licensed to business partners and 2 intellectual properties rights (computer software) under development.


Investment and Acquisition Business

During the previous period, the Group closely monitored the development of the global gaming industry, looked for collaboration and acquisition opportunities that can create synergy, invested in companies with growth potential in gaming related areas and other Internet projects that can interact with the Group's business, with the aim of expanding the Group's business portfolio and enhancing the Company's comprehensive competitiveness for future development.

During the period, the brilliant performance of the Group's investments, such as the acquisition of Tak Shing International, significantly contributed to the results of the Group. In the meantime, the Group continued to expand its strategic investments around the globe during the period, including investing in Shenzhen Huaying Angel Investment Enterprise (Limited Partnership) Fund (深圳華映天使投資企業(有限合夥)基金) ("**Huaying Angel Investment Fund**"), incorporated Su Ze Lan Te (Shanghai) Cyber Technology Company Limited (蘇澤蘭特(上海)網絡科技有限公司) ("**Su Ze Lan Te (Shanghai)**"), Fire Rock Capital Limited ("**Fire Rock Capital**") and Firerock Capital Pte. Ltd. ("**Firerock Capital Pte.**"), and negotiated strategic collaboration with several outstanding domestic and overseas companies, with the aim of expanding the product lines of the Group and explore new business growth for the future.

Please refer to the section headed "Significant Investments in or Material Acquisitions or Disposals of Subsidiaries and Associated Companies" for the details of the Group's investments and business acquisitions.

In terms of financial performance, the Group's revenue for the six months ended 30 June 2021 amounted to approximately HKD497.1 million, increasing by approximately 58.1% compared to approximately HKD314.4 million for the six months ended 30 June 2020. The Group's profit for the six months ended 30 June 2021 amounted to approximately HKD272.8 million, increasing by approximately 28.4% compared to approximately HKD212.4 million for the six months ended 30 June 2020. The growth of profit was mainly attributable to the consolidation of acquisitions into the Group's accounts after completion during the Reporting Period, and the stable performance of several popular games of the Group, including Fish Catching Contest (捕魚大亂鬥) series, Sweeties Fighting (零食大亂鬥) series, Royal Tycoon (皇家大亨) series and Age of Star Wars (星戰紀) series.




For the six months ended 30 June 2021, revenue generated by our five 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 HKD265.7 million for the six months ended 30 June 2021, accounting for approximately 53.5% 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 HKD54.1 million for the six months ended 30 June 2021, accounting for approximately 10.9% of our total revenue; the mobile version of the Age of Star Wars (星戰紀) series commercially launched in March 2020 reported revenue of approximately HKD49.0 million for the six months ended 30 June 2021, accounting for approximately 9.9% 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 HKD46.9 million for the six months ended 30 June 2021, accounting for approximately 9.4% of our total revenue; and 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 HKD38.9 million for the six months ended 30 June 2021, accounting for approximately 7.8% of our total revenue.

Prospects

For our primary business, the Group will continue to enhance its strengths in R&D so as to develop premium mobile games with higher quality, longer life-cycle and innovative game types. We will upgrade and optimise existing games, and consistently invest substantial resources in the R&D of mobile games. Moreover, the Group also intends to increase its R&D efforts in the future with thorough exploration of users' game preferences and needs, developing unique styles and contents as well as browser games of higher quality using H5 technology or other new technologies in order to maintain its core competitiveness in the R&D of browser games. On top of our presence in the Chinese game market, we will actively expand into overseas markets and promote our games to new potential areas and regions, in an ongoing effort to cement our position in major global markets and take our competitiveness to a higher level.

In the future, we will continue to enhance our R&D of intellectual property rights (computer software) to launch novel internet application technologies and products as well as provide premium intellectual property rights (computer software) licensing services to our business partners (including licensed



operators), with a view to fostering closer connections with our business partners. We believe the utilisation of intellectual property rights will form an integral part of the Group's future development.

The Group will conduct active research in innovative technologies or new concepts that might have a revolutionary impact on the industry, and will commit resources accordingly to commence R&D in new technology to develop new creative games with unique plays, while stocking up relevant technologies and talents with a view to bolstering the Group's strengths in R&D.

The Group will actively explore opportunities for joint venture and acquisition that could generate synergies, in particular joint venture opportunities that 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 constantly changing industry policies on the principal business of the Company.

Financial Review

Revenue

We are principally engaged in the development of browser, mobile games (including game design, programming and graphics) and computer software related to game operation, on the basis of which we license our self-developed online games to licensed operators around the world and provide intellectual property rights licensing services to enterprises. We also launch and operate online games around the world (including self-developed games, and licensed games pursuant to the publishing and operation agreements entered into between the Group and third-party game developers or third-party distribution platforms).

During the six months ended 30 June 2021, our revenue mainly originated from our licensed operators/enterprises/game players and was 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 (purchased by game players through payment channels) consumed during gameplay.

Our revenue increased by approximately 58.1% from approximately HKD314.4 million for the six months ended 30 June 2020 to approximately HKD497.1 million for the six months ended 30 June 2021. The increase in revenue was mainly due to the inclusion of revenue of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period, and the stable performance of our Group's high-grossing games, including different game series such as the Fish Catching Contest (捕魚大亂鬥) series, the Sweeties Fighting (零食大亂鬥) series, the Royal Tycoon (皇家大亨) series and the Age of Star Wars (星戰紀) series.

The following table sets out a breakdown of our revenue for each of the six months ended 30 June 2021 and 2020:

	For the six months ended 30 June			
	2021 HKD'000 (unaudited)	%	2020 HKD'000 (unaudited) (restated)	%
Revenue from online games	492,400	99.1	301,771	96.0
— Self-developed games published by the Group	413,027	83.1	29,957	9.5
— Launched by other operators	48,843	9.8	271,814	86.5
— Licensed games published by the Group	30,530	6.2	—	—
Intellectual property rights licensing	4,673	0.9	12,614	4.0
	497,073	100.0	314,385	100.0

Revenue by geographical markets

The following table sets forth our revenue from our games based on territories, as determined by the type of currency used to settle accounts with the licensed operators, in absolute amounts and as a percentage of our revenue for each of the six months ended 30 June 2021 and 2020:


	2021		2020	
	HKD'000 (unaudited)	%	HKD'000 (unaudited) (restated)	%
The PRC (place of domicile)	446,561	89.8	283,812	90.3
Asia Pacific	50,502	10.2	30,080	9.6
Europe	10	(Note)	493	0.1
Total	497,073	100.0	314,385	100.0

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

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 reporting periods indicated:


	2021		2020	
	HKD'000 (unaudited)	%	HKD'000 (unaudited) (restated)	%
Staff costs and benefits	4,569	4.7	3,878	19.7
Amortisation of intangible assets	40,461	41.2	4,671	23.8
Self-operated channel costs	13,008	13.2	9,005	45.9
Licensed distribution costs	20,921	21.3	—	—
Others	19,263	19.6	2,076	10.6
Total	98,222	100.0	19,630	100.0



Staff costs and benefits represented salary and benefits of staff who are responsible for making continuous enhancements to and maintenance of our commercially launched games. Staff costs and benefits for the six months ended 30 June 2021 amounted to approximately HKD4.6 million, representing an increase of approximately 17.9% as compared to approximately HKD3.9 million for the six months ended 30 June 2020. Such increase in costs was mainly due to the increase in commercialisation, continuous update and maintenance as well as the increase in staff headcount.

Amortisation of intangible assets represented the amortisation of intellectual properties for the commercially launched software and games. Amortisation of intangible assets for the six months ended 30 June 2021 amounted to approximately HKD40.5 million, representing a significant increase as compared to approximately HKD4.7 million for the six months ended 30 June 2020. Such increase was mainly attributable to the inclusion of the relevant intangible assets following the completion of the substantial acquisition by the Company during the Reporting Period., which in turn gave rise to an increase in the amortisation of intangible assets.

Self-operated channel costs represented certain proportion of handling fees charged by cooperation platforms with respect to the five games launched, namely Royal Tycoon (皇家大亨) series, Royal Fish Catching (皇家捕魚) series, Jungle Treasure (叢林秘寶) series, Bull Hunter (獵牛達人) series and Fighting Cells (戰鬥細胞) series, and self-operated channel costs of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period. Self-operated channel costs for the six months ended 30 June 2021 amounted to approximately HKD13.0 million.



Licensed distribution costs represented the costs paid according to the agreed proportion in the game distribution or operation agreement for the agency of licensed game products for third-party game developers or third-party distribution platforms. For the six months ended 30 June 2021, the licensed distribution costs amounted to approximately HKD20.9 million. Such increase in costs was mainly attributable to the inclusion of licensed distribution costs of Tak Shing International and its subsidiaries upon the completion of material acquisition by the Company during the Reporting Period.

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 six months ended 30 June 2021 was due to the inclusion of relevant taxes of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period.

Gross profit and gross profit margin

Our gross profit for the six months ended 30 June 2021 amounted to approximately HKD398.9 million, representing an increase of approximately HKD104.1 million as compared to approximately HKD294.8 million for the six months ended 30 June 2020. Our gross profit margin for the six months ended 30 June 2021 was approximately 80.2% as compared to approximately 93.8% for the six months ended 30 June 2020. The increase in our gross profit was mainly due to the consolidation of the financial results of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period, while the decrease in our gross profit margin was mainly due to the increase in the base for calculation of such financial indicator as a result of the consolidation of financial results, leading to a decrease in the data from calculation as compared with the corresponding period.



Other income

Our other income mainly consisted of interest income of short term bank deposits, government grants and other gains. For the six months ended 30 June 2021, our other income was approximately HKD13.1 million, compared with approximately HKD2.9 million for the same period in 2020. The increase in other income was mainly due to the inclusion of other income of Tak Shing International and its subsidiaries upon the completion of material acquisition by the Company during the Reporting Period.

Research and development costs

Research and development costs for the six months ended 30 June 2021 was approximately HKD5.7 million, representing an increase of approximately HKD2.7 million as compared to HKD3.0 million for the corresponding period of 2020. The increase in research and development costs was mainly due to the inclusion of research and development costs of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period.

