



**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 : 8345



**2018 ANNUAL  
REPORT**

## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

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## DEFINITION

“ACT”	action game, which refers to action-themed games in which players control the avatar of a protagonist to navigate different levels of the game, and typically to, collect items, avoid obstacles and fight enemies, testing players’ hand-eye coordination and reaction time
“Android”	an operating system developed and maintained by Google Inc. and designed primarily for touchscreen technology used in smartphones and tablets
“Annual General Meeting”	the annual general meeting (and any adjournment thereof) of the Company to be held on 4 June 2019 (Tuesday)
“ARPG”	action role-playing game, also known as the real-time combat role-playing game, in which the player character instantly responses to the player’s operations and the game player has direct control over his characters
“ARPPU”	average revenue per paying user, calculated by dividing the monthly average royalties from the net sale of credits of licensed operators for the in-game tokens during a certain period by the average MPU during the same period
“Articles of Associations”	the articles of association of the Company conditionally adopted on 24 January 2016 and as amended, supplemented and otherwise modified from time to time
“audit committee”	the audit committee under the Board
“Board”	the board of directors of the Company
“browser games”	online games that can be played within a web browser which does not require active installation of client software
“Code”	the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules
“commercial launch” or “commercialisation”	a game is considered commercially launched once our licensed operator(s) have (i) designated third party payment channels to collect payment for sales of in-game tokens, and (ii) concluded the open beta testing stage
“Company”	Fire Rock Holdings Limited (火岩控股有限公司), a company incorporated in the Cayman Islands with limited liability and all of its subsidiaries, the Shares of which are listed on the GEM (Stock code: 8345)
“Director(s)”	the director(s) of the Company
“EUR”	the lawful currency of the Euro Zone
“free-to-play”	a model used in the gaming industry, under which game players can play games for free, but may need to pay for in-game tokens to enhance their gaming experience

## DEFINITION

“Fire Rock International”	Fire Rock International Limited (火岩國際有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“GEM”	GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Group” or “we”	the Company and where the context otherwise requires, all of its subsidiaries
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“iOS”	a mobile operating system developed and maintained by Apple Inc. and used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
“JPY”	Japanese Yen, the lawful currency of Japan
“Listing”	the listing of the Shares of the Company on GEM
“MMORPG”	massively multiplayer online role-playing games, in which many players participate in the same role-playing game simultaneously
“mobile games”	online games that are downloaded to and played on mobile devices including smartphones and tablets
“monthly paying users” or “MPU”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPU for a particular period is the average of the MPU of each calendar month during that period
“nomination committee”	the nomination committee under the Board
“paying player”	players who obtain in-game tokens with credits of licensed operators
“Placing”	the conditional placing of Shares of the Company in February 2016
“PRC”	the People’s Republic of China excluding, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“premium features”	in-game features and services which enhance the in-game experience of game players, for example, enabling social interaction of their game characters
“Prospectus”	the prospectus being issued on 29 January 2016 in connection with the Placing
“remuneration committee”	the remuneration committee under the Board

## DEFINITION

“RMB”	Renminbi, the lawful currency of the PRC
“RPG”	role-playing game, in which players adopt the roles of one or more in-game characters and are able to interact within the game’s virtual world in accordance with in-game rules and guidelines
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	ordinary share(s) with a nominal value of HKD0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Fire Element”	Shenzhen Fire Element Network Technology Company Limited (深圳市火元素網絡技術有限公司), a company incorporated in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USA”	the United States of America
“USD”	United States dollars, the lawful currency of the United States
“THB”	Thai Baht, the lawful currency of Thailand
“virtual items”	virtual items which enhance players’ gaming experience, by, for example, enhancing the powers, abilities or attractiveness
“%”	per cent

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

## COMPANY PROFILE

### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTORS

Mr. ZHANG Yan (Chairman)  
Mr. ZHANG Xiongfeng (Resigned on 5 October 2018)  
Ms. YANG Kan

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Fai  
Mr. HE Yunpeng  
Mr. CHEN Di

### AUDIT COMMITTEE

Mr. CHAN King Fai (Chairman)  
Mr. HE Yunpeng  
Mr. CHEN Di

### REMUNERATION COMMITTEE

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

### NOMINATION COMMITTEE

Mr. ZHANG Yan (Chairman)  
Mr. HE Yunpeng  
Mr. CHEN Di

### JOINT COMPANY SECRETARIES

Mr. WEI Dong  
Mr. CHU Hon Leung (Appointed on 29 June 2018)  
Mr. CHAN Chin Wang Keith (Resigned on 29 June 2018)

### AUTHORISED REPRESENTATIVES

Mr. HUANG Yong  
Mr. CHU Hon Leung (Appointed on 29 June 2018)  
Mr. CHAN Chin Wang Keith (Resigned on 29 June 2018)

### COMPLIANCE OFFICER

Mr. WU Zhe

### REGISTERED OFFICE

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

### HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

4th Floor, Dongjiang Environmental Building  
No. 9 Langshan Road  
Nanshan District  
Shenzhen, Guangdong  
The People's Republic of China

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### PRINCIPAL BANKERS

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

### COMPLIANCE ADVISER

China Everbright Capital Limited

### HONG KONG LEGAL ADVISER

Li & Partners

### AUDITOR

BDO Limited  
*Certified Public Accountants*

### GEM STOCK CODE

8345

### COMPANY WEBSITE

[www.firerock.hk](http://www.firerock.hk)

## FINANCIAL HIGHLIGHTS

### RESULTS

	For the year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	160,700	80,304	44,977	30,062	22,813
Direct costs	(16,548)	(11,474)	(7,379)	(6,251)	(3,233)
Gross profit	144,152	68,830	37,598	23,811	19,580
Profit for the year	89,808	43,399	22,022	8,729	9,642

### ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Non-current assets	11,561	9,787	9,180	11,461	6,315
Current assets	201,710	119,517	94,011	34,417	19,592
Total assets	213,271	129,304	103,191	45,878	25,907
Non-current liabilities	8,966	4,844	336	1,481	522
Current liabilities	12,146	7,999	6,646	8,639	5,163
Total liabilities	21,112	12,843	6,982	10,120	5,685
Total equity	192,159	116,461	96,209	35,758	20,222

### MAJOR FINANCIAL RATIOS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Return on equity	58.2%	40.8%	33.4%	31.2%	71.9%
Return on total assets	52.4%	37.3%	29.5%	24.3%	45.1%
Current ratio (times)	16.6	14.9	14.1	4.0	3.8

### REVENUE HIGHLIGHTS

	For the year ended 31 December									
	2018		2017		2016		2015		2014	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Browser Version	5,784	3.6	13,305	16.6	26,901	59.8	29,164	97.0	21,521	94.3
License fees	—	—	1,211	1.5	3,160	7.0	2,370	7.9	2,486	10.9
Royalties	5,784	3.6	12,094	15.1	23,741	52.8	26,794	89.1	19,035	83.4
Mobile version	154,916	96.4	66,999	83.4	18,076	40.2	898	3.0	1,292	5.7
License fees	2,017	1.3	2,709	3.4	1,416	3.1	590	2.0	555	2.5
Royalties	152,899	95.1	64,290	80.0	16,660	37.1	308	1.0	737	3.2
	160,700	100.0	80,304	100.0	44,977	100.0	30,062	100.0	22,813	100.0

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Fire Rock Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2018.

The Company achieved excellent performance in 2018. During the year, we have adhered to the game development ideas of research and development and held on to our commitment on refined products with quality, strengthening close cooperation with licensed game operators. As such, our revenue reached approximately RMB160.7 million, represented an increase of approximately 100.1% as compared to the same period in 2017; our profit amounted to approximately RMB89.8 million, represented an increase of approximately 106.9% as compared to the same period in 2017.

Overall speaking, we have a number of significant achievements in 2018, as summarised below:

- Our revenue reached approximately RMB160.7 million, represented an increase of approximately 100.1% as compared to 2017;
- Our revenue of mobile games amounted to approximately RMB154.9 million, represented an increase of approximately 131.2% as compared to 2017;
- The revenue of mobile games amounted to 96.4% of our total revenue;
- Profit amounted to approximately RMB89.8 million, represented an increase of approximately 106.9% as compared to 2017;
- We have started 6 new game development projects;
- We commercially launched 3 new self-developed game series;
- Our operating net cash inflow amounted to approximately RMB72.1 million;

In 2018, we recorded a closing cash balance of approximately RMB136.8 million, due to a net cash inflow of approximately RMB55.6 million. In view of our stable cash flow, sound assets position and the long-term prospect of the Company, I am pleased to announce that the Board of Directors of the Company recommended the payment of a final dividend of HKD0.075 per share (equivalent to approximately RMB0.066 per share), in form of a cash dividend, to the shareholders, amounting to approximately RMB21.1 million in aggregate.

Our exceptional results in 2018 was mainly thanks to our continuous investment in research and development of mobile games, together with better capturing the development opportunity from the constantly fast-growing mobile game industry, which maintained steady growth in the market share amid the highly competitive mobile game market.

In 2019, we have planned to implement the following development strategies:

- Introducing different types of game products with different features targeting different players, as to expand and enrich our diversified game product portfolio;
- Continuously committing to development and innovation for mobile games, and actively exploring new contents and modes of play for the games;

## CHAIRMAN'S STATEMENT

- Provide players with the best gaming experience through on-going game improvement;
- Proactively exploring overseas markets so as to strengthen our competitiveness among international counterparts;
- Actively assess the new technology and concepts which cause material changes and effects on the game industry, so as to stay in the leading position in game research and development.

The Board, our management and staff of the Group, all with an identical goal, are confident of the future development of the Group. With the implementation of the aforementioned development strategies, the adherence to our commitment in game development and the strong unity of our Group, we believe our continuous effort shall create greater value and returns for our shareholders.

Finally, I would like to take this opportunity to express my sincere gratitude to the Board, the management and all staff of the Group for their dedication in the past year to furthering the development of the Group. I also express my gratitude for the continuous support from all business partners and the trust of our Shareholders. The Board would also like to express its sincere gratitude for the valuable opinions, guidance and support provided by the Securities and Futures Commission, the Stock Exchange of Hong Kong Limited and other related institutions.

**Zhang Yan**

*Chairman*

Hong Kong, 18 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

### Overview

Our Group is a game developer focusing on the development of browser and mobile games. We achieved substantial growth in our results for the year 2018. This was mainly attributable to the game development ideas which we adhered to as well as the refinement and cultivation of game products. During the year, the Group emphasised on continually increasing inputs for mobile games, developed and commercially launched numerous mobile game series, which better captured the development opportunity from the constantly fast-growing mobile game industry and attained satisfying results.

In terms of financial performance, our revenue increased by 100.1% from approximately RMB80.3 million for 2017 to approximately RMB160.7 million for 2018, of which the revenue of mobile games amounted to approximately RMB154.9 million, represented an increase of approximately 131.2% as compared to the same period in 2017. Revenue of mobile games amounted to 96.4% of our total revenue. Profit increased by 106.9% from approximately RMB43.4 million for 2017 to approximately RMB89.8 million for 2018.

In terms of game products, in 2018, the Group commercially launched three game series, the Super Rich (超級大富翁), the Age of Star Wars (星戰紀) and the Shaky Battle (晃晃大作戰), which further expanded our game portfolio and diversified our revenue sources.

As at 31 December 2018, the Group has licensed seventeen self-developed games in aggregate, including the mobile and browser versions of Kings & Legends (王者召喚) series, the mobile and browser versions of Hero's Crown (英雄皇冠) series, the browser version of Heroines of Three Kingdoms (姬戰三國) series, the mobile version of Endless Battles (無盡爭霸) series, the mobile version of Legend of Fairies (萌仙記) series, the mobile version of Road of Vengeance (復仇之路) series, the mobile version of Number Drop series, the mobile version of G-game series, the mobile version of Sweeties Fighting (零食大亂鬥) series, the mobile version of War of the Sulfulons (薩弗隆戰記) series, the mobile version of Super Tycoon (超級大亨) series, the mobile version of Forest Gala (森林大聯歡) series, the mobile version of Fish Catching Contest (捕魚大亂鬥) series, the mobile version of the Super Cute Monster (超級逗萌獸) series, the mobile version of the Super Rich (超級大富翁) series, the mobile version of the Age of Star Wars (星戰紀) series and the mobile version of the Shaky Battle (晃晃大作戰) series to various game operators for the operation, publication and distribution of such games within an agreed period and within designated territories.

In 2018, affected by the downslope trend in the browser games industry, the revenue of our browser games amounted to approximately RMB5.8 million, represented a drastic drop compared to the same period in 2017 yet it managed to account for 3.6% of the Group's total revenue. This was attributable to our analysis on game players' demand and the continuous optimisation on the games' core mode of play so as to constantly enhance the attractiveness of our games to the players.

The Group has submitted a formal application to the Stock Exchange on 9 October 2018 pursuant to Chapter 9A of the Listing Rules for the proposed transfer of listing of the shares of the Group from GEM to the Main Board of the Stock Exchange. The Board would like to emphasise that the definitive timetable for the transfer of listing has yet to be finalised. Further announcement(s) will be made by the Group to keep the shareholders and potential investors of the Group informed of the progress of the transfer of listing as and when appropriate.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Comparison of Business Objectives with Actual Business Progress*

The following is a comparison between the Group's business objectives as set out in the Prospectus and actual business progress as at 31 December 2018:

Business objectives	Actual business progress for the reporting year ended 31 December 2018
Continual optimisation of our existing games on various platforms	We have spent approximately HKD2.9 million on the continual optimisation of our existing games on various platforms
Development of new games — Browser games	We intend to spend approximately HKD7.2 million on development of browser games
Acquiring of/investment in game developers and related companies	We have spent approximately HKD3.6 million
Enhancement and diversification of our game development capabilities	We have spent approximately HKD0.9 million
Working capital and other general corporate purposes	We have spent approximately HKD1.5 million
Development of new games — Mobile games	We have spent approximately HKD7.2 million
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	We are currently actively seeking opportunities to obtain/acquire the adaption rights of appropriate source materials

### *Industry Review*

In 2018, although the global game industry was highly competitive, the entire industry still achieved significant growth compared to the same period last year with the exceptionally outstanding performance of the PRC market. According to the "2018 Report on the Game Industry of China" (《二零一八年中國遊戲產業報告》) jointly published by the Game Publishers Association Publications Committee (GPC) of The China Audio-video and Digital Publishing Association (中國音數協遊戲工委), Gamma Data (伽馬數據) and International Data Corporation (國際數據公司), the total revenue for the game industry in China amounted to approximately RMB214.44 billion in 2018, represented an increase of 5.3% over the corresponding period last year, and accounted for approximately 23.6% of the global game market. Of which the revenue of mobile games amounted to 62.5% of the total revenue, represented an increase of 15.4% over the corresponding period last year, while the revenue of browser games amounted to only 5.9% of the total revenue, and represented a decrease of 18.9% over the corresponding period last year. The development of the industry was in line with the development strategies identified and established by the Group at the beginning of the year. During the year, the Group adopted the development strategies of improving the quality of existing browser games, while investing substantial resources in the research and development of mobile games, which maintained steady growth amid the keen competition of the mobile game market.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Our Games

In 2018, we maintained our capabilities and advantages in the research and development in turn better captured the development opportunity from the fast growing global mobile game markets and we boosted the investment in game research, which resulted in the research and development of six mobile games with high quality and creative modes of play. Also, we continued to optimise and upgrade our existing games and we commercially launched three mobile game products during the year by grasping our strong accumulation of technological knowledge and our innovative creativity in the research and development, which further expanded our game portfolio and diversified our revenue sources.

As at 31 December 2018, the Group has commercially launched seventeen major games series in aggregate, including the mobile and browser versions of the Kings & Legends (王者召喚) series, the mobile and browser versions of the Hero's Crown (英雄皇冠) series, the browser version of the Heroines of Three Kingdoms (姬戰三國) series, the mobile version of the Endless Battles (無盡爭霸) series, the mobile version of the Legend of Fairies (萌仙記) series, the mobile version of the Road of Vengeance (復仇之路) series, the mobile version of the Number Drop series, the mobile version of the G-game series, the mobile version of the Sweeties Fighting (零食大亂鬥) series, the mobile version of War of the Sulfurons (薩弗隆戰記) series, the mobile version of the Super Tycoon (超級大亨) series, the mobile version of the Forest Gala (森林大聯歡) series, the mobile version of the Fish Catching Contest (捕魚大亂鬥) series, the mobile version of the Super Cute Monster (超級逗萌獸) series, the mobile version of the Super Rich (超級大富翁) series, the mobile version of the Age of Star Wars (星戰紀) series and the mobile version of the Shaky Battle (晃晃大作戰) series.

Among the aforesaid game series with successful commercial launch, the Kings & Legends (王者召喚) series, magical and fantasy-based tactics card games in Japanese style representing our first independently developed game series, has been in the market for over 6 years since its commercial launch in March 2012. Its longer-than-average life cycle has been primarily attributable to our incessant effort in upgrading and optimising the game contents to appeal to players, increase their participation and enhance their game experience, which have also resulted in stable income for us. For the year ended 31 December 2018, revenue generated from the Kings & Legends (王者召喚) series maintained its important position in our game portfolio, accounting for approximately 2.4% of our total revenue for the year. The Hero's Crown (英雄皇冠) series, turn-based tactics card RPG games in fantasy-style against a medieval European setting representing our second independently developed game series, has continued to contribute substantial income since its commercial launch in January 2015 more than 3 years ago. For the year ended 31 December 2018, revenue generated from the Hero's Crown (英雄皇冠) series accounted for approximately 2.4% of our total revenue for the year. The mobile version of the Sweeties Fighting (零食大亂鬥) series, a cartoon-style tower defense game commercially launched in May 2017, reported revenue of approximately RMB51.8 million for the year ended 31 December 2018, accounting for approximately 32.2% of our total revenue for the year. The mobile version of the Fish Catching Contest (捕魚大亂鬥) series, a magical and fantasy-based hunting game commercially launched in December 2017, reported revenue of approximately RMB65.8 million for the year ended 31 December 2018, accounting for approximately 40.9% of our total revenue for the year. The success of the aforementioned game series has highlighted our emphasis on meticulous attention to details in product development and our research and development capabilities in delivering exquisite games, and has also bolstered our confidence in sustaining our operations through ongoing optimisation and upgrades of our premium games. Such success has also reflected the breakthrough we have achieved in the increasingly competitive market for mobile games and a greater market share we garnered thanks to our astute perception of and swift response to market developments, proactive approach to understand current trends and formulate lucid development strategies, and effort to seize opportunities in market developments on the back of our inherent strengths by committing significant resources to the research and development of mobile games.

## MANAGEMENT DISCUSSION AND ANALYSIS

In terms of financial performance, the Group's revenue for the year ended 31 December 2018 amounted to approximately RMB160.7 million, increasing by approximately RMB80.4 million compared to approximately RMB80.3 million for the year ended 31 December 2017. Revenue generated from browser games and mobile games amounted to approximately RMB5.8 million and approximately RMB154.9 million, respectively, decreasing by approximately RMB7.5 million and increasing by approximately RMB87.9 million, respectively, as compared to approximately RMB13.3 million and approximately RMB67.0 million, respectively, for the same period of 2017. Revenue generated from mobile games accounted for 96.4% of the Group's revenue. Profit attributable to owners of the Company amounted to approximately RMB89.8 million for the year ended 31 December 2018, increasing by RMB46.4 million from approximately RMB43.4 million for the year ended 31 December 2017.

In terms of game products, three mobile games, the Super Rich (超級大富翁), the Age of Star Wars (星戰紀) and the Shaky Battle (晃晃大作戰), were commercially launched in February 2018, June 2018 and July 2018 in a further enrichment of our portfolio of games. In addition, due to the business realignment of game operators, we underwent negotiation with licensed operators and discontinued the operation of three game series on the platform of licensed operators, namely the Endless Battles (無盡爭霸) series, the Legend of Fairies (萌仙記) series and War of the Sulfulons (薩弗隆戰記) series in April and July 2018, terminating the operation of such three games.

As at 31 December 2018, there were 14 game series under licenses to game operators for operation, launch and distribution (namely, in operation) within an agreed period in designated territories.

For the year ended 31 December 2018, revenue generated by our 5 leading game series in monetary amounts and as a percentage of total revenue are set out as follows: the mobile version of the Fish Catching Contest (捕魚大亂鬥) series commercially launched in December 2017 reported revenue of approximately RMB65.8 million for the year ended 31 December 2018, accounting for approximately 40.9% 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 RMB51.8 million for the year ended 31 December 2018, accounting for approximately 32.2% of our total revenue; the mobile version of the Shaky Battle (晃晃大作戰) series commercially launched in July 2018 reported revenue of approximately RMB15.6 million for the year ended 31 December 2018, accounting for approximately 9.7% of our total revenue; the mobile version of the Age of Star Wars (星戰紀) series commercially launched in June 2018 reported revenue of approximately RMB4.6 million for the year ended 31 December 2018, accounting for approximately 2.8% of our total revenue; the browser version of the Kings & Legends (王者召喚) series commercially launched in March 2012, reported revenue of approximately RMB3.9 million for the year ended 31 December 2018, accounting for approximately 2.4% of our total revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the fourteen main series of games which are operating and commercially launched by our licensed operators as at 31 December 2018:

Language version	Game title	Platform	Initial commercial launch date
<i>Kings &amp; Legends (王者召喚) series of games</i>			
English	Ancient Summoner/Rise of Mythos (Name changed in June 2014)	Browser	May 2013
	Kings and Legends	Browser	December 2012
Japanese	ティヴァイン・グリモワール/Divine Grimoire	Browser	September 2012
German	Kings and Legends	Browser	July 2013
French	Kings and Legends	Browser	December 2013
Traditional Chinese	卡卡們的大亂鬥	Browser	June 2012
Simplified Chinese	王者召喚	Browser	March 2012
<i>Hero's Crown (英雄皇冠) series of games</i>			
Simplified Chinese	英雄皇冠	Browser	March 2015
Traditional Chinese	卡卡們的大亂鬥II：英雄皇冠	Browser	June 2015
Simplified Chinese	魔界外傳	Mobile	April 2016
<i>Heroines of Three Kingdoms (姬戰三國) series of games</i>			
Simplified Chinese	姬戰三國	Browser	January 2015
<i>Road of Vengeance (復仇之路) series of games</i>			
Simplified Chinese	復仇之路	Mobile	August 2016
<i>Number Drop series of games</i>			
Simplified Chinese	Number Drop	Mobile	March 2017
<i>G-game series of games</i>			
Simplified Chinese	一起切水果	Mobile	March 2017
<i>Sweeties Fighting (零食大亂鬥) series of games</i>			
Simplified Chinese	零食大亂鬥	Mobile	May 2017
<i>Super Tycoon (超級大亨) series of games</i>			
Simplified Chinese	超級大亨	Mobile	July 2017
<i>Forest Gala (森林大聯歡) series of games</i>			
Simplified Chinese	森林大聯歡	Mobile	July 2017
<i>Fish Catching Contest (捕魚大亂鬥) series of games</i>			
Simplified Chinese	捕魚大亂鬥	Mobile	December 2017

## MANAGEMENT DISCUSSION AND ANALYSIS

Language version	Game title	Platform	Initial commercial launch date
<i>Super Cute Monster (超級逗萌獸) series of games</i>			
Simplified Chinese	超級逗萌獸	Mobile	December 2017
<i>Super Rich (超級大富翁) series of games</i>			
Simplified Chinese	超級大富翁	Mobile	February 2018
<i>Age of Star Wars (星戰紀) series of games</i>			
Simplified Chinese	星戰紀	Mobile	June 2018
<i>Shaky Battle (晃晃大作戰) series of games</i>			
Simplified Chinese	晃晃大作戰	Mobile	July 2018

As at 31 December 2018, we also had four game series under research and development, including the Royal Tycoon (皇家大亨) series, the Royal Fish Catching (皇家捕魚) series, Sweeties Fighting 2 (零食大亂鬥 2) series and Super Diglett Fighting (超級地鼠大亂鬥) series. Subject to their development progress and market response, the Royal Tycoon (皇家大亨) series, the Royal Fish Catching (皇家捕魚) series and the Sweetie Fighting 2 (零食大亂鬥 2) series are expected to be launched in the second quarter of 2019; the Super Diglett Fighting (超級地鼠大亂鬥) series is expected to be launched in the third quarter of 2019.