Distribution costs

Our distribution costs for the six months ended 30 June 2021 amounted to approximately HKD39.1 million, represented an increase of approximately HKD22.4 million as compared to HKD16.7 million for the same period in 2020. The increase in distribution costs was mainly attributable to the inclusion of distribution costs of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period.

Administrative expenses

The Group's administrative expenses primarily comprised salaries and employee benefits expenses, legal and professional fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, exchange difference and others. The following table sets forth a breakdown of the Group's administrative expenses for the reporting periods indicated:

	For six months ended 30 June			
	2021 HKD'000 (unaudited)	%	2020 HKD'000 (unaudited) (restated)	%
Salaries and employee benefits	10,336	37.2	5,045	25.6
Legal and professional fees	2,800	10.1	611	3.1
Depreciation of property, plant and equipment	1,972	7.1	1,371	7.0
Depreciation of right-of-use assets	2,258	8.1	1,144	5.8
Exchange (gain)/loss, net	(2,934)	(10.6)	7,454	37.9
Others	13,368	48.1	4,050	20.6
Total	27,800	100.0	19,675	100.0

The Group's administrative expenses for the six months ended 30 June 2021 amounted to approximately HKD27.8 million, representing an increase of approximately 41.1% as compared to approximately HKD19.7 million for the six months ended 30 June 2020. The increase in the Group's administrative expenses was mainly attributable to the inclusion of expenses such as employee's salaries and benefits of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period, the increase in the Company's donation to Tsinghua University Education Foundation and the exchange gain arising from Chinese subsidiaries' final dividend distributed to their overseas parent company.



Income tax expense

Our income tax expense for the six months ended 30 June 2021 amounted to approximately HKD54.7 million while we recorded HKD45.6 million for the six months ended 30 June 2020. The increase in our income tax expense was mainly because of the fact that the profits of the PRC subsidiaries of the Group increased during the Reporting Period as compared to the same period in 2020.

Profit for the period

Given the aforesaid reasons, profit attributable to owners of the Company increased by approximately 28.3% from approximately HKD211.7 million for the six months ended 30 June 2020 to approximately HKD271.7 million for the six months ended 30 June 2021.

Liquidity and Financial Resources

For the six months ended 30 June 2021, 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 six months ended 30 June 2021, the Group deposited its idle capital with commercial banks in the PRC and Hong Kong as short-term time deposits to allow inactive capital of the Group to generate certain return and did not engage in any investments with high risks or speculative derivative instruments.

Cash and Cash Equivalents

As at 30 June 2021, our cash and cash equivalents amounted to approximately HKD645.7 million, compared with approximately HKD708.3 million as at 31 December 2020, which primarily consisted of cash at bank and cash in hand and which are mainly denominated in RMB (as to approximately 85.2%), USD (as to approximately 13.0%), THB (as to approximately 1.4%) and HKD (as to approximately 0.4%).

Capital Expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment and leasehold improvements. For the six months ended 30 June 2021, our total capital expenditures amounted to approximately HKD5.0 million, representing the purchase of furniture and office equipment (the six months ended 30 June 2020: approximately HKD0.7 million, representing 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 were listed on GEM of the Stock Exchange on 18 February 2016. Listing of the Shares has been transferred from GEM to the Main Board since 27 June 2019. The capital structure of the Company comprised of issued share capital and reserves.

Borrowings and Gearing Ratio

As at 30 June 2021, the Group had promissory notes amounted to HKD728,903,000 (31 December 2020: Nil) which are interest bearing and denominated in Renminbi. Except it, we did not have any short-term or long-term borrowings.

As at 30 June 2021, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 46.3% (31 December 2020: approximately 9.9%).


Charge on Group Assets

As at 30 June 2021, no assets of the Group was pledged as a security for bank borrowings or any other financing facilities (31 December 2020: Nil).

Information on Employees and Remuneration Policy

As at 30 June 2021, the Group had 330 employees (30 June 2020: 190), who mainly worked and were located in the PRC and Thailand. The table below sets forth the number of employees by function as at 30 June 2021 and 2020:

Department	As at 30 June			
	2021		2020	
	<i>Number of employees</i>	<i>% of total employees</i>	<i>Number of employees</i>	<i>% of total employees</i>
Management	13	4%	7	4%
Project Development	197	60%	111	58%
Game design	39	12%	22	11%
Programming	113	34%	63	33%
Art	45	14%	26	14%
Project Support	92	28%	57	30%
Marketing	36	11%	14	7%
Licensing and operator support	43	13%	32	17%
Information technology	13	4%	11	6%
Finance and administration	28	8%	15	8%
Total	330	100%	190	100%



The total remuneration of the employees of the Company was approximately HKD23.7 million for the six months ended 30 June 2021 (same period in 2020: approximately HKD11.5 million).

The Company has established the Remuneration Committee with written terms of reference in compliance with Chapter 3 of the Listing Rules.

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

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

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group's business. As a fast growing company, the Company 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.

Given the intense competition of the industry, in order to maintain our core competence for future development, management of the Group is considering a series of measures to reward and retain outstanding employees. Such measures include improving remuneration packages and providing various benefits, so as to enhance the company's capability for sustainable development and maintain a leading position in the industry.




Significant Investments in or Material Acquisitions or Disposals of Subsidiaries and Associated Companies

Pursuant to the announcement of the Company dated 4 February 2021, the Company has completed the acquisition of 100% equity interests in Tak Shing International on 4 February 2021. For details of the acquisition, please refer to (i) the announcements of the Company dated 18 November 2020, 8 December 2020, 23 December 2020 and 8 January 2021 in relation to the acquisition; (ii) the circular of the Company dated 13 January 2021 and (iii) the announcement of the Company dated 2 February 2021 in relation to the poll results of the extraordinary general meeting held on 2 February 2021. Upon completion of the acquisition, Tak Shing International has become a wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of Tak Shing International will be consolidated into the consolidated financial statements of the Company.

Pursuant to the announcement of the Company dated 1 March 2021, Huaying Angel Investment Fund, a fund established by the Group jointly with Shenzhen Angel FOF Co., Ltd (深圳市天使投資引導基金有限公司) and Shenzhen Qianhai Tongfu Equity Investment Management Co., Ltd. (深圳前海通付股權投資管理有限公司), had completed the filing for fund establishment with the Asset Management Association of China in accordance with the laws and regulations of the PRC on 1 March 2021. The fund is principally engaged in investment in strategic new industries and future industries supported and encouraged by the Shenzhen Municipal Government, such as information technology and data application and the Internet, as well as other key industries developed by the Municipal Government.

Pursuant to the announcement of the Company dated 9 March 2021, on 20 February 2021, the Group established Su Ze Lan Te (Shanghai), a non-wholly owned subsidiary, with Mr. Hu Xuanfeng and Mr. Ye Bin, a member of his game development team. The registered capital of Su Ze Lan Te (Shanghai) is RMB10,000,000, and is owned as to 51% by the Company. Su Ze Lan Te (Shanghai) mainly utilises new technologies or new concepts to research and develop new games and internet application products, in order to diversify the Group's variety of games and help enhancing the operation efficiency of our licensed operators.



Pursuant to the announcement of the Company dated 11 May 2021, the Group established Fire Rock Capital, a wholly-owned subsidiary, in the British Virgin Islands on 26 April 2021, and established Firerock Capital Pte., a wholly-owned subsidiary, in Singapore on 5 May 2021, respectively. Firerock Capital Pte. is wholly owned by Fire Rock Capital. Fire Rock Capital is principally engaged in investment holding. Through Firerock Capital Pte., the Group will engage in strategic cooperation and the distribution of games in regions such as Singapore, Indonesia and Malaysia in the future, and will also acquire or invest in game or other Internet projects that are complementary with the Group's business.

Save for the investments mentioned above, there were no other significant investments in or material acquisitions and disposals of subsidiaries and associated companies by the Company.

Future Plans for Material Investments or Capital Assets


Save as those disclosed in this Interim Report, there were no plan authorised by the Board for material investments or additions of capital assets at the date of this Interim Report.

Contingent Liabilities

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: 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, THB and HKD. Approximately 10.2% of the revenue are denominated in currencies other than the functional currency of the operating units making the sales for the six months ended 30 June 2021 (30 June 2020: approximately 9.7%). Therefore, foreign exchange risks primarily arose from recognised assets in the Group when receiving or planning to receive foreign currencies from overseas cooperated counter parties.



Approximately 89.8% (30 June 2020: approximately 90.3%) of the transactions of the Company are denominated and settled in its functional currency, RMB. The Company's foreign exchange risks 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.

Use of Proceeds from the Placing

The Shares of the Company was listed on GEM of the Stock Exchange on 18 February 2016, and the net proceeds from the Placing was approximately HKD28.9 million.

Listing of the Shares has been transferred to the Main Board from GEM on 27 June 2019 without further issuance of Shares.

As of 30 June 2021, the Group has spent approximately HKD27.4 million, in aggregate, of the proceeds from the Placing (approximately HKD7.2 million on development of new games on mobile devices platform, approximately HKD7.2 million on development of new browser games, approximately HKD2.9 million on the continual optimisation of our existing games on various platforms, approximately HKD2.5 million on enhancing our game development capabilities, approximately HKD3.6 million on the acquisition/investment of game developers, approximately HKD2.5 million on the acquisition/purchase of the adaption rights of source materials and related companies and approximately HKD1.5 million for working capital and other general corporate uses). The Group continues to seek opportunities to obtain/acquire the adaptation rights of appropriate source materials.

As of 30 June 2021, the Company's use of proceeds from the Placing is set out as follows:

	Original allocation	Original allocation	30 June 2021 Amount used	30 June 2021 Amount used	30 June 2021 Amount unused	30 June 2021 Amount unused
	<i>HKD million</i>	<i>percentage</i>	<i>HKD million</i>	<i>percentage</i>	<i>HKD million</i>	<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%	7.2	25.0%	—	—
Development of new games — Mobile games	7.2	25.0%	7.2	25.0%	—	—
Seeking opportunities to obtain/ acquire the adaption rights of appropriate source materials	3.6	12.5%	2.5	8.7%	1.1	3.8%
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%	2.5	8.7%	0.4	1.3%
Working capital and other general corporate purposes	1.5	5.0%	1.5	5.0%	—	—
Total	28.9	100.0%	27.4	94.8%	1.5	5.2%



Share Subdivision

On 30 March 2021, the Board of the Company proposed to subdivide each of the existing issued and unissued Shares of one-third Hong Kong cent each in the share capital of the Company into four (4) subdivided Shares of par value of one-twelfth Hong Kong cent each. Prior to the share subdivision becoming effective, the authorised share capital of the Company was HKD20,000,000 divided into 6,000,000,000 Shares of one-third Hong Kong cent each, of which 960,000,000 Shares were issued and fully paid or credited as fully paid. Upon the share subdivision becoming effective, the authorised share capital of the Company would be HKD20,000,000 divided into 24,000,000,000 subdivided shares of par value of one-twelfth Hong Kong cent each, of which 3,840,000,000 subdivided shares would be in issue and fully paid or credited as fully paid.

The share subdivision plan was approved by Shareholders at the extraordinary general meeting held on 30 April 2021. On 4 May 2021, the share subdivision became effective upon the fulfilment of all conditions precedent. For further details, please refer to the announcement of the Company dated 30 March 2021 and the circular of the Company dated 12 April 2021.

Earnings Per Share

The calculation of earnings per share is based on the profit attributable to owners of the Company of approximately HKD271.7 million or earnings per share of approximately 7.08 Hong Kong cents for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately HKD211.7 million or earnings per share of approximately 5.51 Hong Kong cents) and the weighted average number of 3,840,000,000 ordinary shares (six months ended 30 June 2020: 3,840,000,000 ordinary shares) in issue. The weighted average number of ordinary share used in the calculation of earnings per share for the six months ended 30 June 2020 has been adjusted to reflect the share subdivisions which have been completed on 19 August 2020 and 4 May 2021 respectively.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the six months ended 30 June 2021 and 2020.



Dividends

On 30 March 2021, a final dividend, in the form of a cash dividend of HKD0.05208 per share in respect of the year ended 31 December 2020 has been proposed by the Board. Reference is made to the announcement of the Company dated 30 March 2021 in relation to, among other things, the proposed subdivision of each of the existing issued and unissued shares of one-third Hong Kong cent each in the share capital of the Company into four (4) subdivided shares of par value of one-twelfth Hong Kong cent each. If the share subdivision becomes effective prior to the payment of the final dividend, the final dividend will be a cash dividend of HKD0.01302 per subdivided share. On 4 May 2021, the share subdivision became effective upon the fulfilment of all conditions precedent. The dividend distribution proposal was approved by the Shareholders in the annual general meeting held on 12 May 2021. As the share subdivision became effective prior to the distribution of the final dividend, the final dividend is a cash dividend of HKD0.01302 per subdivided share.

Save as mentioned above, the Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).



CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Practices

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

The Group has adopted the code provisions as set out in the corporate governance code (the “**Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance practices.

The Directors consider the Company has complied with all the code provisions set out in the Code throughout the Reporting Period.

Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them the general prohibition on dealing in the Company’s listed securities during the blackout periods before the publication of announcements of financial results of the Group. On 30 March 2021, the Board of the Company proposed to subdivide each of the existing issued and unissued shares of one-third Hong Kong cent each in the then share capital into four subdivided Shares of par value of one-twelfth Hong Kong cent each.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the six months ended 30 June 2021 and throughout the period up to the date of this report.

Disclosure of Interest as Per Registers Kept Pursuant to the SFO

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

As at 30 June 2021, the Directors and the chief executive of our Company had the interests and short positions in the Shares, underlying shares and debentures of our Company and any of its associated corporations (within the meaning of part XV of the SFO):

- (1) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or
- (2) which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or
- (3) which will be required to be notified to our Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules, as follows:

Name	Capacity	Number of Shares¹	Percentage of shareholdings
Zhang Yan ²	Beneficial owner and interest in controlled corporation	1,564,800,000	40.75%
Huang Yong ³	Interest in controlled corporation	47,904,000	1.25%
Zhou Kun	Beneficial owner	1,200,000	0.03%

1. All interests stated are long positions.

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2. Mr. Zhang Yan is interested in approximately 40.75% of the total issued shares of the Company, i.e. 1,564,800,000 Shares, including:
 - i. 76,800,000 Shares owned as beneficial owner, representing approximately 2.00% of the issued share capital of the Company;
 - ii. 1,308,000,000 Shares, representing approximately 34.06% of the share capital of the Company. Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International Limited by virtue of the SFO;
 - iii. 180,000,000 Shares, representing approximately 4.69% of the share capital of the Company. Mr. Zhang Yan is interested in the entire issued share capital of Infinities Investment Pte. Ltd., which is wholly-owned by Infinities Super Holding Limited. Infinities Super Holding Limited is a company incorporated in the Cayman Islands with limited liability and is wholly-owned by Mr. Zhang Yan. Therefore, Mr. Zhang Yan is deemed to be interested in the Shares held by Infinities Investment Pte. Ltd. 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 Shares held by Raglon International Limited by virtue of the SFO.

Save as disclosed above, as at 30 June 2021, 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 they will be taken or deemed to have under such provisions of 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 to the Listing Rules relating to securities transactions by Directors to be notified to our Company and the Hong Kong Stock Exchange.


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

So far as is known to the Directors or chief executive of the Company, on 30 June 2021, the following persons had, or were deemed or taken to have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares¹	Percentage of shareholdings
Sulfulon International Limited	Beneficial owner	1,308,000,000	34.06%
Mr. Zhang Yan ²	Interest of controlled corporation	1,564,800,000	40.75%
Ms. Zheng Xin ³	Interest of spouse	1,564,800,000	40.75%
Raglon International Limited	Beneficial owner	47,904,000	1.25%
Mr. Huang Yong ⁴	Interest of controlled corporation	47,904,000	1.25%
Ms. Pan Li ⁵	Interest of spouse	47,904,000	1.25%
Mr. Zhou Kun	Beneficial owner	1,200,000	0.03%
Ms. Hu Jinrui ⁶	Interest of spouse	1,200,000	0.03%
Mr. Zhang Xiongfeng	Beneficial owner	192,016,000	5.01%
Silver Wide Holdings Limited	Beneficial owner	192,000,000	5.00%
Mr. Hu Po ⁷	Interest of controlled corporation	192,000,000	5.00%

Remarks:

1. All interests stated are long positions.

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2. Mr. Zhang Yan is interested in approximately 40.75% of the total issued shares of the Company, i.e. 1,564,800,000 Shares, including:
 - i. 76,800,000 Shares owned as beneficial owner, representing approximately 2.00% of the issued share capital of the Company;
 - ii. 1,308,000,000 Shares, representing approximately 34.06% of the share capital of the Company. Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International Limited by virtue of the SFO;
 - iii. 180,000,000 Shares, representing approximately 4.69% of the share capital of the Company. Mr. Zhang Yan is interested in the entire issued share capital of Infinities Investment Pte. Ltd., which is wholly-owned by Infinities Super Holding Limited. Infinities Super Holding Limited is a company incorporated in the Cayman Islands with limited liability and is wholly-owned by Mr. Zhang Yan. Therefore, Mr. Zhang Yan is deemed to be interested in the Shares held by Infinities Investment Pte. Ltd. by virtue of the SFO.
 3. Ms. Zheng Xin is the spouse of Mr. Zhang Yan and she is therefore deemed to be interested in the Shares held by Mr. Zhang Yan by virtue of the SFO.
 4. Mr. Huang Yong is interested in the entire issued share capital of Raglon International Limited and he is therefore deemed to be interested in the shares held by Raglon International Limited by virtue of the SFO.
 5. 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.
 6. Ms. Hu Jinrui is the spouse of Mr. Zhou Kun and she is deemed to be interested in the Shares held by Mr. Zhou Kun by virtue of the SFO.
 7. Mr. Hu Po is interested in the entire issued share capital of Silver Wide Holdings Limited and he is therefore deemed to be interested in the Shares held by Silver Wide Holdings Limited by virtue of the SFO.


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 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 of 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 30 June 2021, the total number of shares available for issue under the scheme is 192,000,000 Shares, representing 5% of the issued capital of the Company. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the “**Cancelled Shares**”)) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular and the approval of the Shareholders in general meeting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than 10 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 option has been granted as at 30 June 2021 and since the adoption of the scheme.



Competing Interest

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

Contracts with Controlling Shareholders

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

Directors' Interest in Contracts of Significance


No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director had a material interest in, whether directly or indirectly, and subsisted as of 30 June 2021 or at any time during the Reporting Period.

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 six months ended 30 June 2021.

Audit Committee

We established the Audit Committee on 24 January 2016. The chairman of the Audit Committee is Mr. Chan King Fai, an independent non-executive Director, and other members include Mr. Yang Zhen and Ms. Zhuang Renyan, our independent non-executive Directors. The written terms of reference of the Audit Committee are published on the Main Board website and the Company's website.



The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 3.21 of the Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The Group's unaudited financial statements for the six months ended 30 June 2021 have been reviewed by the Audit Committee. The Audit Committee is of the view that the preparation of the Group's unaudited financial statements for the six months ended 30 June 2021 complied with applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

Change in Directors, supervisors and senior management

With effect from 11 February 2021, Mr. Huang Yong (i) has been re-designated from an executive Director to a non-executive Director of the Company and has been appointed as a chief technology officer of the Company; and (ii) has resigned as chief executive director and authorised representative of the Company under Rule 3.05 of the Listing Rules. Mr. Huang also ceased to be a member of the Remuneration Committee.

With effect from 11 February 2021, Mr. Su Yi, a current executive Director of the Company, has been appointed as (1) the chief executive officer; (2) a member of the Remuneration Committee; and (3) an authorised representative of the Company under Rule 3.05 of the Listing Rules.

With effect from 19 March 2021, Mr. Chen Di has been re-designated from an independent non-executive Director to an executive Director of the Company and, as a result of the redesignation, he has resigned as member of the Audit Committee, chairman of the Remuneration Committee and member of the Nomination Committee of the Company.