Game Title	Genre	Expected launch date	Start of game inception and evaluation
Royal Tycoon (皇家大亨) series (tentative name)	2D Leisure	Second quarter 2019	First quarter 2018
Royal Fish Catching (皇家捕魚) series (tentative name)	Single-player leisure games	Second quarter 2019	Third quarter 2018
Sweeties Fighting 2 (零食大亂鬥 2) series (tentative name)	AFK leisure games	Second quarter 2019	Fourth quarter 2018
Super Diglett Fighting (超級地鼠大亂鬥) series (tentative name)	Single-player leisure games	Third quarter 2019	Fourth quarter 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Prospects*

To address escalating competition in the market, we will continue to operate with diligent and meticulous efforts.

We will continue to grow our strengths in research and development and leverage our solid capabilities in research and development and innovation to develop exquisite games with higher quality and longer life-cycle, upgrade and optimise existing games, and invest comprehensive resources in our core products. We will also make vigorous endeavours in the development of innovative game types and develop a wide variety of exquisite games with quality and vitality, so as to further enhance the Group's profile as a top-class global game content provider.

We will continue to enhance our cooperation with licensed operators through the introduction of new modes of play, the launch of different language versions for different players, investigate the operation mode for licensed games with licensed operators, and implement precise management and innovative promotion of our games, with a view to giving full play to our strengths in the research and development of games and enhancing our reputation in the research and development of games.

Moreover, with the presence in Chinese game market, we will actively expand overseas markets and promote our games to new potential areas and regions. By further strengthening our international competitiveness, we strive to evolve and grow in such highly competitive environment.

### *Revenue*

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

During the year ended 31 December 2018, our revenue was originated from our licensed operators and derived from the following revenue types: (i) license fees in accordance with the contractual terms agreed with our licensed operators for granting the exclusive operating right for specific games within an agreed period and designated territories; and (ii) royalties which were calculated based on a pre-determined percentage sharing of the net sales of credits of our licensed operators which have been exchanged into our in-game tokens purchased through platforms designated by our licensed operators in accordance with the terms of the licensing agreements.

Our revenue increased by approximately 100.1% from approximately RMB80.3 million for the year ended 31 December 2017 to approximately RMB160.7 million for the year ended 31 December 2018. The increase in revenue was mainly due to the increase in revenue brought by the launch of more than ten mobile game series successively since 2017, being Number Drop series, G-game series, Sweeties Fighting (零食大亂鬥) series, War of the Sulfurons (薩弗隆戰紀) series, Super Tycoon (超級大亨) series, Forest Gala (森林大聯歡) series, Fish Catching Contest (捕魚大亂鬥) series, Super Cute Monster (超級逗萌獸) series, Super Rich (超級大富翁) series, Age of Star Wars (星戰紀) series and Shaky Battle (晃晃大作戰) series.

## MANAGEMENT DISCUSSION AND ANALYSIS

## Revenue by game platforms and revenue types

The table below sets forth the breakdown of revenue by game platforms and revenue types for each of the years ended 31 December 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
<b>Browser version</b>	<b>5,784</b>	<b>3.6</b>	13,305	16.6
License fees	—	—	1,211	1.5
Royalties	<b>5,784</b>	<b>3.6</b>	12,094	15.1
<b>Mobile version</b>	<b>154,916</b>	<b>96.4</b>	66,999	83.4
License fees	<b>2,017</b>	<b>1.3</b>	2,709	3.4
Royalties	<b>152,899</b>	<b>95.1</b>	64,290	80.0
	<b>160,700</b>	<b>100.0</b>	80,304	100.0

## Revenue by Game Series

The table below sets forth the breakdown of revenue by game series for each of the years ended 31 December 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Kings & Legends (王者召喚)	<b>3,850</b>	<b>2.4</b>	7,079	8.8
Hero's Crown (英雄皇冠)	<b>3,797</b>	<b>2.4</b>	16,775	20.9
Heroines of the Three Kingdoms (姬戰三國)	<b>107</b>	<b>0.1</b>	245	0.3
Endless Battles (無盡爭霸)	<b>357</b>	<b>0.2</b>	4,101	5.1
Legend of Fairies (萌仙記)	<b>828</b>	<b>0.5</b>	5,874	7.3
Road of Vengeance (復仇之路)	<b>3,046</b>	<b>1.9</b>	4,558	5.7
Number Drop	<b>3,110</b>	<b>1.9</b>	4,589	5.7
G-game	<b>3,142</b>	<b>2.0</b>	4,692	5.8
Sweeties Fighting (零食大亂鬥)	<b>51,783</b>	<b>32.2</b>	28,093	35.0
War of the Sulfulons (薩弗隆戰記)	<b>452</b>	<b>0.3</b>	244	0.3
Super Tycoon (超級大亨)	<b>287</b>	<b>0.2</b>	129	0.2
Forest Gala (森林大聯歡)	<b>1,414</b>	<b>0.9</b>	1,134	1.4
Fish Catching Contest (捕魚大亂鬥)	<b>65,796</b>	<b>40.9</b>	2,791	3.5
Super Cute Monster (超級逗萌獸)	<b>1,830</b>	<b>1.1</b>	(Note)	(Note)
Super Rich (超級大富翁)	<b>792</b>	<b>0.5</b>	—	—
Age of Star Wars (星戰紀)	<b>4,556</b>	<b>2.8</b>	—	—
Shaky Battle (晃晃大作戰)	<b>15,553</b>	<b>9.7</b>	—	—
	<b>160,700</b>	<b>100.0</b>	80,304	100.0

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## License fees and royalties by game series

The following table sets forth our license fees and royalties of our main series of games for each of the years ended 31 December 2018 and 2017:

	For the year ended	
	31 December	
	2018	2017
	RMB'000	RMB'000
<b>Kings &amp; Legends (王者召喚)</b>		
• License fees	—	505
• Royalties	3,850	6,574
<b>Hero's Crown (英雄皇冠)</b>		
• License fees	254	2,421
• Royalties	3,543	14,354
<b>Heroines of the Three Kingdoms (姬戰三國)</b>		
• License fees	—	—
• Royalties	107	245
<b>Endless Battles (無盡爭霸)</b>		
• License fees	—	—
• Royalties	357	4,101
<b>Legend of Fairies (萌仙記)</b>		
• License fees	34	142
• Royalties	794	5,732
<b>Road of Vengeance (復仇之路)</b>		
• License fees	—	—
• Royalties	3,046	4,558
<b>Number Drop</b>		
• License fees	236	179
• Royalties	2,874	4,410
<b>G-game</b>		
• License fees	236	178
• Royalties	2,906	4,514
<b>Sweeties Fighting (零食大亂鬥)</b>		
• License fees	236	152
• Royalties	51,547	27,941
<b>War of the Sulfurons (薩弗隆戰記)</b>		
• License fees	369	102
• Royalties	83	142
<b>Super Tycoon (超級大亨)</b>		
• License fees	236	113
• Royalties	51	16
<b>Forest Gala (森林大聯歡)</b>		
• License fees	98	109
• Royalties	1,316	1,025
<b>Fish Catching Contest (捕魚大亂鬥)</b>		
• License fees	236	19
• Royalties	65,560	2,772
<b>Super Cute Monster (超級逗萌獸)</b>		
• License fees	—	—
• Royalties	1,830	—

## MANAGEMENT DISCUSSION AND ANALYSIS

	For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
<b>Super Rich (超級大富翁)</b>		
• License fees	—	—
• Royalties	792	—
<b>Age of Star Wars (星戰紀)</b>		
• License fees	82	—
• Royalties	4,474	—
<b>Shaky Battle (晃晃大作戰)</b>		
• License fees	—	—
• Royalties	15,553	—
<b>Total</b>	<b>160,700</b>	80,304

## Revenue by geographical markets

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

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
The PRC <sup>1</sup>	159,344	99.2	74,730	93.1
The PRC <sup>2, 4</sup>	—	—	1,648	2.1
North America <sup>2</sup>	—	—	1,944	2.4
Asia Pacific (including Japan and Taiwan) <sup>2</sup>	662	0.4	1,064	1.3
Europe <sup>3</sup>	694	0.4	918	1.1
<b>Total</b>	<b>160,700</b>	<b>100.0</b>	80,304	100.0

## Notes:

- Settled in RMB
- Settled in USD
- Settled in EUR
- Revenue derived from authorised operator A and authorised operator B, in which authorised operator A and authorised operator B are group companies based in the PRC. The license we gave to authorised operator A for the operation of our games had been transferred to authorised operator B in 2016. Both companies had commercially launched our games in Europe and North America.

## MANAGEMENT DISCUSSION AND ANALYSIS

## Average MPU and ARPPU

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

	For the year ended 31 December	
	2018	2017
<b>Kings &amp; Legends (王者召喚)</b>		
• Average MPU	2,227	2,076
• ARPPU (RMB) <sup>3</sup>	143	241
<b>Hero's Crown (英雄皇冠)</b>		
• Average MPU	2,110	7,452
• ARPPU (RMB) <sup>3</sup>	145	158
<b>Endless Battles (無盡爭霸)</b>		
• Average MPU	9,312	25,913
• ARPPU (RMB) <sup>3</sup>	10	13
<b>Legend of Fairies (萌仙記)</b>		
• Average MPU	3,411	8,514
• ARPPU (RMB) <sup>3</sup>	34	58
<b>Road of Vengeance (復仇之路)</b>		
• Average MPU	3,592	3,881
• ARPPU (RMB) <sup>3</sup>	88	108
<b>Number Drop</b>		
• Average MPU	7,920	5,148
• ARPPU (RMB) <sup>3</sup>	29	70
<b>G-game</b>		
• Average MPU	9,089	8,116
• ARPPU (RMB) <sup>3</sup>	28	52
<b>Sweeties Fighting (零食大亂鬥)</b>		
• Average MPU	32,918	39,632
• ARPPU (RMB) <sup>3</sup>	130	90
<b>Fish Catching Contest (捕魚大亂鬥)</b>		
• Average MPU	59,241	68,801
• ARPPU (RMB) <sup>3</sup>	94	40
<b>Age of Star Wars (星戰紀)<sup>1</sup></b>		
• Average MPU	13,922	—
• ARPPU (RMB) <sup>3</sup>	45	—
<b>Shaky Battle (晃晃大作戰)<sup>2</sup></b>		
• Average MPU	4,417	—
• ARPPU (RMB) <sup>3</sup>	590	—

Notes:

1. The mobile version of Age of Star Wars (星戰紀) series was commercially launched in June 2018.
2. The mobile version of Shaky Battle (晃晃大作戰) series was commercially launched in July 2018.
3. ARPPU is calculated by dividing the average monthly royalties from the net sale of credits of licensed operators for the in-game tokens during a certain period by the average MPU during the same period. As all of our games adopt the free-to-play model, the ARPPU of games should not be affected by the frequency of game players spending time on the games if they do not purchase credits from our licensed operators to exchange for in-game tokens which can be used for acquiring virtual items and premium features.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Direct costs**

The Group's direct costs mainly consisted of staff costs and benefits, amortisation of intangible assets and others. The following table sets forth a breakdown of the Group's direct costs for the years indicated:

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Staff costs and benefits	<b>9,288</b>	<b>56.1</b>	4,699	41.0
Amortisation of intangible assets	<b>6,153</b>	<b>37.2</b>	6,266	54.6
Others	<b>1,107</b>	<b>6.7</b>	509	4.4
<b>Total</b>	<b>16,548</b>	<b>100.0</b>	11,474	100.0

Staff costs and benefits represented salary and wages of staff who are responsible for making continuous enhancements and maintenance for our commercially launched games. Staff costs and benefits for the year ended 31 December 2018 amounted to approximately RMB9.3 million, representing an increase of approximately 97.9% as compared to approximately RMB4.7 million for the year ended 31 December 2017. The increase was mainly due to (i) the increase in the number of game series, the commercial launch of three new mobile games in aggregate by the Group, which additional manpower was required for the updates and maintenance of the game and provision of assistance to the licensed operators for commercial operation of the games so as to ensure positive market responses, resulting in increase in salary and benefits; and (ii) increase in level of staff salaries and benefits.

Amortisation of intangible assets represented the amortisation of game intellectual properties for the commercially launched games. Amortisation of intangible assets for the year ended 31 December 2018 amounted to approximately RMB6.2 million, remaining relatively stable as compared to approximately RMB6.3 million for the year ended 31 December 2017.