With effect from 19 March 2021, Ms. Zhuang Renyan has been appointed as an independent non-executive Director, member of the Audit Committee, member of the Remuneration Committee and member of the Nomination Committee.

For details, please refer to the announcements of the Company dated 11 February 2021 and 19 March 2021.

Save as disclosed above in this report, during the Reporting Period, there were no other changes in the Directors, supervisors and senior management of the Company.

Contractual Arrangements

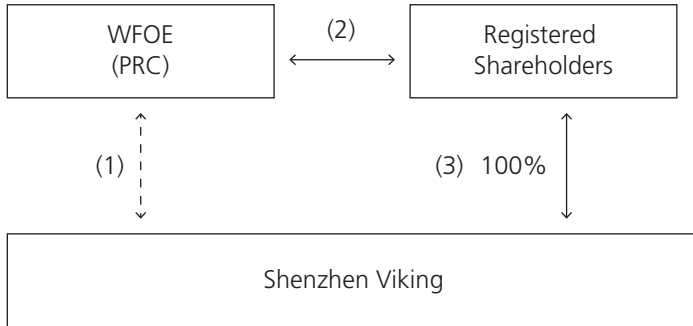
Background

The existing PRC laws and regulations restrict foreign investment in value-added telecommunication, Internet content and information services, and online games in the PRC. The wholly-owned subsidiary of the Company, Tak Shing (SZ), being a foreign-owned enterprise, does not have the requisite licences to provide services regarding value-added telecommunication, Internet content and information services, and online games in the PRC.

In order to comply with PRC laws restricting foreign ownership in the value-added telecommunication in China, or foreign ownership prohibitions on Internet content and information services, the Group operated the licensing and publishing of self-developed browser games and mobile games in the PRC through our PRC Consolidated Affiliated Entity. Our PRC Consolidated Affiliated Entity, as a domestic company, holds a Value-added Telecommunication Business Operation Permit and an Internet Culture Operation Permit. In addition, our PRC Consolidated Affiliated Entity holds certain of the Group's intellectual properties.

The Company has entered into a series of Contractual Arrangements with the WFOE and our PRC Consolidated Affiliated Entity, pursuant to which the Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by our PRC Consolidated Affiliated Entity. Accordingly, through the Contractual Arrangements, the results of operations and assets and liabilities of our PRC Consolidated Affiliated Entity are consolidated into our results of operations and assets and liabilities under IFRS as if it was a subsidiary of the Group.

The following simplified diagram illustrates the flow of economic benefits from our PRC Consolidated Affiliated Entity to the Group as stipulated under the Contractual Arrangements:



- ← - - - - - > denotes the Contractual Arrangements
- ← ———— > denotes legal and beneficial ownership in the equity interest

Notes:

- (1) WFOE provides business support, technical support, consulting services and other services in exchange for service fees from Shenzhen Viking. Please refer to the section headed "Summary of the Specific Agreements under the Contractual Arrangements" below.
- (2) The registered shareholders of Shenzhen Viking, namely Mr. Zhang Zhenhua, Ms. Zhang Xiaojuan and Ms. Wang Yeqiong are collectively referred to as "Registered Shareholders". Mr. Zhang Zhenhua, Ms. Zhang Xiaojuan and Ms. Wang Yeqiong are referred to as the "Relevant Individual Shareholders".

The Registered Shareholders executed exclusive option agreement, powers of attorney and equity pledge agreements, and the spouse of each of the Relevant Individual Shareholders executed an undertaking, in favour of WFOE. Please refer to the section headed "Summary of the Specific Agreements under the Contractual Arrangements" below.

- (3) In addition to the restricted and/or prohibited business of the Company, Shenzhen Viking (i) is engaged in business subject to foreign ownership restriction; (ii) is engaged in business subject to foreign ownership prohibition; or (iii) does not currently carry out business operations that are subject to foreign investment restrictions under the Negative List.

A brief description of each of the specific agreements that comprise the Contractual Arrangement is set out as follows:


(a) Exclusive Purchase Option Agreement

Tak Shing (SZ), Shenzhen Viking and the Shenzhen Viking Registered Shareholders entered into an exclusive purchase option agreement (the “**Exclusive Purchase Option Agreement**”) on 8 September 2020, pursuant to which Tak Shing (SZ) or a designee of Tak Shing (SZ) have an irrevocable exclusive option to purchase, through one time or multiple batches, all or part of the shares in Shenzhen Viking held by the Shenzhen Viking Registered Shareholders (the “**Optioned Shares**”) (the “**Share Purchase Option**”) during the term of the Exclusive Purchase Option Agreement; and Tak Shing (SZ) or a designee of Tak Shing (SZ) have an irrevocable exclusive option to purchase, through one time or multiple batches, all or part of the assets owned by Shenzhen Viking (the “**Optioned Assets**”) at any time (the “**Asset Purchase Option**”) during the term of the Exclusive Purchase Option Agreement.

The Exclusive Purchase Option Agreement shall remain valid during the legal operating period of Shenzhen Viking and extension periods under PRC law until Tak Shing (SZ) or a designee of Tak Shing (SZ) fully exercises the Share Purchase Option or the Asset Purchase Option. Otherwise, Tak Shing (SZ) can terminate the Exclusive Purchase Option Agreement unilaterally by providing thirty (30) days in advance. Unless provided by law, Shenzhen Viking and the Shenzhen Viking Registered Shareholders shall have no rights to unilaterally terminate the Exclusive Purchase Option.

(b) Exclusive Business Cooperation Agreement

Tak Shing (SZ) and Shenzhen Viking entered into an exclusive business cooperation agreement (the “**Exclusive Business Cooperation Agreement**”) on 8 September 2020, pursuant to which Shenzhen Viking agreed to engage Tak Shing (SZ) as its exclusive services provider to provide (including but not limited to) management consulting, technical and software support, technical consulting, promotion strategy, marketing and related services. The fee for such services shall be in accordance with the actual cooperation and operation situation between Tak Shing (SZ) and Shenzhen Viking.



The Exclusive Business Cooperation Agreement shall be effective upon signing by the parties until the Exclusive Purchase Option Agreement has been terminated. Tak Shing (SZ) can terminate the Exclusive Business Cooperation Agreement unilaterally by providing thirty (30) days' notice in advance. Unless provided by law, Shenzhen Viking and the Shenzhen Viking Registered Shareholders shall have no rights to unilaterally terminate the Exclusive Business Cooperation Agreement.

(c) *Exclusive Technical Service and Management Consultancy Agreement*

Tak Shing (SZ) and Shenzhen Viking entered into an exclusive technical service and management consultancy agreement (the "**Exclusive Technical Service and Management Consultancy Agreement**") on 8 September 2020, pursuant to which Shenzhen Viking agreed to engage Tak Shing (SZ) as its exclusive services provider to provide (including but not limited to) computer and mobile equipment software development or assistance thereof, development or design of webpages and websites for business use, information management systems, technical support, technical consultation, technical training, as well as development of management model and business plan, market research and other services. Subject to PRC laws and reimbursement of losses of the previous year (if required), Shenzhen Viking shall pay the remainder of its annual profit after deducting costs, expenses, fees and taxes recognised by Tak Shing (SZ) as service fee (the "**Service Fee**") to Tak Shing (SZ). Tak Shing (SZ) has the right to adjust the Service Fee according to the overall situation of the services provided to Shenzhen Viking, the operation condition and business development of Shenzhen Viking and Shenzhen Viking shall cooperate unconditionally. The Service Fee may be paid before or after the provision of the technical and management consultancy services.

The Exclusive Technical Service and Management Consultancy Agreement shall be effective upon signing by the parties until the Exclusive Purchase Option Agreement has been terminated. Tak Shing (SZ) can terminate the Exclusive Technical Service and Management Consultancy Agreement unilaterally by providing thirty (30) days' notice in advance. Unless provided by law, Shenzhen Viking shall have no rights to unilaterally terminate the Exclusive Technical Service and Management Consultancy Agreement.

(d) Share Pledge Agreement

Tak Shing (SZ), Shenzhen Viking and the Shenzhen Viking Registered Shareholders entered into a share pledge agreement (the “**Share Pledge Agreement**”) on 8 September 2020, pursuant to which the Shenzhen Viking Registered Shareholders agreed to pledge all their respective shares in Shenzhen Viking to Tak Shing (SZ) as collateral security for any and all of the secured indebtedness under the Contractual Arrangements, and for securing the performance of their obligations under the Contractual Arrangements. During the pledge period, Tak Shing (SZ) is entitled to receive any dividends or other distributable profits arising from the shares of Shenzhen Viking held by the Registered Shareholders.

The pledge in favour of Tak Shing (SZ) under the Share Pledge Agreement shall remain valid until all the contractual obligations of the Registered Shareholders and Shenzhen Viking under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and Shenzhen Viking under the Contractual Arrangements have been fully paid.

(e) Powers of Attorney

The Shenzhen Viking Registered Shareholders executed powers of attorney (the “**Powers of Attorney**”) on 8 September 2020, pursuant to which the Shenzhen Viking Registered Shareholders irrevocably appointed Tak Shing (SZ) and its appointees (including but not limited to the directors of Tak Shing (SZ) and their successors and liquidators replacing the directors but excluding those non-independent directors or directors who may give rise to conflict of interests) as their exclusive agents and attorneys-in-fact to act on their behalf on all matters concerning Shenzhen Viking and to exercise all of their respective rights as a Registered Shareholder of Shenzhen Viking in accordance with the PRC laws and the articles of association of Shenzhen Viking.

(f) *Shareholder Rights Authorisation Agreement*


On 8 September 2020, Tak Shing (SZ), Shenzhen Viking and the Shenzhen Viking Registered Shareholders entered into a shareholder rights authorisation agreement (the “**Shareholder Rights Authorisation Agreement**”), pursuant to which the Shenzhen Viking Registered Shareholders irrevocably authorise Tak Shing (SZ) or persons designated by it to represent each of them to exercise all rights in connection with matters concerning his/her rights as shareholders of Shenzhen Viking in accordance with the valid articles of association at the time.

The Shareholder Rights Authorisation Agreement shall take effect from the date of execution and shall unconditionally remain valid during the period that the Shenzhen Viking Registered Shareholders remain as shareholders of Shenzhen Viking, unless terminated in advance by the parties in writing. If any of the Shenzhen Viking Registered Shareholders transfers his/her entire shareholding in Shenzhen Viking with the prior written consent of Tak Shing (SZ), the other parties’ rights and obligations under the Powers of Attorney shall remain unaffected.

(g) *Spouse Undertakings and Confirmations from the Relevant Individual Shareholders*

The spouse of each of the Relevant Individual Shareholders, where applicable, has executed an undertaking (the “**Spouse Undertakings**”) to the effect that (i) the respective Relevant Individual Shareholder’s interests in Shenzhen Viking (together with any other interests therein) do not fall within the scope of communal properties; and (ii) the spouse has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests.

Each of the Relevant Individual Shareholders has also confirmed to the effect that (i) his/her spouse is aware of the Exclusive Option Agreement, the Share Pledge Agreement and the respective Power of Attorney; (ii) his shareholding is his personal property and does not constitute joint property; (iii) his/her spouse agrees that he has the right to claim any interests, handle his shareholding at his sole discretion without consent of his/her spouse and to enjoy the rights and perform the obligations under the Exclusive Option Agreement, the Share Pledge Agreement and



the respective Power of Attorney by himself. If he/she and his/her spouse get divorced, the equity interest in the domestic company held by him/her is his/her personal property and does not constitute a joint property of him/her and his/her spouse, and he/she will take measures to ensure the performance of the Exclusive Option Agreement, the Share Pledge Agreement and the respective Power of Attorney and will not take any actions in violation of the Exclusive Option Agreement, the Share Pledge Agreement and the respective Power of Attorney; and (iv) in the event of his/her death, incapacity or any other event which causes his/her inability to exercise his/her shareholder's rights in Shenzhen Viking, his/her successors will inherit all his/her rights and obligations under the Power of Attorney.

Reasons for adopting the Contractual Arrangements

The principal business of our PRC Consolidated Affiliated Entity involves publication and operation of games through mobile apps and websites, and, pursuant to applicable PRC laws, is subject to the foreign investment restrictions in accordance with (including but not limited to) the Special Management Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**Negative List**”) promulgated by the National Development and Reform Commission (“**NDRC**”) and the Ministry of Commerce of the PRC (“**MOFCOM**”). The business of the online games operating service is considered “prohibited” for foreign investment, where foreign investment is strictly forbidden. In view of such PRC regulatory background, after consultation with our PRC legal advisers, we determined that it was not viable for the Company to hold our PRC Consolidated Affiliated Entity directly through equity ownership. For further details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the circular of the Company dated 13 January 2021.



Regulatory Matters in Relation to the Contractual Arrangements

FITE Regulations

Foreign investment in telecommunications sector is governed by the Regulations on Administration of Foreign Invested Telecommunications Enterprises (外商投資電信企業管理規定) (the “**FITE Regulations**”), which were promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016. Pursuant to the FITE Regulations, a foreign investor must establish a Chinese-foreign equity joint venture with a Chinese partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise, or FITE, is allowed to engage in basic telecommunications business and value-added telecommunications business. The foreign investor’s ultimate equity holding percentage in a value-added telecommunications business shall not exceed 50% except in E-commerce, domestic multi-party communication, store and forward, call center, which can be operated by a wholly foreign-owned enterprise according to the Special Management Measures (Negative List) for the Access of Foreign Investment (2020). In addition, the FITE Regulations require a foreign investor to demonstrate a good track record and prior experience in providing value-added telecommunications services business before it can acquire any equity interest in a value-added telecommunications services business in the PRC (the “**Qualification Requirements**”). However, as advised by our PRC legal advisers, as at the date of this report, there are no administrative or implementing rules in the PRC defining the term “a good track record and prior experience”. Our PRC legal advisers, also advised the disclosures in the announcement announcing the acquisition with regard to the qualification requirements on the Group’s business stipulated under the provisions on FITE Regulations remain unchanged since the date of the official acquisition of Tak Shing International and up to the date of this interim report.

Foreign Investment Law

The Foreign Investment Law (外商投資法) (the “**FIL**”), approved by the second session of the 13th National People’s Congress, and the Regulation on the Implementation of the Foreign Investment Law (外商投資法實施條例) (the “**FIL Implementation Regulation**”), promulgated by the State Council, have come into effect on 1 January 2020.



According to the FIL, the investment in China directly or indirectly by foreign natural persons, enterprises or other organisations (“**Foreign Investors**”) is defined as foreign investment (“**Foreign Investment**”), which includes the following situations: (1) Foreign Investors establishing foreign-invested enterprises alone or by cooperating with other investors; (2) Foreign Investors acquiring shares, equities, property shares or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or by cooperating with other investors; (4) other means of investment prescribed by laws, administrative regulations and rules promulgated by the State Council. According to our PRC legal advisers, the FIL and the FIL Implementation Regulation do not clearly stipulate whether the Structured Contracts are a form of Foreign Investment.

In accordance with the existing provisions of the FIL and the FIL Implementation Regulation and if the laws, administrative regulations and the State Council do not include the Structured Contracts as a form of Foreign Investment, the Structured Contracts will not be materially affected. However, in view of the provisions of the abovementioned situation (4) of Foreign Investment in the FIL, it does not rule out the Structured Contracts being regarded as a form of Foreign Investment according to laws, administrative regulations or rules promulgated by the State Council in the future. In this regard, the Company cannot guarantee that the Structured Contracts and the operations of Shenzhen Viking will not be materially and adversely affected by changes in PRC laws and regulations in the future.

Since the FIL and the FIL Implementation Regulation do not clarify whether the Structured Contracts are a form of Foreign Investment, the Company believes that it may not be appropriate at this stage to formulate specific measures to avoid the Structured Contracts being recognised as a form of Foreign Investment under the FIL. If the Structured Contracts is recognised as a form of Foreign Investment in the future, and there is no special provision for the Structured Contracts that allows Shenzhen Viking, provided that certain conditions are met, to continue to carry out relevant foreign investment restricted or prohibited businesses, the Company might be requested to dispose of its interests in Shenzhen Viking.



Risks in Relation to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements of the Group, including:

- If the PRC government determines that the Contractual Arrangements do not comply with the applicable regulations, our business would be materially and adversely affected or we could be subject to severe penalties.
- Our Contractual Arrangements with Shenzhen Viking and its Registered Shareholders may not be as effective in providing control as direct ownership. Shenzhen Viking and its Registered Shareholders may fail to perform their obligations under these Contractual Arrangements.
- Our ability to enforce the share pledge agreements may be subject to limitations based on PRC laws and regulations.
- The Shenzhen Viking Registered Shareholders have potential conflicts of interest with us, which may adversely affect our business.
- We may lose the ability to use and enjoy the benefits of the assets held by Shenzhen Viking that are important to the operations of our business if such entity goes bankrupt or becomes subject to dissolution or liquidation proceeding.
- Our Contractual Arrangements with Shenzhen Viking may result in adverse tax consequences.

For further details of these risks, please refer to the circular of the Company dated 13 January 2021.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:


- major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion as and when they arise;

- the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- the Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual/interim reports;
- the Directors will provide periodic updates in the annual/interim reports regarding the Qualification Requirements as stipulated under the FITE Regulations and the development of laws and regulations on foreign investment, including the latest relevant regulatory development as well as the plan and progress in acquiring the relevant experienced personnel to meet these Qualification Requirements; and
- the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance with WFOE and our PRC Consolidated Affiliated Entity to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. As such, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; and (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long our Shares are listed on the Stock Exchange, subject, however, to the following conditions:

- (a) no change to the Contractual Arrangements will be made without independent non-executive Directors' approval;
- (b) no change to the Contractual Arrangements will be made without independent Shareholders' approval;

- 
- (c) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and our PRC Consolidated Affiliated Entity, on the other hand, that framework may be renewed and/or reproduced upon expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch companies) engaging in the same business as that of the Group which the Group may wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and
 - (d) we will disclose details relating to the Contractual Arrangements on an ongoing basis.

For further details of the Contractual Arrangements, please refer to the circular of the Company dated 13 January 2021.



INDEPENDENT REVIEW REPORT

To the Board of Directors of Fire Rock Holdings Limited

火岩控股有限公司

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 55 to 82, which comprise the condensed consolidated statement of financial position of Fire Rock Holdings Limited (the “**Company**”) as of 30 June 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes (the “**interim condensed consolidated financial statements**”). The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34.

Our responsibility is to express a conclusion on this interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of 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.



Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**HKSAE 2410**”) issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Other Matter

The comparatives in the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 30 June 2020, and the related explanatory notes have not been reviewed in accordance with HKSRE 2410 or audited.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

BDO Limited

Certified Public Accountants

Leung Tze Wai
Practising Certificate Number P06158

Hong Kong, 20 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE

	Notes	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Revenue	5	497,073	314,385
Direct costs		(98,222)	(19,630)
Gross profit		398,851	294,755
Other income	5	13,093	2,880
Research and development costs		(5,734)	(2,996)
Distribution costs		(39,107)	(16,694)
Administrative expenses		(27,800)	(19,675)
Changes in fair value of financial assets at fair value through profit or loss		(2,538)	—
Finance costs		(9,289)	(235)
Profit before income tax	6	327,476	258,035
Income tax expense	7	(54,670)	(45,605)
Profit for the period		272,806	212,430
Other comprehensive income: Item that may be reclassified subsequently to profit or loss — Exchange differences on translation of foreign operations		5,212	8,358
Other comprehensive income for the period		5,212	8,358
Total comprehensive income for the period		278,018	220,788
Profit for the period attributable to:			
Owners of the Company		271,691	211,689
Non-controlling interests		1,115	741
		272,806	212,430
Total comprehensive income attributable to:			
Owners of the Company		277,041	219,942
Non-controlling interests		977	846
		278,018	220,788
		HKD cents	HKD cents (restated)
Earnings per share			
Basic and diluted	9	7.08	5.51