Others mainly comprised (i) other tax and surcharges; and (ii) outsourcing services fee for art/graphic design and audio production of sound effects and background music provided by third party service providers. In general, the increase in other tax and surcharges for the year ended 31 December 2018 was in line with the significant increase in revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross profit and gross profit margin

Our gross profit for the year ended 31 December 2018 amounted to approximately RMB144.2 million, representing an increase of approximately RMB75.4 million as compared to approximately RMB68.8 million for the year ended 31 December 2017. Our gross profit margin for the year ended 31 December 2018 amounted to approximately 89.7% and approximately 85.7% for the year ended 31 December 2017. The increase in our gross profit and gross profit margin was mainly due to the increase in revenue generated from the newly commercialised games during the year.

### Other Income

Our other income mainly consisted of interest income on short-term bank deposits and government grants. For the year ended 31 December 2018, our other income was approximately RMB2.4 million, compared with approximately RMB3.3 million in the same period of 2017. Such decrease was mainly attributable to the decrease of government grants of a PRC subsidiary of the Group received from the local government from approximately RMB2.2 million in 2017 to approximately RMB0.9 million during the year.

### Game Research and Development Costs

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the year ended 31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Game research costs as recognised in consolidated statement of profit or loss and other comprehensive income:</b>		
Super Tycoon (超級大亨)	—	111
Super Beaten Zombie (超級打僵屍) (tentative name)	—	84
Age of Star Wars (星戰紀)	154	—
Shaky Battle (晃晃大作戰)	112	—
Royal Tycoon (皇家大亨) (tentative name)	219	—
Royal Fish Catching (皇家捕魚) (tentative name)	132	—
Sweeties Fighting 2 (零食大亂鬥 2) (tentative name)	221	—
Super Diglett Fighting (超級地鼠大亂鬥) (tentative name)	9	—
<b>Subtotal</b>	<b>847</b>	195
	<b>As at 31 December</b>	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Game development costs as recognised in consolidated statement of financial position:</b>		
Number Drop	—	215
G-game	—	187
Sweeties Fighting (零食大亂鬥)	—	282
War of the Sulfulons (薩弗隆戰記)	—	954
Super Tycoon (超級大亨)	—	512
Forest Gala (森林大聯歡)	—	705
Fish Catching Contest (捕魚大亂鬥)	—	931
Super Cute Monster (超級逗萌獸)	—	1,650
Super Rich (超級大富翁)	436	1,248
Age of Star Wars (星戰紀)	1,328	—
Shaky Battle (晃晃大作戰)	432	—
Royal Tycoon (皇家大亨) (tentative name)	3,134	—
Royal Fish Catching (皇家捕魚) (tentative name)	1,100	—
Super Diglett Fighting (超級地鼠大亂鬥) (tentative name)	149	—
<b>Subtotal</b>	<b>6,579</b>	6,684
<b>Total game research and development costs</b>	<b>7,426</b>	6,879

## MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, the Group's overall research and development costs increased by approximately RMB0.5 million as compared to RMB6.9 million for the year ended 31 December 2017. The increase was mainly attributable to the increase of RMB0.6 million in game research costs, as compared to the year ended 31 December 2017 and the decrease of RMB0.1 million in game development costs as compared to the year ended 31 December 2017. Game research costs also increased by approximately RMB0.6 million for the research stages for the six new games, which comprised Age of Star Wars (星戰紀), Shaky Battle (晃晃大作戰), Royal Tycoon (皇家大亨), Royal Fish Catching (皇家捕魚), Sweeties Fighting 2 (零食大亂鬥 2) and Super Diglett Fighting (超級地鼠大亂鬥) series of games. As a result of the increase in the number of new games commencing the research stages with relatively larger scale and higher complexity, more manpower and resources were deployed for the new series of games, leading to the increase in research costs. Furthermore, the decrease in development costs was mainly attributable to additional manpower and resources deployed for the development stage of the mobile version of the Super Rich (超級大富翁), the Age of Star Wars (星戰紀), the Shaky Battle (晃晃大作戰), Royal Tycoon (皇家大亨), Royal Fish Catching (皇家捕魚) and Super Diglett Fighting (超級地鼠大亂鬥) series of games, which accounted for RMB0.4 million, RMB1.3 million, RMB0.4 million, RMB3.2 million, RMB1.1 million and RMB0.2 million, respectively, for the year ended 31 December 2018.

### Distribution Costs

Our distribution costs for the year ended 31 December 2018 amounted to approximately RMB0.7 million, representing an increase as compared to approximately RMB0.6 million in the same period of 2017. The increase was mainly due to the increase in the salaries of promotional personnel.

### Administrative expenses

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

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Salaries and employee benefits	7,028	27.7	5,431	46.5
Operating lease rentals in respect of land and buildings	2,655	10.5	1,897	16.2
Operating lease rentals in respect of servers	289	1.1	297	2.5
Audit, legal and professional fees	2,182	8.6	1,074	9.2
Listing expenses	3,937	15.5	—	—
Depreciation of property, plant and equipment	1,025	4.1	769	6.6
Exchange difference	2,028	8.0	—	—
Others	6,225	24.5	2,225	19.0
<b>Total</b>	<b>25,369</b>	<b>100.0</b>	<b>11,693</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's administrative expenses for the year ended 31 December 2018 amounted to approximately RMB25.4 million, representing an increase of approximately 117.1% as compared to approximately RMB11.7 million for the year ended 31 December 2017. If the legal and professional fee incurred in relation to the Company's application for a transfer of listing from GEM to the Main Board for the year were excluded, the Group's administrative expenses for the year ended 31 December 2018 amounted to approximately RMB21.5 million, representing an increase of approximately 83.8% as compared to approximately RMB11.7 million for the year ended 31 December 2017. The increase in the Group's administrative expenses was mainly attributable to the increase in salaries, employee benefits of our administrative staff and depreciation of fixed assets, an increase in the rental expenses for the Group's operating premises, as well as the increase in exchange difference by approximately RMB2.0 million in relation to the final dividends paid for the year ended 31 December 2017 on 22 June 2018.

### Income Tax Expense

Our income tax expense for the year ended 31 December 2018 amounted to approximately RMB29.1 million while we recorded approximately RMB16.2 million for the year ended 31 December 2017. The increase in our income tax expense was mainly because the profits of the PRC subsidiary of the Group increased significantly during the year as compared to the same period in 2017 as well as the increase in income tax expense withheld under the provisions of the PRC tax law with respect to the distribution of dividends to foreign investors by the PRC subsidiary of the Group.

### Profit for the Year

Given the aforesaid reasons, profit attributable to owners of the Company increased by approximately 106.9% from approximately RMB43.4 million for 2017 to approximately RMB89.8 million for 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

In 2018, we mainly financed our business with cash generated from our operating activities. We intend to fund our expansion and business operations through our internal resources and on-going internal growth.

### *Treasury policy*

During the year ended 31 December 2018, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Cash and cash equivalents*

As at 31 December 2018, our cash and cash equivalents amounted to approximately RMB136.8 million, compared with approximately RMB78.5 million as of 31 December 2017, which primarily consisted of cash at bank and cash on hand and which are mainly denominated in RMB (as to approximately 61.5%), HKD (as to approximately 37.7%), THB (as to approximately 0.7%) and other currencies (as to approximately 0.1%).

### *Capital expenditures*

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment and leasehold improvements. For the year ended 31 December 2018, our total capital expenditures amounted to approximately RMB0.8 million, represent the purchase of furniture and office equipment (2017: approximately RMB1.0 million, including the purchase of furniture and office equipment of approximately RMB0.8 million and leasehold improvement of approximately RMB0.2 million). We funded our capital expenditure by using our cash flow generated from our operations.

## CAPITAL STRUCTURE

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

## BORROWING AND GEARING RATIO

As at 31 December 2018, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 9.9% (31 December 2017: 9.9%).

## CHARGE ON GROUP ASSETS

As at 31 December 2018, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2017: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 109 employees (31 December 2017: 101), mainly worked and are located in the PRC. The table below sets forth the number of employees by function as at 31 December 2018 and 2017:

Department	2018		2017	
	Number of employees	% of total	Number of employees	% of total
<b>Management</b>	<b>7</b>	<b>6.4%</b>	9	8.9%
<b>Project development</b>	<b>66</b>	<b>60.6%</b>	65	64.4%
Game design	12	11.0%	11	10.9%
Programming	35	32.1%	32	31.7%
Art	19	17.5%	22	21.8%
<b>Project Support</b>	<b>24</b>	<b>22.0%</b>	17	16.8%
Marketing	4	3.7%	1	1.0%
Licensing and operator support	14	12.8%	13	12.8%
Information technology	6	5.5%	3	3.0%
<b>Finance and administration</b>	<b>12</b>	<b>11.0%</b>	10	9.9%
<b>Total</b>	<b>109</b>	<b>100.0%</b>	101	100%

The total remuneration of the employees of the Company was approximately RMB18.2 million for the year ended 31 December 2018 (2017: approximately RMB9.9 million).

The Company has established a remuneration committee on 24 January 2016 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules. The Remuneration Committee will regularly review and recommend to the Board from time to time the remuneration and compensation of the Directors and senior management of the Group.

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

During the year ended 31 December 2018, the Group invested in two companies in Thailand so as to expand in overseas markets, through which the Group can keep abreast of the information and trends of the Thai market. Meanwhile, the Group is looking for qualified agents to develop and promote our game products. In addition, the Group established a wholly-owned subsidiary in Shenzhen, the PRC, during the year ended 31 December 2018 to engage in research and development of game products for the better management of our game development project team. Save for the investments mentioned above, there was no other significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company.

### **CONTINGENT LIABILITIES**

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

### **FOREIGN EXCHANGE RISKS**

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR, JPY and HKD. Approximately 0.8% of the revenue are denominated in currencies other than the functional currency of the operating units making the revenue for the year ended 31 December 2018 (2017: approximately 6.9%). Therefore, foreign exchange risk primarily arose from recognised assets in the Group when receiving or to receive foreign currencies from overseas cooperated counter parties.

99.2% (2017: approximately 93.1%) of the transactions of the Group are denominated and settled in its functional currency, RMB. The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in USD, EUR and HKD.

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

### **USE OF PROCEEDS FROM THE PLACING**

The shares of the Company were listed on GEM of the Stock Exchange on 18 February 2016, and the net proceeds from the Placing were approximately HKD28.9 million. During the year, the Group has spent approximately HKD7.2 million on the development of new games, approximately HKD2.9 million on the continual optimisation of our existing games on various platforms, approximately HKD1.5 million on working capital and general corporate purposes, approximately HKD0.9 million on enhancing its game development power, and approximately HKD3.6 million on opportunities to acquire/invest in game developers. The Group is currently actively seeking opportunities to obtain/acquire the adaptation rights of appropriate source materials, plan the inception and research of browser games, and enhance our game development capabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2018, the Company's use of proceeds from the Placing is set out as follows:

	Original allocation <i>HKD million</i>	Original allocation <i>percentage</i>	31 December 2018 Amount used <i>HKD million</i>	31 December 2018 Amount used <i>percentage</i>	31 December 2018 Amount unused <i>HKD million</i>	31 December 2018 Amount unused <i>percentage</i>
Continual optimisation of our existing games on various platforms	2.9	10.00%	2.9	10.00%	—	—
Development of new games						
– Browser games	7.2	25.00%	—	—	7.2	25.00%
Development of new games						
– Mobile games	7.2	25.00%	7.2	25.00%	—	—
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	3.6	12.50%	—	—	3.6	12.50%
Acquiring of/investment in game developers and related companies	3.6	12.50%	3.6	12.50%	—	—
Enhancement and diversification of our game development capabilities	2.9	10.00%	0.9	3.10%	2.0	6.90%
Working capital and other general corporate purposes	1.5	5.00%	1.5	5.00%	—	—
<b>Total</b>	<b>28.9</b>	<b>100.00%</b>	<b>16.1</b>	<b>55.60%</b>	<b>12.8</b>	<b>44.40%</b>

## EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB89,862,732 (2017: RMB43,398,917) and the weighted average number of 320,000,000 ordinary shares (2017: 320,000,000 ordinary shares after adjusting for the bonus issue in 2018) in issue during the year.

The weighted average number of ordinary shares used in the calculation of earnings per share for the years ended 31 December 2018 and 2017 has been adjusted to reflect the bonus issue which was completed on 22 June 2018 as disclosed in Note 22.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2018 and 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RISK FACTORS FACED BY THE COMPANY AND RISK MITIGATION MEASURES

The Group principally engaged in the developing of our games in different language versions and licensing our games to different licensed operators for operation internationally. The major risks involved in our business include credit risks, interest risks, liquidity risks, currency risks and business risks. Details of the above mentioned major risks and risk mitigation measures are set forth in Note 31 “Financial risk management” to the consolidated financial statements in this annual report.