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2021 HKD'000 (unaudited)	As at 31 December 2020 HKD'000 (audited) (restated)	As at 1 January 2020 HKD'000 (audited) (restated)
Non-current assets				
Property, plant and equipment	10	9,822	6,782	6,292
Intangible assets	11	385,991	47,340	21,636
Goodwill	12	768,527	—	—
Right-of-use assets	13	11,899	8,855	10,597
Financial assets at fair value through profit or loss	14	15,403	—	—
Deposits and prepayments		4,335	514	—
		1,195,977	63,491	38,525
Current assets				
Trade receivables	15	46,468	110,396	156,861
Prepayments, deposits and other receivables		60,045	1,940	6,322
Short-term bank deposits	16	—	23,763	112,315
Cash and cash equivalents	16	645,702	708,317	165,098
		752,215	844,416	440,596
Current liabilities				
Trade and other payables	17	37,667	30,842	17,757
Promissory notes	18	188,979	—	—
Deferred revenue	19	8,300	160	156
Dividend payables		42	1,706	—
Lease liabilities	13	5,263	2,655	2,979
Tax payables		33,833	11,660	348
		274,084	47,023	21,240
Net current assets		478,131	797,393	419,356
Total assets less current liabilities		1,674,108	860,884	457,881

	Notes	As at 30 June 2021 HKD'000 (unaudited)	As at 31 December 2020 HKD'000 (audited) (restated)	As at 1 January 2020 HKD'000 (audited) (restated)
Non-current liabilities				
Promissory notes	18	539,924	—	—
Lease liabilities	13	7,219	6,715	7,893
Deferred tax liabilities		81,134	36,358	21,211
		628,277	43,073	29,104
Net assets				
		1,045,831	817,811	428,777
Equity				
Share capital	20	3,200	3,200	3,200
Reserves		1,040,406	812,920	425,882
Equity attributable to owners of the Company				
		1,043,606	816,120	429,082
Non-controlling interests		2,225	1,691	(305)
Total equity				
		1,045,831	817,811	428,777

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company										
	Share capital HKD'000	Share premium* HKD'000	Capital reserve* HKD'000	Merger reserve* HKD'000	Statutory reserve* HKD'000	Share based	Foreign	Retained profits* HKD'000	Total HKD'000	Non-controlling interests HKD'000	Total equity HKD'000
						payment	exchange				
For the six months ended											
30 June 2020 (unaudited)											
As at 1 January 2020 (restated)	3,200	41,782	14,200	13,800	15,290	1,472	(10,240)	349,578	429,082	(305)	428,777
Profit for the period	—	—	—	—	—	—	—	211,689	211,689	741	212,430
Other comprehensive income for the period:											
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	8,253	—	8,253	105	8,358
Total comprehensive income for the period	—	—	—	—	—	—	8,253	211,689	219,942	846	220,788
Final dividend in respect of 2019 Equity settled share-based transactions	—	—	—	—	—	—	—	(30,000)	(30,000)	—	(30,000)
	—	—	—	—	—	547	—	—	547	—	547
As at 30 June 2020 (restated)	3,200	41,782	14,200	13,800	15,290	2,019	(1,987)	531,267	619,571	541	620,112
For the six months ended											
30 June 2021 (unaudited)											
As at 1 January 2021 (restated)	3,200	41,782	14,200	13,800	15,930	2,555	21,755	702,898	816,120	1,691	817,811
Profit for the period	—	—	—	—	—	—	—	271,691	271,691	1,115	272,806
Other comprehensive income for the period:											
— Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	5,350	—	5,350	(138)	5,212
Total comprehensive income for the period	—	—	—	—	—	—	5,350	271,691	277,041	977	278,018
Final dividend in respect of 2020	—	—	—	—	—	—	—	(49,997)	(49,997)	(443)	(50,440)
Transfer to statutory reserve	—	—	—	—	389	—	—	(389)	—	—	—
Equity settled share-based transactions	—	—	—	—	—	442	—	—	442	—	442
As at 30 June 2021	3,200	41,782	14,200	13,800	16,319	2,997	27,105	924,203	1,043,606	2,225	1,045,831

* The aggregate balances of these reserve accounts of HKD1,040,406,000 are included as reserves as at 30 June 2021 in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	2021 <i>HKD'000</i> (unaudited)	2020 <i>HKD'000</i> (unaudited) (restated)
Cash flows from operating activities		
Profit before income tax	327,476	258,035
Adjustments for:		
Amortisation of intangible assets	40,461	4,672
Depreciation of property, plant and equipment	1,972	1,371
Depreciation of right-of-use assets	2,258	1,144
Changes in fair value of financial assets at fair value through profit or loss	2,538	—
Interest income	(3,335)	(1,009)
Finance costs	9,289	235
Share-based payment expenses	442	547
Operating profit before working capital changes	381,101	264,995
Decrease in trade receivables	69,258	33,335
(Increase)/decrease in prepayments, deposits and other receivables	(1,408)	8,914
(Decrease)/increase in trade and other payables	(127,713)	6,306
(Decrease)/increase in deferred revenue	(8,015)	886
Cash generated from operating activities	313,223	314,436
Tax paid	(84,303)	(45,470)
Net cash generated from operating activities	228,920	268,966
Cash flows from investing activities		
Interest received	3,335	1,009
Additions of intangible assets	(19,716)	(8,476)
Decrease in short-term bank deposits	24,001	110,922
Purchases of property, plant and equipment	(3,094)	(724)
Purchases of financial asset at fair value through profit or loss	(17,941)	—
Acquisition of subsidiaries, net of cash acquired (<i>note 22</i>)	(223,978)	—
Net cash (used in)/generated from investing activities	(237,393)	102,731

	2021 <i>HKD'000</i> (unaudited)	2020 <i>HKD'000</i> (unaudited) (restated)
Cash flows from financing activities		
Dividends paid	(51,661)	(27,910)
Repayments of principal portion of lease liabilities	(2,425)	(895)
Repayments of interest of lease liabilities	(285)	(235)
Net cash used in financing activities	(54,371)	(29,040)
Net (decrease)/increase in cash and cash equivalents	(62,844)	342,657
Cash and cash equivalents at beginning of the period	708,317	165,098
Effect of foreign exchange rate changes	229	(4,274)
Cash and cash equivalents at end of the period	645,702	503,481

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 Windward 3, Regatta Office Park, 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 the development of browser games and mobile games (including design, programming and graphics) and licensing of its games as well as self-operating its games in the PRC and overseas markets. In addition, the Group develops software and licenses its software to business partners.

These condensed consolidated interim financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**HKSRE 2410**”), issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). BDO Limited’s independent review report to the board of directors is included on pages 53 to 54. The comparatives in the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 30 June 2020, and the related explanatory notes have not been reviewed in accordance with HKSRE 2410 or audited.

2. BASIS OF PREPARATION

The preparation of these condensed consolidated interim financial statements in compliance with Hong Kong Accounting Standard 34 (“**HKAS 34**”) issued by the HKICPA requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by the management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group’s annual consolidated financial statements for the year ended 31 December 2020.



These condensed consolidated interim financial statements are presented in Hong Kong Dollars (“**HKD**”), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial information and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) and should be read in conjunction with the 2020 annual financial statements.

The consolidated financial statements have been prepared under historical costs basis, except for financial assets at fair value through profit or loss which have been measured at fair value.

Change in presentation currency

Prior to 1 January 2021, RMB was regarded as the presentation currency of the Company and the consolidated financial statements were also presented in RMB. Having considered that the Company’s shares are listed on The Stock Exchange of Hong Kong Limited and its stock is traded in HKD, the directors of the Company (“**Directors**”) believes that it is more appropriate to use HKD as the presentation currency as it enables the shareholders and potential investors of the Company to have a more accurate picture of the Group’s financial performance. The change in presentation currencies was accounted for in accordance with Hong Kong Accounting Standard (“**HKAS**”) 21 *The Effects of Changes in Foreign Exchange Rates*. Comparative figures have been re-stated to reflect the change in the Group’s presentation currency. The Group has also presented the consolidated statement of financial position as at 1 January 2020 without related notes.

For the purpose of re-presentation of the consolidated financial statements of the Group from RMB to HKD, the assets and liabilities as at 1 January 2020 and 31 December 2020 were translated into HKD at the closing rate as of the respective reporting dates. Income and expenses are translated at the average exchange rates for the respective periods/years. Share capital, share premium and reserves were translated at the exchange rate at the date when the respective amounts were determined (i.e. historical exchange rates).

Change in units of presentation of accounts

In previous years, the consolidated accounts were presented in RMB. From 2021 onwards, the Group decided to present the consolidated accounts in HKD, rounded to the nearest thousand, as it simplifies the accounts and provides a better view on material items.

3. PRINCIPAL ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2020 annual financial statements, except for intangible assets acquired in a business combination as described below and those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2021.

3.1 Trademark, platform and domain names and reacquired license rights acquired in a business combination

The cost of intangible assets acquired in business combination is the fair value as at the date of acquisition. Intangible assets with finite useful lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

In the current period, the Group has applied for the first time the following new or revised HKFRSs that are relevant to and effective for the Group's unaudited condensed consolidated interim financial statements for the annual period beginning on 1 January 2021.

Amendments to HKFRS 16
Amendments to HKAS 39, HKFRS 7,
HKFRS 9, and HKFRS 16

COVID-19 Related Rent Concessions
Interest Rate Benchmark Reform
— Phase 2

The adoption of the above new or revised HKFRSs in the current period has no material effect on the amounts reported and/or disclosures set out in these unaudited condensed consolidated interim financial statements.

4. 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.

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 six months ended 30 June	
	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Revenue from contracts with customers:		
Game and software development	53,516	284,428
Game operation	443,557	29,957
	497,073	314,385

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.