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

#### *(i) Risks relating to our business*

For the years ended 31 December 2018 and 2017, all of the Group’s five largest customers were third party licensed operators licensed to operate the Group’s self-developed games within designated territories. We rely heavily on our licensed operators from which our revenue is sourced, and any deterioration or interruption of our business relationships with our licensed operators may have a material and adverse impact on our business, results of operations and financial position. Besides, a significant portion of our revenue was generated from a small number of games, as the Fish Catching Contest (捕魚大亂鬥) and Sweeties Fighting (零食大亂鬥) game series contributed approximately 40.9% and 32.2% of our revenue for the year ended 31 December 2018 respectively. Any significant adverse impacts to these games could materially affect our business. In response, we adopted the following measures in 2018 to manage those risks: we actively looked for new competent licensed operators and licensed the game products to various new licensed operators for operation so we could minimise our reliance on major licensed operators; we continued to provide new premium licensed game products for licensed operators and upgraded our existing game products to attract and retain our players and enhance the players’ gaming experience and consumption power; we consolidated our relationship with business partners to attain a win-win cooperation.

#### *(ii) Risks relating to our industry*

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### *(iii) Risks relating to policies*

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

In early 2018, the Group has invested in two companies incorporated in Thailand with limited liability, namely (1) Firerock Co.,Ltd (“Firerock Co.”), an online game company principally engaging in the development of online games; and (2) Newbie Media Co., Ltd (“Newbie Media”), a company principally engaging in management and planning of online game advertisements. These companies reduce and manage risks relating to the competitive game market in the PRC and risks relating to the adjustments in policies regarding the issuance of game permits; expand and broaden the sales of the Company’s games to overseas markets, and in turn increase and widen the Group’s revenue sources.

## MANAGEMENT OF RISKS

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

## ENVIRONMENT POLICY AND PERFORMANCE

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPLIANCE OF LAWS AND REGULATIONS

The Company is aware of the importance of complying with the relevant laws and regulations. The Company has distributed human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication. From the date of Listing to 31 December 2018, to the knowledge of Directors, the Company is in compliance with the Securities and Futures Ordinance (“SFO”), GEM Listing Rules and other relevant codes and regulations. During the year under review, the Group has complied, to the best of our knowledge, with the SFO, the listing rules, the trading rules and the clearing house rules of the Stock Exchange, as well as the rules formulated by the Ministry of Cultural Management of the PRC government, being the Administrative Measures for Internet Information Services (互聯網信息服務管理辦法), the Provisional Regulations on the Administration of Internet Culture (互聯網文化管理暫行規定), the Interim Measures for the Administration of Online Games (網絡遊戲管理暫行辦法) and other relevant rules and regulations.

### RELATIONSHIP WITH EMPLOYEES, LICENCED OPERATORS AND SUPPLIERS

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINAL DIVIDENDS

#### *Dividend Policy*

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

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

#### *Dividends*

On 22 June 2018, the Company paid a final dividend for 2017 amounting to HKD20.0 million (approximately RMB16.5 million) in aggregate, in form of a cash dividend of HKD0.125 (equivalent to approximately RMB0.103) per share and bonus shares of approximately RMB1.3 million on the basis of 1 share for every share held to the shareholders whose names appear on the register of members of the Company as at 8 June 2018.

Saved as disclosed above, no dividends were declared or paid during the year ended 31 December 2018. During the board meeting held on 18 March 2019, the Board recommended the payment of a final dividend of HKD0.075 per share (equivalent to approximately RMB0.066 per share), in form of a cash dividend, to the shareholders. The proposed final dividend for 2018 is expected to be paid to the shareholders on or around 3 July 2019, subject to the shareholders' approval at the Annual General Meeting to be convened and subject to further announcement(s) in respect to the book closure date, record date and payment date.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **CLOSURE OF REGISTER OF MEMBERS FOR THE ANNUAL GENERAL MEETING**

For the purpose of determining the entitlement to attend and vote at the annual general meeting of the Company to be held on Tuesday, 4 June 2019 (the “AGM”), the register of members of the Company will be closed from Thursday, 30 May 2019 to Tuesday, 4 June 2019, during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Wednesday, 29 May 2019 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 29 May 2019.

### **CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND**

For the purpose of determining Shareholders’ entitlement to the final dividend, the register of members of the Company will be closed from Tuesday, 11 June 2019 to Wednesday, 12 June 2019, during which period no transfer of shares will be registered. The record date for determination of entitlement to the final dividend shall be Wednesday, 12 June 2019. Shareholders whose names appear on the register of members of the Company on Wednesday, 12 June 2019 will be entitled to the final dividend. To qualify for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on Monday, 10 June 2019.

## CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Group for the year ended 31 December 2018.

### INTRODUCTION

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

### CORPORATE GOVERNANCE PRACTICES

The Company has adopted the principles and code provisions set out in the Code contained in Appendix 15 of the GEM Listing Rules. The Directors believe, for the year ended 31 December 2018, the Company has complied with all the Code provisions.

### BOARD OF DIRECTORS

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

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

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

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

## CORPORATE GOVERNANCE REPORT

### COMPOSITION

Throughout the year ended 31 December 2018 and up to the date of this report, the Board consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The Directors are:

#### *Executive Directors*

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

#### *Non-executive Directors*

Mr. ZHANG Yan (Chairman)  
Mr. ZHANG Xiongfeng (Resigned on 5 October 2018)  
Ms. YANG Kan

#### *Independent Non-executive Directors*

Mr. HE Yunpeng  
Mr. CHAN King Fai  
Mr. CHEN Di

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

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

Throughout the year ended 31 December 2018, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors, accounting for at least one third of the Board, with at least one independent non-executive Director possessing the appropriate professional qualifications, accounting or related financial management expertise.

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

## CORPORATE GOVERNANCE REPORT

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

The Company had re-elected, appointed and re-designated certain Directors at the Annual General Meeting on 1 June 2018.

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

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings during the year ended 31 December 2018 and up to the date of this annual report.

### DIRECTORS' TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT

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

Directors are aware of the provision A.6.5 of the Code, regarding continuing professional development programme for directors. For the year ended 31 December 2018, all Directors participated in the training regarding director responsibilities and duties by the Company's legal advisers in relation to the GEM Listing Rules. Such programmes were related to corporate governance, listed company and directors' continuing obligations.

## CORPORATE GOVERNANCE REPORT

A summary of the training received by the Directors for the year ended 31 December 2018 is set out below:

Name of Director	Corporate governance	Listed company and directors' continuing obligations
<b>Executive Directors</b>		
Mr. Huang Yong (Chief Executive Officer)	✓	✓
Mr. Rao Zhenwu	✓	✓
Mr. Wu Zhe	✓	✓
<b>Non-executive Directors</b>		
Mr. Zhang Yan (Chairman)	✓	✓
Mr. Zhang Xiongfeng (Resigned on 5 October 2018)	✓	✓
Ms. Yang Kan	✓	✓
<b>Independent Non-executive Directors</b>		
Mr. Chan King Fai	✓	✓
Mr. He Yunpeng	✓	✓
Mr. Chen Di	✓	✓

## DIRECTORS' LIABILITY INSURANCE

The Company strictly complied with the principle and provisions of the GEM Listing Rules. As at 31 December 2018, none of the Directors was engaged in material litigations of the Company. Each of our Directors was qualified and experienced to perform their duties and obligations. The Company predicts that in the foreseeable future, the risk of any events that lead to liabilities of the Directors is relatively low. Nevertheless, the Company has purchased appropriate insurance covering for Directors' and senior officers' liabilities.

## BOARD MEETINGS AND SHAREHOLDERS' MEETINGS

### *Number of Board meetings and Directors' attendance*

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

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, the Board convened six meetings to discuss various matters of the Group, review and approve financial performance and results of operations and to consider and approve overall strategies and policies of the Group. The attendance of each individual Director at the board meeting, board committee meetings and general meeting is set out in the following table:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
<b>Executive Directors</b>					
Mr. Huang Yong	6/6	N/A	1/1	N/A	1/1
Mr. Wu Zhe	6/6	N/A	N/A	N/A	1/1
Mr. Rao Zhenwu	6/6	N/A	N/A	N/A	1/1
<b>Non-executive Directors</b>					
Mr. Zhang Yan	6/6	N/A	N/A	1/1	1/1
Mr. Zhang Xiongfeng*	5/6	N/A	N/A	N/A	1/1
Ms. Yang Kan	6/6	N/A	N/A	N/A	1/1
<b>Independent Non-executive Directors</b>					
Mr. Chan King Fai	6/6	3/3	1/1	N/A	1/1
Mr. He Yunpeng	6/6	3/3	N/A	1/1	1/1
Mr. Chen Di	6/6	3/3	1/1	1/1	1/1

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

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

The Annual General Meeting of the Company was held on 1 June 2018 at which external auditor was present to address queries and questions.

\* Mr. Zhang Xiongfeng resigned from the Company on 5 October 2018.

## CORPORATE GOVERNANCE REPORT

### PRACTICES AND GUIDELINES OF MEETINGS

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

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

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

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

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

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

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

#### *Board Committees*

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

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

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

## CORPORATE GOVERNANCE REPORT

### *Remuneration Committee*

The Group has established the remuneration committee on 24 January 2016 with written terms of reference in compliance with B1.2 of the Code. The remuneration committee's terms of reference include, but not limited to:

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

The remuneration committee consists of Mr. Chen Di, Mr. Chan King Fai and Mr. Huang Yong. Mr. Chen Di is the chairman of the remuneration committee. During the year ended 31 December 2018, the remuneration committee convened one meeting to discuss the matters set out above.

## CORPORATE GOVERNANCE REPORT

### *Audit Committee*

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

- i. to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- ii. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- iii. to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- iv. to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- v. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;
- vi. in reviewing the aforementioned paragraph (e) before submission to the Board, the committee should focus particularly on:
  1. any changes in accounting policies and practices;
  2. major judgmental areas;
  3. significant adjustments resulting from audit;
  4. the going concern assumptions and any qualifications;
  5. compliance with accounting standards;
  6. compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;

## CORPORATE GOVERNANCE REPORT

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

## CORPORATE GOVERNANCE REPORT

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

The audit committee currently consists of Mr. Chan King Fai, Mr. He Yunpeng and Mr. Chen Di. The chairman of the audit committee is Mr. Chan King Fai, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules. During the year ended 31 December 2018, the audit committee convened three meetings to discuss the matters set out above.

### *Nomination Committee*

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

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

The nomination committee consists of Mr. Zhang Yan, Mr. He Yunpeng and Mr. Chen Di. Mr. Zhang Yan is the chairman of the nomination committee. During the year ended 31 December 2018, the nomination committee convened one meeting to discuss the matters set out above.

## CORPORATE GOVERNANCE REPORT

### *Directors' Responsibilities for the Financial Reporting*

The Directors are responsible for the preparation of the financial statements for the year ended 31 December 2018.

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

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

### **INTERNAL CONTROL**

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

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

For the year ended 31 December 2018, the Board reviewed the effectiveness of the internal control of the Group, covering the finance, operation, compliance and risk management. The review was conducted by discussing with the Company's management officers, external auditors and internal auditors with review of audit committee. The Board believes the existing internal control is sufficient and effective.

### **COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONSHIP**

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

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

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

## CORPORATE GOVERNANCE REPORT

### JOINT COMPANY SECRETARIES

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

Mr. Chan Chin Wang Keith has resigned as the company secretary of the Company (the “Company Secretary”) and authorised representative of the Company for acceptance of service of process and notices under the Companies Ordinance (Cap. 622) of the Laws of Hong Kong (the “Authorised Representative”) with effect from 29 June 2018. Mr. Chu Hon Leung was appointed as the Company Secretary and Authorised Representative of the Company with effect from 29 June 2018. Details of the change of Company Secretary is set out in the announcement of the Company dated 29 June 2018.

For details of Mr. Wei Dong and Mr. Chu Hon Leung, please refer to the section headed “Directors and Senior Management” in this report. The two joint company secretaries of the Company took no less than 15 hours of relevant professional training during the year.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

### INDEPENDENT AUDITOR’S REMUNERATION

BDO Limited, Certified Public Accountants, is appointed as the Company’s auditor. The fees in relation to the auditing services provided by BDO Limited to the Group, amounted to approximately RMB0.5 million for the year ended 31 December 2018. There was no non-audit services provided during the year.

### MATERIAL CHANGES IN CONSTITUTIONAL DOCUMENTS

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

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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

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

- (i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued in printed form and are available on the GEM website [www.hkgem.com](http://www.hkgem.com) and the Company’s website at [www.firerock.hk](http://www.firerock.hk);
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

## CORPORATE GOVERNANCE REPORT

- (iii) corporate information is made available on the Company's website;
- (iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and
- (v) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

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

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

### SHAREHOLDERS' RIGHT

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THE REPORT

As a responsible enterprise, we actively input efforts of sustainability with an emphasis on corporate social responsibilities. This Environmental, Social and Governance Report (the “ESG report”) summarised the Group’s efforts to the environment and the society for the year ended 31 December 2018.

We concern about the impact of our business operations to the economy, environment and society, with expectations to establish positive relationships with stakeholders and to develop a sustainable future. The Board of Directors of the Company would support to the Group which assumes full responsibility for the environmental, social and governance strategy and reporting. Therefore the Board will evaluate and determine the Group’s ESG-related risks, in order to ensure the Group has developed an applicable and efficient ESG risk management and internal control system to manage the ESG-related risks.

### *Scope of Reporting*

Unless otherwise stated, this report covers the environmental and social performance by the subsidiaries of the Group — Shenzhen Fire Element Network Technology Co., Ltd, Shenzhen Fire Element Network Science and Technology Co., Ltd. (collectively named as “Shenzhen Fire Element”) and FireRock Co., Ltd (“FireRock Co.”) in Thailand<sup>1</sup> for the period from 1 January 2018 to 31 December 2018 (the “Reporting Period”).

### *Reporting Standards*

This report has been prepared in accordance with the disclosure requirements of “ESG Reporting Guide” set out in Appendix 20 of the GEM Listing Rules. For details of our corporate governance, please refer to the “Corporate Governance Report” included in this annual report, which has been considered and approved by the Board.

### *Our Approach to Sustainable Development*

The Company strongly believes that corporate social responsibility and business decisions are inherent. For this reason, we are committed to sustainability progress by operating our business in a sustainable manner, safeguarding the interests of our shareholders and stakeholders as well as taking part in public welfare activities.

### *Feedbacks*

Your valuable opinions regarding our performance and reporting presentation form an integral part of our continuous improvement. Should you have any question or suggestion, please email us at [lizj@firerock.hk](mailto:lizj@firerock.hk) to help us improve our ESG performance.

<sup>1</sup> The Group invested and established Firerock Co., a subsidiary in Thailand in February 2018. Hence, this report covered the performance of Firerock Co. during the period of February to December 2018.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

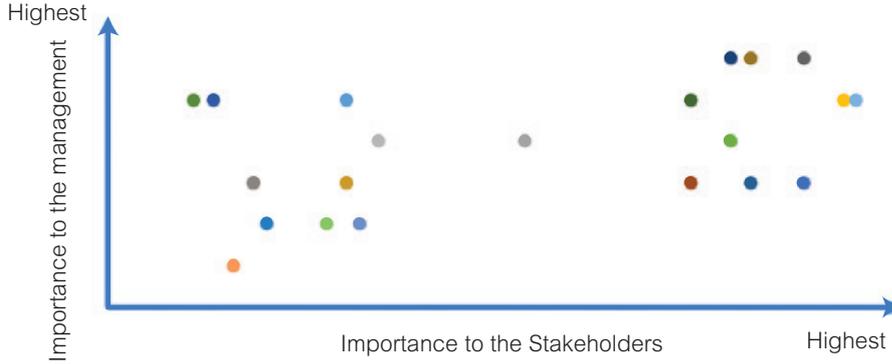
We consider the participation of our stakeholders crucial to our development. We believe that listening and understanding the views of our stakeholders on the sustainability of our business and concerns helps us identify the key environmental, social and governance issues of the Group. We regard shareholders, business partners, game players, suppliers, employees, government and the community at large as our key stakeholder groups.

With the availability of a wide array of communication channels, including meetings, interviews, hotlines, official website, email, financial reports, announcements and general meetings, we continue to value the opinions of different stakeholder groups and communicate our financial and operating conditions with our stakeholders. Furthermore, we also conducted an online survey to collect our stakeholders' opinions during the preparation of this report, so as to identify the importance of various sustainable development issues on our operation and make sure the concerns of our management and stakeholders are well addressed in this report.

The following materiality matrix concludes the survey regarding the materiality assessment. The top right hand corner marks the environmental, social and governance issues that concerned the management and stakeholders most. Result shows that the five most important environmental, social and governance issues are intellectual property rights, relationship with employees, occupational safety and health, employee benefits and management of emergency events. The Group will strive for improvements in environmental, social and governance performance with on-going effort on this basis to meet the expectations of our stakeholders.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Materiality Matrix



- |   |  |
|---|--|
| ● Supplier management procedures  | ● Assessment of environmental and social performance of suppliers    |
| ● Anti-corruption   | ● Management of emergency events                                     |
| ● Quality of products and services  | ● Products compliance  |
| ● Protection of the privacy of players and operators                                | ● Handling of complaints   |
| ● Intellectual property rights  | ● Relationship with employees  |
| ● Occupational safety and health  | ● Training and development   |
| ● Employee benefits   | ● preventing child and forced labour                                 |
| ● Diversity, anti-discrimination and equal opportunity (age, gender and disability) | ● Greenhouse gas emissions and air pollution                         |
| ● Air pollution   | ● Solid wastes management  |
| ● Energy efficiency   | ● Use of natural resources (including water and packaging materials) |
| ● Environmental compliance  | ● Green procurement  |
| ● Participation in public welfare/voluntary activities                              | ● Charity and philanthropy   |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### OUR BUSINESS

The Group is a game developer based in Shenzhen, the PRC. To boost the global marketability of our self-developed browser and mobile games and enhance the players' gaming experience, we have launched different language versions for our games, including English, Japanese, French, German, Simplified Chinese and Traditional Chinese. In addition, we have licensed our games to various game operators with the exclusive and/or non-exclusive right to operate, publish and distribute specific games within an agreed period and designated territories.

During the Reporting Period, our popular browser and mobile games included:



Age of Star Wars (星戰紀)



Fish Catching Contest (捕魚大亂鬥)



Sweeties Fighting (零食大亂鬥)



Kings & Legends (王者召喚)

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### SOCIAL

#### *Employment and Labour Practices*

As an employer providing equal opportunities, we ensure that no employment discrimination caused by age, nationality, race, religion, sexual orientation, gender, marital status, pregnancy, disability and political stances. We recruit all kinds of talents in strict accordance with the principles of fairness, impartiality and openness and provide equal opportunities to all qualified candidates. We recruit employees through staff referrals, online recruitment, campus recruitment and recruitment agencies. We assess the individual abilities and qualities of candidates through interviews and select the most suitable talents for employment. We adopt a 5-day work week with a total of 40 working hours. Employees are entitled to statutory national holidays, marriage leaves, bereavement leaves, maternity leaves, carer's leaves and nursing leaves, etc.

We have formulated "Regulations for the Remuneration Regime" and "Administrative Regulations for Appraisal of Staff Performance" to implement a fair and reasonable mechanism for remuneration management, appraisal and reward. Remuneration of an employee is determined based on his/her overall qualifications, including academic records, work experience and competence, as well as the duties of his/her position. We also provide discretionary bonus, social insurance such as pension scheme, medical, unemployment, work injury and maternity insurance, and housing provident fund in compliance with the laws and regulations of the business location. We purchase supplementary medical insurance on serious illnesses for our staff and review our remuneration system on a regular basis to see if it is commensurate with market levels, so as to ensure that our employees are receiving fair and reasonable remuneration. Employees who deliver outstanding performance and meet the conditions for promotion will receive an opportunity for promotion and/or salary raises. Moreover, priority is accorded to internal promotion in the filling of management or professional technical vacancies. Outstanding candidates are offered intensive training and gradually promoted to management positions, in order to help enhance their personal development and fulfill their career ambitions.

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

#### *Compliance with laws and regulations*

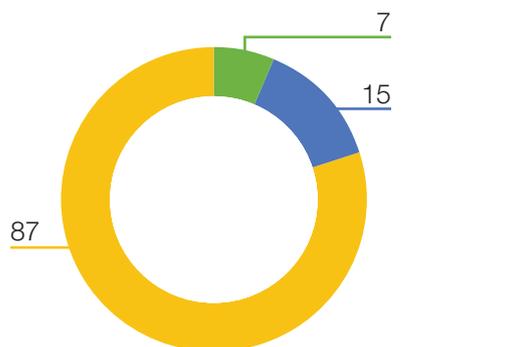
We are committed to compliance with laws and regulations relating to employment, including but not limited to the "Labour Law of the PRC", "Labour Contract Law of the PRC". "Law on the Prevention of Occupational Disease of the PRC", "Social Insurance Law of the PRC", "Working of Alien Act", "Social Security Act" and "Workmen's Compensation Act". To the best of the knowledge of the Directors of the Company, the Group was not subject to any significant administrative sanctions or punishments as a result of any violation of employment laws or regulations.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Analysis of Staff Distribution

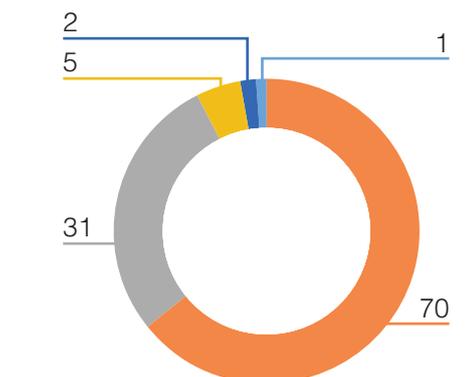
As at 31 December 2018, we had 109 employees comprising 82 male and 27 female employees, of which 98 were full-time staff based in mainland China, 3 were full-time staff based in Hong Kong and 8 were full-time staff based in Thailand. Detailed statistics on employees are set out as follows:

Employment types



■ Senior management    ■ Mid-level management  
■ General and technical staff

Age Group



■ Under 20    ■ 21-30    ■ 31-40  
■ 41-50    ■ 51-60

### Development and Training

Talents form the Company’s most important driver for sustainable development. We aim to recruit, groom and fulfill the talents of high-calibre staff, and we offer them valuable training programmes and positive career prospects, creating the broadest possible platform on which they could pursue career development. We encourage our staff to attend industry-related training courses and seminars, so that they could enhance their professional skills and knowledge in market changes. We also organise employees to receive in-service training to enhance their competence. In-service training comprises conceptual training, management training and professional training. The following training programmes were provided during the reporting period:

#### Training topics

- Enhancing quality as a professional manager
- Process-based R&D project management
- Innovative training for Board Secretaries
- Wealth management
- Five aspects of management — management by objectives and time management
- Sharing of practical experience in Unity 3D projects

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Employee training analysis**

Total training hours	767 hours
Average training hours	2.25 hours/person

**Percentage of employees trained by gender**

Male	77.42%
Female	22.58%

**Percentage of employees trained by employment type**

Senior management	14.08%
Mid-level management	24.63%
General and technical staff	61.29%

**Average hours of training received per employee by gender**

Male	2.23 hours/person
Female	2.32 hours/person

**Average hours of training received per employee by employment type**

Senior management	3.63 hours/person
Mid-level management	2.57 hours/person
General and technical staff	1.81 hours/person

***Occupational Health and Safety***

We endeavour to provide a safe, healthy and comfortable workplace for our employees. We are committed to compliance with pertinent laws and regulations, such as the “Law on the Prevention of Occupational Disease of the PRC”, “Emergency Response Law of the PRC” and “Occupational Health Safety and Working Environment Act”. Staff awareness of occupational diseases is enhanced through various promotional activities conducted during daily operations, with a view to ensuring prevention of occupational diseases and protection of staff health and rights. We have also provided relevant safety training for staff and worked with the building management to conduct fire emergency drills in the office premises. Such training can provide staff with some basic knowledge required in the event of a fire, such as the use of fire extinguishers, so that they are better equipped for escape and self-rescue. During the Reporting Period, the Group did not encounter any work injury or fatal work accidents.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Work-life balance*

To foster a positive and aspiring culture in the Company, staff activities in the forms of gala dinner, recreational tour or otherwise are organised from time to time to enhance team unity and the sense of belonging among our employees. In the meantime, to show the Company's care for individuals, we convey festive wishes to our employees by sending them gifts at major traditional festivals. In addition, we also hold monthly birthday parties for staff and send them gifts and greeting cards.