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

For the six months ended 30 June 2021

	Game and software development <i>HKD'000</i> (unaudited)	Game operation <i>HKD'000</i> (unaudited)	Elimination <i>HKD'000</i> (unaudited)	Total <i>HKD'000</i> (unaudited)
Revenue from external customers	53,516	443,557	—	497,073
Inter-segment revenue	216,720	—	(216,720)	—
Reportable segment revenue	270,236	443,557	(216,720)	497,073
Reportable segment profit	35,222	318,661	—	353,883
Interest income	2,329	951	—	3,280
Government grant	2,718	3,690	—	6,408
Finance costs	185	41	—	226
Depreciation and amortisation	7,708	36,364	—	44,072
Additions to non-current assets	20,330	362,650	—	382,980

As at 30 June 2021

	Game and software development <i>HKD'000</i> (unaudited)	Game operation <i>HKD'000</i> (unaudited)	Total <i>HKD'000</i> (unaudited)
Reportable segment assets	379,688	670,860	1,050,548
Reportable segment liabilities	33,872	134,158	168,030

For the six months ended 30 June 2020

	Game and software development HKD'000 (unaudited) (restated)	Game operation HKD'000 (unaudited) (restated)	Elimination HKD'000 (unaudited) (restated)	Total HKD'000 (unaudited) (restated)
Revenue from external customers	284,428	29,957	—	314,385
Inter-segment revenue	257	—	(257)	—
Reportable segment revenue	284,685	29,957	(257)	314,385
Reportable segment profit	256,817	3,013	—	259,830
Interest income	1,004	5	—	1,009
Government grant	1,654	—	—	1,654
Finance costs	228	7	—	235
Depreciation and amortisation	6,949	238	—	7,187
Additions to non-current assets	9,131	70	—	9,201

As at 31 December 2020

	Game and software development HKD'000 (audited) (restated)	Game operation HKD'000 (audited) (restated)	Total HKD'000 (audited) (restated)
Reportable segment assets	810,846	16,984	827,830
Reportable segment liabilities	74,720	10,201	84,921

Reconciliation of reportable segment profit, assets and liabilities:

For the six months ended 30 June

	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
<i>Profit before income tax</i>		
Reportable segment profit	353,883	259,830
Interest income	55	—
Unallocated corporate expenses	(26,462)	(1,795)
Consolidated profit before income tax	327,476	258,035

	As at 30 June 2021 HKD'000 (unaudited)	As at 31 December 2020 HKD'000 (audited) (restated)
<i>Assets</i>		
Reportable segment assets	1,050,548	827,830
Unallocated corporate assets	897,644	80,077
Consolidated total assets	1,948,192	907,907
<i>Liabilities</i>		
Reportable segment liabilities	168,030	84,921
Unallocated corporate liabilities	734,331	5,175
Consolidated total liabilities	902,361	90,096

Unallocated expenses mainly represent administrative expenses, which mainly included salaries and bonus, donation, legal and professional fee and depreciation of right-of-use assets.

(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.

	For the six months ended 30 June	
	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Primary geographical markets*		
The PRC (place of domicile)	446,561	283,812
Asia Pacific	50,502	30,080
Europe	10	493
	497,073	314,385

* Based on the location of licensed operators and game operation.

	For the six months ended 30 June	
	2021 <i>HKD'000</i> (unaudited)	2020 <i>HKD'000</i> (unaudited) (restated)
Timing of revenue recognition		
Over time	4,673	12,614
At a point in time	492,400	301,771
	497,073	314,385
	As at 30 June 2021 <i>HKD'000</i> (unaudited)	As at 31 December 2020 <i>HKD'000</i> (audited) (restated)
Non-current assets		
The PRC	407,137	61,563
Thailand	1,361	1,188
Hong Kong	771,079	226
	1,179,577	62,977

Note: Non-current assets exclude financial instruments.

Revenue earned from major licensed operators, each of them accounted for 10% or more of the revenue of the Group, are set out below:

	For the six months ended 30 June 2020 <i>HKD'000</i> (unaudited) (restated)
Licensed operator A	204,032
Licensed operator B	71,622
	275,654

For the six months ended 30 June 2021, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

5. REVENUE AND OTHER INCOME

	For the six months ended 30 June	
	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Revenue		
License fees and royalties	48,843	271,814
Game operation income	443,557	29,957
Software licensing service	4,673	12,614
	497,073	314,385
Other income		
Interest income	3,335	1,009
Government grants (<i>note</i>)	6,408	1,654
Others	3,350	217
	13,093	2,880

Note: The Group received various government subsidies from local government authorities in the PRC of HKD6,408,000 (2020: HKD1,654,000). There are no unfulfilled conditions and other contingencies relating to these grants and subsidies.

6. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Depreciation of plant and equipment*	1,972	1,371
Depreciation of right-of-use assets*	2,258	1,144
Amortisation of intangible assets**	40,461	4,672
Interest expense on promissory notes	9,004	—
Interest expense on lease liabilities	285	235
Exchange (gain)/loss, net	(2,934)	7,454
Employee costs (including directors' remuneration)	23,743	11,457

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

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

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2021 <i>HKD'000</i> (unaudited)	2020 <i>HKD'000</i> (unaudited) (restated)
Current period — PRC Enterprise Income Tax (“EIT”)		
— Tax for the period	54,586	26,531
— Under-provision in respect of prior years	7,997	—
— Withholding tax on dividends	36,358	19,074
Current period — Thailand Corporate Income Tax (“CIT”)		
— Tax for the period	1,198	—
	100,139	45,605
Deferred tax	(45,469)	—
	54,670	45,605

No Hong Kong Profits Tax was provided as the Group has no estimated assessable profits derived from or arising in Hong Kong during the six months ended 30 June 2021 and 2020.

Provision for the EIT in the PRC is calculated at the statutory tax rate of 25% of the estimated assessable profits in accordance with the relevant income tax law of the PRC, except for stated below:

For the six months ended 30 June 2021 and 2020, Shenzhen Fire Element Network Technology Co. Ltd and Shenzhen Viking Network Technology Co., Ltd. (“**Shenzhen Viking**”), the Group’s subsidiaries, entitled to a preferential tax rate of 15% as they are qualified as “High and New Technology Enterprises”.

During the six months ended 30 June 2021 and 2020, 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%.

Firerock Co., Ltd. is a subsidiary incorporated in Thailand and its assessable profits are taxed at 20% for the six months ended 30 June 2021. No Thailand CIT was provided for the six months ended 30 June 2020 as the Group has sufficient tax losses brought forward to offset against the estimated assessable profits.

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.

Under Thailand CIT law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Thailand.

8. DIVIDENDS

On 30 March 2021, a final dividend, in the form of a cash dividend of HKD0.05208 per share in respect of the year ended 31 December 2020 has been proposed by the Board and is approved by the shareholders in the annual general meeting held on 12 May 2021.

Save as disclosed above, the Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately HKD271,691,000 (six months ended 30 June 2020: approximately HKD211,689,000) and the weighted average number of 3,840,000,000 ordinary shares (six months ended 30 June 2020: 3,840,000,000) in issue during the period. The weighted average number of ordinary share used in the calculation of earnings per share for the six months ended 30 June 2020 has been adjusted to reflect the share subdivisions which have been completed on 19 August 2020 and 4 May 2021 respectively.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the six months ended 30 June 2021 and 2020.

10. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2021, the Group incurred additions to property, plant and equipment of HKD4,950,000 (six months ended 30 June 2020: approximately HKD724,000) which included those arising from the business acquisition of HKD1,856,000 (note 22).

11. INTANGIBLE ASSETS

For the six months ended 30 June 2021, additional development costs of approximately HKD19,716,000 (for the six months ended 30 June 2020: approximately HKD8,476,000) and additions to intangible assets arising from the business acquisition of HKD357,792,000 (note 22).

12. GOODWILL

	As at 30 June 2021 HKD'000 (unaudited)
COST	
At beginning of the period	—
Acquisition of a subsidiary (note 22)	766,188
Exchange alignment	2,339
	768,527

For the purposes of impairment testing, goodwill has been allocated to the following cash generating unit (“CGU”):

	As at 30 June 2021 HKD'000 (unaudited)
Game operation — PRC	768,527

During the six months ended 30 June 2021, the management assessed the expected recoverable amount of the CGU based on the higher of value in use and fair value less cost of disposal.

The recoverable amount of the CGU has been determined based on the value-in-use calculation which is based on the financial budgets. The expected cash flows beyond the financial budget period are extrapolated at the growth rate as stated below. The key assumptions used by the management for the value-in-use calculation of the CGU are as follows:

	As at 30 June 2021 (unaudited)
Budget plan	3 years
Growth rate	3%
Discount rate	20.30%

The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flow projections are prepared based on the most recent financial budget approved by the management. Other key assumptions for the value-in-use calculation are budgeted net profit and budgeted revenue, which are determined based on the past performance and management's expectations regarding market development.

13. LEASE

Right-of-use assets

During the six months ended 30 June 2021, the Group entered into new lease agreements for use of office for 2 years, and therefore recognised additions to right-of-use assets of HKD4,391,000 (six months ended 30 June 2020: Nil), which included those arising from the business acquisition of HKD3,587,000 (note 22).

Lease liabilities

	As at 30 June 2021		As at 31 December 2020	
	Present value of minimum lease payment HKD'000 (unaudited)	Total minimum lease payment HKD'000 (unaudited)	Present value of minimum lease payment HKD'000 (audited) (restated)	Total minimum lease payment HKD'000 (audited) (restated)
Maturity analysis:				
Within 1 year	5,263	5,746	2,655	3,040
After 1 year but within 2 years	4,306	4,541	2,518	2,783
After 2 years but within 5 years	2,913	2,998	4,197	4,367
	12,482	13,285	9,370	10,190
Less: Interest		(803)		(820)
		12,482		9,370
Analysed as:				
Non-current		7,219		6,715
Current		5,263		2,655
		12,482		9,370

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2021 HKD'000 (unaudited)
Unlisted fund investment	15,403

The fair value of the investment at 30 June 2021 were determined by the directors of the Company with reference to the valuation performed by valuer, Peak Vision Appraisals Limited ("Peak Vision"), an independent professional valuer who has professional qualifications and relevant experience.

15. TRADE RECEIVABLES

The Group allows credit period within 120 days to its licensed operators, third party game distribution platforms and payment channels. The aging analysis of trade receivables at the end of the reporting period, based on invoice date is as follows:

	As at 30 June 2021 HKD'000 (unaudited)	As at 31 December 2020 HKD'000 (audited) (restated)
0–30 days	19,189	55,614
31–60 days	5,377	26,240
61–90 days	4,384	3,659
91–120 days	5,562	256
More than 120 days	11,956	24,627
	46,468	110,396

The Group does not hold any collateral over these balances.