### Personal Development Activities



### Group Outing



### Tea-time



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Labour standards*

We are committed to compliance with laws and regulations such as the “Labour Law of the PRC”, “Labour Contract Law of the PRC”, “Laws of the PRC on Protection of Minors”, “Regulations Banning Child Labour”, “Labour Protection Act” and “Labour Relations Act”, among others, as we persist in the conduct of labour employment in accordance with the law. We have established requisite processes for the collection and approval of staff recruitment information to ensure the proper implementation of labour standards. To safeguard children’s rights in health and safety, the Group does not hire persons under 18 as staff or recruit child workers who have not reached the statutory minimum age under local laws. The HR Department requires candidates to prove their age by producing valid identifications before they are formally offered with employment.

In addition, staff working hours have been stipulated in our “HR Operating Guide for Work”. To protect the health of our staff, forced labour is strictly prohibited, nor are any form of slavery, contractual labour, physical punishment, internment and threat of violence. In any employment of child and forced labour is found, such employment will be immediately terminated.

### **SUPPLY CHAIN MANAGEMENT**

Our major suppliers include companies, server data centres and broadband service suppliers who provide outsourcing services during the game development and programming stage, such as some of our in-game graphic designs and audio production of sound effects and background music, as well as subsequent updates and optimisation. In determining whether we will outsource some of our in-game graphic designs and audio production of sound effects and background music, we take into consideration a number of factors, including but not limited to our economic strengths, available internal resources, schedules and specific technical requirements. When we require such services, our Project Support Department typically seeks quotations from at least 3 suppliers, and conducts evaluation of the background and track records of each supplier. During the selection process, we typically consider whether the services of such suppliers would meet our requirements, their prices and customer services, and their past business relationships with us. At the end of each year, we conduct evaluation in relation to the timeliness of delivery and the quality of products provided by such suppliers. In respect of suppliers whose evaluation scores are not satisfactory, we will seek rectification and improvement through effective communication, and will also carry out supervision to see if improvements are being made by such suppliers. This will foster mutual trust with the suppliers and help us to manage potential environmental and social risks, as well as to enhance our operating efficiency.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### PRODUCT RESPONSIBILITY

#### *Green and healthy online environment*

Our corporate mission is to provide ongoing enhancements to the gaming experience of players. For this purpose, we seek communication and cooperation with licensed operators to ensure that the game products developed by us have reached a certain standard in terms of safety and fun. We do not respond directly to the enquiries of game players, all of which are handled by the licensed operators. Our Project Support Department will liaise with representatives of the licensed operators to help resolve any technical issues occurring in our games, including but not limited to bugs in game programming.

Moreover, as game developers, we are required to comply with relevant law and regulations of the regions where licensed operations are being conducted, respect local religions and customs, as well as promote and develop game products conveying a healthy and positive outlook. For example, when marketing game products or services in mainland China, our commitment to local social responsibility and protection of the mental and physical health of online game players and adolescents represents a core concern. We collaborate with licensed operators to implement the following measures for our game products with the aim of preventing minors from being addicted to online games:

- Approval from competent regulatory authorities is required in compliance with relevant national requirements;
- Content and language filtering functions are embedded in the game to create a green and healthy online environment;
- Limits are set to young players' daily on-line duration to avoid adverse effect on their physical and mental health caused by overindulgence in online games.

We are committed to compliance with the laws and regulations relating to product responsibility, including but not limited to "Administrative Regulations on Online Publishing Services", "Administrative Measures for Internet Information Services", "Provisional Measures for the Administration of Online Games", "Electronic Transactions Act", "Computer Crime Law" and "Personal Data Protection Law". To the best of the knowledge of the Directors of the Company, the Group did not cause clients to incur losses as a result of the leak of clients' private information or other service issues, nor was it subject to complaints and demand for compensation from clients for unsatisfactory service quality during the Reporting Period.

#### *Data security and privacy protection*

Game players may play our games freely upon accepting and agreeing the terms and conditions set out by us and the licensed operators. All information pertaining to registration, game roles, value top-up, game experience and in-game items maintained in licensed operators' operational platforms and game product systems through internet interface during the process of game play are regarded private and personal data of the game players. In handling such information, we exercise stringent compliance with relevant safety procedures and measures and ensure that no information will be leaked to other third parties.

For this purpose, we have established internal procedures for privacy protection which include the following:

- Code programming authority is set according to departmental functions and projects handled with access to information within a limited scope;
- Authority of user access to the database system is subject to regular review to prevent illicit operation by unauthorised personnel;

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- A fire wall is set to block the unauthorised access to our user database by external parties;
- Transmission and storage of game players' sensitive information (such as user passwords) in the database is conducted on an encrypted basis;
- Data back-up is implemented with storage in servers in various locations each month to reduce the risk of data loss;
- A backup and recovery test is performed each month to examine the effectiveness of the backup system.
- Employees are required to sign a confidentiality agreement to acknowledge their responsibility to keep information (including personal information of clients and intellectual properties) confidential.

To the best of the knowledge of the Directors of the Company, the Group did not experience any incidents of data or information loss, nor was it aware of any violation of relevant laws and regulations relating to the health and safety of products and services, advertisements and labels during the Reporting Period. We take the feedback and comments of game players into serious consideration when we plan to upgrade our products. We maintain close liaison with licensed operators and provide comprehensive technical guidance and assistance to their customer service staff through different channels, such as technology service centres and service hotlines.

### INTELLECTUAL PROPERTY RIGHTS

We are committed to the protection of the achievements of our R&D teams. We have adopted a range of measures to protect our intellectual property rights, such as the compilation of the "Handbook for the Management of Intellectual Property Rights" which sets out the internal regulations for the protection of overall source codes and the delegation and responsibility of employees in the preparation and use of confidential information. Employees are typically required to sign a standard labour contract which contains provisions requiring employees to keep confidential our privileged business information.

We have assigned dedicated staff to be responsible for the filing, registration, transfer and handling of infringement disputes in relation to internet domain names, trademarks, patents and software copyrights, in order to protect the Company's intangible assets and intellectual property rights.

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

During the Reporting Period, we registered 16 trademarks and 10 copyrights (comprising 9 software copyrights and 1 copyright for works). To the best of the knowledge of the Directors of the Company, the Group did not commit any material violation of the "Patent Law of the PRC", "Trademark Law of the PRC"; "Copyright Law of the PRC", "Measures for the Administration of Internet Domain Names of China", "Administrative Measures for Software Products", "Patent Act", "Copyright Act", "Trademark Act" or other relevant laws and regulations during the Reporting Period.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**ENVIRONMENTAL***Emissions, Use of Resources and the Environment and Natural Resources*

As the Group's core business is dependent on Internet technologies and related equipment, the Group does not generate any substantial amount of pollutants such as directly discharged items or waste water in its daily operations, nor does it generate sludge or any other significant hazardous wastes. Moreover, all of our products are online gaming products which do not require packaging by physical materials.

*Resources and Emissions Management*

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

	2018	2017	Unit
Greenhouse gas emissions (scope 2) — electricity consumption	126.77	87.58	Tonnes of CO2e
Intensity of greenhouse gas emissions (scope 2) — Greenhouse gas emission per sq.m. in GFA — electricity consumption	0.08	0.06	Tonnes of CO2e/sq.m.
Total electricity consumption	234,372.75	166,154.20	kWh
Intensity — Electricity consumption per sq.m. in GFA	152.61	117.74	kWh/sq.m.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

- Temperature of air conditioners set at 26°C
- Use of LED lights in offices
- Posting of energy conservation notices to encourage employees to switch off all electrical appliances properly after office hours
- Shut-down of all unused lighting devices and unnecessary electronic appliances and devices during lunchtime and after office hours
- Priority for energy-efficient computer equipment in procurement
- Promotion of energy-saving culture to staff through electronic inter-communication systems

Green plants in office area



Energy conservation notice



### Water Consumption Management

Our consumption of water takes place mainly in our offices. At present, there is no problem of accessing water source. According to the data provided by the building management office, Shenzhen Fire Element consumed a total of approximately 840 cubic metres (31 December 2017: 840 cubic metres) of water during the Reporting Period, representing a water consumption intensity of approximately 0.60 cubic metre per square metre (31 December 2017: 0.60 cubic metre per square metre)<sup>2</sup>. To encourage water conservation among employees, we have posted reminders for water conservation in the restrooms.

<sup>2</sup> As Firerock Co. operated in leased office premises in Thailand of which both the water supply and discharge were solely controlled by the respective building management which considered the provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible. Hence, the data for the reporting period was collected from the offices of Shenzhen Fire Element only.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *Waste management*

The major activity of our daily operations is limited to the writing of game programming codes, which generates mainly non-hazardous wastes, such as paper and daily trash. During the Reporting Period, we generated approximately 7.94 tonnes<sup>3</sup> of non-hazardous wastes, with an intensity of not more than 0.1 tonne/square metre. Moreover, during the Reporting Period, we replaced 7 obsolete toner cartridges and 1 ink cartridge (weighing not more than 0.1 tonne) in our printers. We will arrange, on a best effort basis, suppliers to collect and recycle or carry out non-hazardous treatment.

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

- Electronic documents are used for work or circulation wherever possible to facilitate the paperless office.
- Two-sided printing is encouraged and printable area of paper is maximised by adopting optimal page layout.
- Notices on the reduction of paper consumption are posted as reminders for staff.

During the Reporting Period, Shenzhen Fire Element held a beach cleaning campaign and recycled the waste collected. We hope to effectively enhance environmental awareness among our colleagues through this type of environmental activity.

### *Beach cleaning campaign*



### *Compliance with laws and regulations*

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

<sup>3</sup> There is no disclosure of comparative figures for 2017 relating to wastes as no estimates on daily refuse were conducted in 2017.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### ANTI-CORRUPTION

We are committed to adhering to the laws and regulations regarding corruption, bribery, extortion, fraud and money laundering, such as the “Anti-Unfair Competition Law”, the “Interim Provisions on Prohibiting Commercial Bribery of the PRC”, the “Anti-Money Laundering Law of the People’s Republic of China”, the “The Organic Act on Prevention and Suppression of Corruption 2018” and the “Anti-dumping Measure”.

We require Directors and staff members of the Group to act at high ethical standard and strictly prohibit any form or any level of bribery and corruption. To this end, we have established “Procedures on Reporting Bribery and Corruption”. All allegations of corruption — whether internal or involving third-party business partners, would conduct thorough investigation and following-up actions and report to the Board. We have also established comprehensive channels for complaints which employees and other parties can and/or anonymously report unethical and illegal conducts confidentially. During the Reporting Period, the Group was not aware of any violations of bribery, extortion, fraud and money laundering which would have a significant impact on the Group. No legal action concerned with corrupt practices was brought against the Group or our employees during the Reporting Period.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### COMMUNITY INVESTMENT

In order to foster positive relationships with the communities in which we operate, we support the sustainable and long-term development of the communities by actively participating in charitable activities and voluntary work. During the Reporting Period, we cooperated with the Education Fund of Nanchong, Sichuan Province and donated desks and chairs in the amount of RMB270,000 to 14 local schools, with the aim of supporting the construction of the schools in poverty-stricken areas and cultivating more talents for the communities.

Donation of desks and chairs



### PROSPECT

We continue to take sustainable development as the core of our corporate development and strive for innovation with the aim of providing high quality game products and experience to game players. In 2019, we will continue to enhance corporate governance and product quality and keep on improving environmental protection initiatives, employee training and benefits and social care, in order to achieve sustainable development and harmonious coexistence of the society, economy and environment.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### *Executive Directors*

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

### *Non-executive Directors*

Mr. ZHANG Yan (Chairman)  
Mr. ZHANG Xiongfeng (Resigned on 5 October 2018)  
Ms. YANG Kan

### *Independent Non-executive Directors*

Mr. CHAN King Fai  
Mr. HE Yunpeng  
Mr. CHEN Di

## BOARD OF DIRECTORS

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

## DIRECTORS

### **Mr. ZHANG Yan (張岩)**

*Chairman and non-executive Director*

Mr. Zhang Yan, aged 48, is our chairman and a non-executive Director. Mr. Zhang is responsible for supervising the overall management and strategy planning of our Group. Mr. Zhang has been our Director since November 2014 and was appointed as our chairman in March 2015.