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

	As at 30 June 2021 HKD'000 (unaudited)	31 December 2020 HKD'000 (audited) (restated)
Cash at banks and in hand	470,922	141,624
Short-term bank deposits with original maturity of less than three months	174,780	566,693
Cash and cash equivalents	645,702	708,317
Short-term bank deposits with original maturity of more than three months	—	23,763
	645,702	732,080

Cash at banks earns interest at floating rate based on daily bank deposit rates.

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.

17. TRADE AND OTHER PAYABLES

	As at 30 June 2021 HKD'000 (unaudited)	31 December 2020 HKD'000 (audited) (restated)
Trade payables	15,443	396
Other payables	13,553	12,346
Accruals	8,671	18,100
	37,667	30,842

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

	As at 30 June 2021 HKD'000 (unaudited)	31 December 2020 HKD'000 (audited) (restated)
Less than 30 days	10,074	396
31–60 days	2,953	—
61–90 days	2,085	—
91–120 days	275	—
More than 120 days	56	—
	15,443	396

18. PROMISSORY NOTES

	As at 30 June 2021 HKD'000 (unaudited)
At beginning of the period	—
Issue of promissory notes (<i>note 22</i>)	719,638
Accrued interest expenses	9,004
Exchange alignment	261
At end of the period	728,903

On 4 February 2021, the Company issued promissory notes with aggregate principal amount of RMB600,000,000 (equivalent to approximately HKD719,638,000) as part of the consideration to acquire the entire equity interest in the Tak Shing International (note 22). The promissory notes are unsecured, interest-bearing at 3% per annum and mature on 31 December 2024. All interests are accrued and paid annually. The Company may redeem (in full or in part) the promissory notes at any time prior to its maturity (i.e. 31 December 2024) by giving prior written notice to the promissory note holder. The promissory notes are measured at amortised cost and using the effective interest rates at 3.31%.

The promissory notes are due and analysed as follows:

	HKD'000 (unaudited)
Within 1 year	188,979
After 1 year but within 2 years	179,975
After 2 years	359,949
	728,903

Represented by:

	HKD'000 (unaudited)
Current	188,979
Non-current	539,924
	728,903

19. DEFERRED REVENUE

Deferred revenue represented unamortised portion of revenue received in respect of in-game purchase paid by the paying players in the Group's game operation segment. Deferred revenue is classified as contract liability under HKFRS 15 "Revenue from Contracts with Customers".

20. SHARE CAPITAL

	Number of shares	Amount HKD'000
Authorised:		
At 1 January 2020	2,000,000,000	20,000,000
Share subdivision (note (a))	4,000,000,000	—
At 31 December 2020 and 1 January 2021	6,000,000,000	20,000,000
Share subdivision (note (b))	18,000,000,000	—
At 30 June 2021	24,000,000,000	20,000,000
Issued and fully paid:		
At 1 January 2020	320,000,000	3,200,000
Share subdivision (note (a))	640,000,000	—
At 31 December 2020 and 1 January 2021	960,000,000	3,200,000
Share subdivision (note (b))	2,880,000,000	—
At 30 June 2021	3,840,000,000	3,200,000

Notes:

- The shareholders of the Company approved that each of the authorised and issued ordinary share of HKD0.01 each was subdivided into three subdivided ordinary shares of HKD0.0033 each and the share subdivision was became effective on 19 August 2020.
- The shareholders of the Company approved that each of the authorised and issued ordinary share of HKD0.0033 each was subdivided into four subdivided ordinary shares of HKD0.00083 each and the share subdivision was became effective on 4 May 2021.

21. RELATED PARTY TRANSACTIONS

Emoluments of key management personnel

Emoluments paid or payable to members of the key management personnel, who are directors, the chief executive officer and senior management, for their service are set out below:

	For the six months ended 30 June	
	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Salaries, allowances and benefits in kind	2,387	1,901
Contributions to defined contribution retirement plan	52	24
	2,439	1,925

22. BUSINESS COMBINATION DURING THE PERIOD

Acquisition of Tak Shing International

On 4 February 2021 (the “**Completion Date**”), the Group completed the acquisition of entire equity interest of Tak Shing International (the “**Acquisition**”).

Tak Shing International is an investment holding company which holds the entire issued share capital of Tak Shing Group Hong Kong Limited, which in turn holds the entire equity interest in the Shenzhen Tak Shing Technology Limited which through the contractual arrangements, will have effective control over the financing and operations of the Shenzhen Viking, and enjoy the economic interest and benefits of Shenzhen Viking. Shenzhen Viking is principally engaged in game operating business.

The fair value of identifiable assets and liabilities of Tak Shing International as at the date of acquisition were as follows:

	<i>HKD'000</i>
Property, plant and equipment	1,856
Intangible assets	357,792
Right-of-use assets	3,587
Trade receivables	4,152
Prepayment, deposits and other receivables	60,306
Bank balances and cash	135,467
Trade and other payables*	(134,001)
Lease liabilities	(3,818)
Deferred revenue	(16,192)
Deferred tax liabilities	(89,621)
Tax payable	(6,633)
Total identifiable net assets acquired	312,895

* Included in trade and other payables, an amount of HK\$79,722,000 was due to the Group, which was eliminated in the condensed consolidated statement of financial position as at 30 June 2021.

The directors of the Company have determined the fair value of the identifiable assets and liabilities of Tak Shing International on the Completion Date with reference to the valuation report issued by Peak Vision.

The estimated fair values of the identifiable intangible assets, comprising (i) trademark, (ii) platform and domain names and (iii) reacquired license rights, amounting to HKD56,407,000, HKD256,863,000 and HKD44,522,000 respectively, were determined with reference to the independent valuation report issued by Peak Vision as of Completion Date. The intangible assets are estimated to have useful lives ranged from 1 to 10 years.

Fair value of net assets to be acquired represents:

	<i>HKD'000</i>
Net assets of Tak Shing International on the Completion Date	45,629
Fair value adjustments on:	
Intangible assets	356,355
Deferred tax liabilities arising from fair value adjustment on intangible assets	(89,089)
Total identifiable net assets acquired	312,895
Goodwill	766,188
Fair value of purchase considerations	1,079,083
Fair value of purchase considerations represented by:	
Cash consideration	359,445
Promissory notes	719,638
	1,079,083

The consideration for the Acquisition is RMB900,000,000 (equivalent to approximately HKD1,078,335,000) which is satisfied by the Group in cash of RMB300,000,000 (equivalent to approximately HKD359,445,000) and promissory notes with principal amount of RMB600,000,000 (equivalent to approximately HKD718,890,000). The promissory notes are scheduled to be settled by eight instalments by 31 December 2024. Interest is accrued on the outstanding principal at the rate of 3% per annum and payable annually in arrears. The fair value of promissory notes at Completion date is HKD719,638,000 after considering the effect of interest accrued.

Goodwill arose in the Acquisition included amounts in relation to the benefit of expected revenue growth, future market development and the assembled workforce of Shenzhen Viking. The Group could leverage its resources to facilitate the Shenzhen Viking to expand the business in China and capture the opportunities of the mobile games market. The Acquisition is in line with the business strategy of the Group.

Cash (inflow)/outflow arising from the Acquisition:

	<i>HKD'000</i>
Purchase consideration settled by cash	359,445
Bank balances and cash acquired	(135,467)
Net cash outflow	223,978

The acquisition-related costs of HKD5,091,000 have been accounted as expenses in the periods in which the costs are incurred and the services are received.

The fair value and the gross amount of trade and other receivables amounted to HKD50,377,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

Since the Completion Date, Tak Shing International and its subsidiaries has contributed a revenue of HKD393,060,000 and a profit after tax of HKD97,139,000 to the Group. Included in the profit after tax, an amount of HKD216,180,000 represented the royalties paid to Shenzhen Fire Element, which was eliminated in the condensed consolidated financial statements. If the acquisition had occurred on 1 January 2021, the Group's revenue and profit after tax would have been HKD561,124,000 and HKD312,133,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of further performance.

23. FAIR VALUE MEASUREMENT

The Group followed HKFRS 7 *Financial Instruments: Disclosures* which introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements.

The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2021 (unaudited)	Level 1 <i>HKD'000</i>	Level 2 <i>HKD'000</i>	Level 3 <i>HKD'000</i>	Total <i>HKD'000</i>
Financial assets at fair value through profit or loss — Unlisted fund investment (note)	—	—	15,403	15,403

During the six months ended 30 June 2021, there was no transfers of fair value measurement between Levels.

Note:

The fair value of unlisted fund investment has been determined by Peak Vision, the independent qualified valuer, and is level 3 fair value measurement. The movement of these financial instruments is as follows:

	30 June 2021 <i>HKD'000</i> (unaudited)
At the beginning of period	—
Addition	17,941
Fair value change recognised in profit or loss	(2,538)
At the end of period	15,403

The valuation is determined based on the following significant unobservable inputs:

Nature of financial assets	Valuation technique	Significant unobservable inputs	Value	Sensitivity of fair value to the input
Unlisted fund investment with carrying amount of HKD15,403,000 as at 30 June 2021	Asset-based approach	Discount for lack of marketability ("DLOM")	15.61%	The fair value of unlisted fund investment is determined with reference to DLOM. The fair value measurement is negatively correlated to the DLOM. Had the DLOM decreased by 5% as at 30 June 2021, the fair value would have increased by HKD911,000. Had the DLOM increased by 5% as at 30 June 2021, the fair value would have decreased by HKD911,000.

The carrying amounts of the financial assets and financial liabilities measured at amortised cost as disclosed under current assets and current liabilities, respectively, approximate their fair value as they are all short term in nature.

By order of the Board
Fire Rock Holdings Limited
Su Yi
Executive Director and CEO

Hong Kong, Friday, 20 August 2021

As at the date of this announcement, the executive Directors are Mr. Su Yi, Mr. Zhou Kun and Mr. Chen Di; the non-executive Directors are Mr. Zhang Yan, Mr. Huang Yong and Ms. Yang Kan; and the independent non-executive Directors are Mr. Chan King Fai, Mr. Yang Zhen and Ms. Zhuang Renyan.