Mr. Zhang has over 18 years of experience in the online game industry. Prior to joining our Group, from April 1997 to March 2010, he oversaw the development of several MMORPGs whilst working as the chief executive officer of Shenzhen Domain Computer Network Company Limited (深圳網域計算機網絡有限公司) ("Shenzhen Domain"), responsible for the overall operation and management. After that, Mr. Zhang explored his own business by investing in various companies conducting different lines of business.

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

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

## DIRECTORS AND SENIOR MANAGEMENT

### **Mr. HUANG Yong (黃勇)**

*Executive Director and Chief Executive Officer*

Mr. Huang Yong, aged 39, is our chief executive officer and an executive Director. Mr. Huang is responsible for formulating our corporate and business strategies and being responsible for our daily operations and management. Being one of the founders of the Group, Mr. Huang was appointed as the general manager and executive Director since November 2012. He is currently our Director since November 2014 and was appointed as our chief executive officer in March 2015.

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

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

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

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

### **Mr. WU Zhe (吳哲)**

*Executive Director and chief planning officer*

Mr. Wu Zhe, aged 39, is our chief planning officer and an executive Director. Mr. Wu is responsible for formulating our corporate and business strategies, strategic planning and development of all games. Being one of the founders of the Group, Mr. Wu has worked as vice president of Shenzhen Fire Element responsible for game development since March 2011. He has been our Director since November 2014 and was appointed as our chief planning officer in March 2015.

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

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

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

## DIRECTORS AND SENIOR MANAGEMENT

### **Mr. RAO Zhenwu (饒振武)**

*Executive Director and chief technology officer*

Mr. Rao Zhenwu, aged 37, is our chief technology officer and an executive Director. Mr. Rao is responsible for formulating our corporate and business strategies in relation to the development and operation of our online games as well as research and planning of new technology. Being one of the founders of the Group, Mr. Rao has worked as the chief technology officer of Shenzhen Fire Element since March 2011. He has been our Director since November 2014 and was appointed as our chief technology officer in March 2015.

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

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

### **Ms. YANG Kan (楊侃)**

*Non-executive Director*

Ms. Yang Kan, aged 42, was appointed as a non-executive Director on 30 June 2017. Ms. Yang has worked in the marketing industry for over 10 years. She worked at China Eastern Airlines from 2003 to 2012 and promoted to manager. She was responsible for human resources management and corporate image promotions during which she gained extensive knowledge in corporate operations management. She worked as an executive director of China 33 Media Group Limited, which is listed on GEM of the Hong Kong Stock Exchange (Stock Code: 8087) from February 2015 to August 2015. Ms. Yang graduated from the Huazhong University of Science and Technology (華中科技大學) with a bachelor's degree in international economic and trade.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### **Mr. CHAN King Fai (陳京暉)**

*Independent non-executive Director*

Mr. Chan King Fai, aged 48, was appointed as an independent non-executive Director on 24 January 2016.

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

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

## DIRECTORS AND SENIOR MANAGEMENT

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

### **Mr. HE Yunpeng (何雲鵬)**

*Independent non-executive Director*

Mr. He Yunpeng, aged 43, was appointed as an independent non-executive Director on 24 January 2016.

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

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

### **Mr. CHEN Di (陳迪)**

*Independent non-executive Director*

Mr. Chen Di, aged 39, was appointed as an independent non-executive Director on 30 June 2017.

Mr. Chen has worked in the banking, finance and securities industry for over 8 years with extensive assets management experience. He worked in the securities department of Overseas Chinese Town Group from July 2004 to August 2010 and participated in the merger and reorganisation matters of its subsidiary companies. Then, he established Shenzhen Qianhai Xiaobai Interactive Capital Management Limited (深圳前海小白互動資本管理有限公司) in December 2014, invested in enterprises such as Shenzhen Zhuohua Network and Technology Limited (深圳市灼華網絡科技有限公司) and Beijing Dingdong Lemon Science and Technology Limited (北京叮咚檸檬科技有限公司) and provided advices for their development. He also established Shenzhen Xiaobai Zhitong Equity Investment Partnership (Limited Partnership)\* (深圳市小白志同股權投資合夥企業(有限合夥)) in February 2016 and successfully got the copyright of the brand buzzy bee in the PRC. Mr. Chen obtained a bachelor's degree in e-commerce awarded by the Liaoning Science and Technology University (遼寧科技大學) in June 2004. He also obtained a master's degree in applied psychology awarded by Peking University (北京大學) in July 2012.

\* for identification purposes only

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

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

#### **Mr. WEI Dong (衛東)**

*Chief financial officer and joint company secretary*

Mr. Wei Dong, aged 50, is our chief financial officer. Mr. Wei is responsible for the daily management and operations; assisting the chief executive officer in financial planning and responsible for administration of the Board's matters. Mr. Wei joined our Group in September 2014 as the chief financial officer of Shenzhen Fire Element. In March 2015, Mr. Wei was appointed as the chief financial officer and joint company secretary of our Company.

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

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

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

#### **Mr. YUAN Zhen (袁臻)**

*Chief marketing officer*

Mr. Yuan, aged 31, is our chief marketing officer. Upon joining the Group in 2017, Mr. Yuan worked as the chief marketing officer of Shenzhen Fire Element. Mr. Yuan is responsible for the management of marketing and maintenance during the operation of the game product, as well as the monitoring of intellectual property and assisting the chief product officer in project management.

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

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

\* for identification purposes only

## DIRECTORS AND SENIOR MANAGEMENT

### **Mr. XIANG Bin (向斌)**

*Chief information officer*

Mr. Xiang, aged 36, is our chief information officer. Mr. Xiang is responsible for the maintenance of database and systems, and assisting the chief technology officer in the research and planning of new technology. Mr. Xiang joined our Group in December 2011 as chief database officer of Shenzhen Fire Element.

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

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

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

## JOINT COMPANY SECRETARIES

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

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

Mr. Chu Hon Leung was appointed as a joint company secretary and authorised representative on 29 June 2018.

Mr. Chu, aged 36, has been a practicing solicitor in Hong Kong since 2009 and is currently an associate of Li & Partners. Mr. Chu had been in private practice as a solicitor with local and international law firms in Hong Kong and was an in-house counsel with a leading PRC asset management company. Mr. Chu obtained his bachelor degree in commerce from Macquarie University in Sydney, Australia, his graduate diploma in law from The College of Law in London, United Kingdom and graduated from the City University of Hong Kong with the postgraduate certificate in laws.

## COMPLIANCE OFFICER

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

## DIRECTORS' REPORT

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

### PRINCIPAL ACTIVITIES

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

For the principal activities and other details of the subsidiaries of the Company, please refer to Note 28 to the consolidated financial statements. The principal business of the Group has no material changes in nature during the year ended 31 December 2018.

### RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the financial statements on page 6 of this annual report.

### BUSINESS REVIEW

While global game market was competitive during the year under review, the entire game industry delivered outstanding performance, in particular the growth in mobile device games. During the Reporting Period, in addition to maintenance of the existing games, the Group has concentrated resources on mobile games for the development and commercial launch of various series of mobile games, namely Super Rich (超級大富翁), Shaky Battle (晃晃大作戰) and Age of Star Wars (星戰紀). The Group has achieved satisfactory results with the expanded game portfolio, capturing the fast growing opportunity from the mobile game markets. Details of the business review are set out in the sections headed, "Management Discuss and Analysis" and "Environmental, Social and Governance Report" in this report.

### SHARE CAPITAL

For the year ended 31 December 2018, details of the movements in share capital of the Company during the year are set out in the Note 22 to the consolidated financial statements.

## DIRECTORS' REPORT

## USE OF PROCEEDS FROM PLACING

The Company's shares were listed on GEM of the Stock Exchange on 18 February 2016 and net proceeds from the Placing were approximately HKD28.9 million. During the year, the Group used approximately HKD7.2 million for development of new game series, approximately HKD2.9 million for continual optimisation of the Group's existing games on various platforms, approximately HKD1.5 million on working capital and general corporate purposes, approximately HKD0.9 million for enhancing its game development power and approximately HKD3.6 million on opportunities to acquire/invest in game developers.

	Original allocation <i>HKD'm</i>	Original allocation <i>Percentage</i>	Used amount as at 31 December 2018 <i>HKD'm</i>	Used amount as at 31 December 2018 <i>Percentage</i>	Unused amount as at 31 December 2018 <i>HKD'm</i>	Unused amount as at 31 December 2018 <i>Percentage</i>
Continual optimisation of existing games on various platforms	2.9	10.00%	2.9	10.00%	—	—
Development of new game series — browser games	7.2	25.00%	—	—	7.2	25.00%
Development of new game series — mobile games	7.2	25.00%	7.2	25.00%	—	—
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	3.6	12.50%	—	—	3.6	12.50%
Acquisition of/investment in game developers and related companies	3.6	12.50%	3.6	12.50%	—	—
Enhancement and diversification of game development capabilities	2.9	10.00%	0.9	3.10%	2.0	6.90%
Working capital and other general corporate purposes	1.5	5.00%	1.5	5.00%	—	—
<b>Total</b>	<b>28.9</b>	<b>100.00%</b>	<b>16.1</b>	<b>55.60%</b>	<b>12.8</b>	<b>44.40%</b>

## RESERVES

For the year ended 31 December 2018, details of the changes in the reserves of the Group are set out in the consolidated statement of changes in equity and Note 23 to the consolidated financial statements. As at 31 December 2018, the distributable reserves of the Company approximately amounted to RMB158.3 million.

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

Our major customers are licensed operators. For the year ended 31 December 2018, the revenue contributed from our five largest licensed operators accounted for approximately 97.4% of our total revenue, while our single largest licensed operator contributed approximately 78.7% of our total revenue.

Our major suppliers include companies which provided outsourced services such as part of the graphic design and audio production of sound effects and background music of our games in the game research and development activities and also in their subsequent updates and enhancements as well as server data centre and bandwidth service providers. For the year ended 31 December 2018, purchases from our five largest suppliers accounted for approximately 100.0% of our total purchases, while purchases from our single largest suppliers accounted for approximately 68.7% of our total purchases.

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

### FINANCIAL HIGHLIGHTS

A summary of the published results and of the assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, was set out on page 6 in the annual report. The summary does not form part of the audited consolidated financial statements of the Group.

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

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

### CHARITY DONATION

For the year ended 31 December 2018, the Group cooperated with the Education Fund of Nanchong, Sichuan Province and donated desks and chairs in the amount of RMB270,000 to 14 local schools.

### PROPERTY, PLANT AND EQUIPMENT

Details of the changes in property, plant and equipment during the year ended 31 December 2018 are set out in the Note 14 to the consolidated financial statements.

### BORROWING

As at 31 December 2018, the Group did not have any bank or other borrowings.

### CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

## DIRECTORS' REPORT

### **SUFFICIENT PUBLIC FLOAT**

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

### **PRE-EMPTIVE RIGHTS**

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

### **DIRECTORS' SERVICE CONTRACTS**

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

At the Annual General Meeting held on 1 June 2018, certain directors were re-appointed, appointed and re-designated by the Company.

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

### **CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS' INDEPENDENCE**

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

## DIRECTORS' REPORT

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

As at 31 December 2018, the Directors and the chief executive of our Company had the interests in the Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

- (a) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or
- (b) which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or
- (c) which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, as follows:

Name	Capacity	Number of Shares <sup>1</sup>	Percentage of Shareholdings
Zhang Yan <sup>2</sup>	Interest in controlled corporation	117,600,000	36.75%
Huang Yong <sup>3</sup>	Interest in controlled corporation	37,692,000	11.78%
Wu Zhe <sup>4</sup>	Interest in controlled corporation	3,200,000	1.00%
Rao Zhenwu <sup>5</sup>	Interest in controlled corporation	3,200,000	1.00%

*Notes:*

1. All interests stated are long positions.

On 22 June 2018, the Company paid a final dividend for 2017 on the basis of 1 bonus share for every share held to the shareholders whose names appear on the register of members of the Company as at 8 June 2018, thereby increasing the number of shares of the Company from 160,000,000 to 320,000,000.

2. Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International Limited by virtue of the SFO.
3. Mr. Huang 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.
4. Mr. Wu is interested in the entire issued share capital of R&P Global Limited and he is therefore deemed to be interested in the Shares held by R&P Global Limited by virtue of the SFO.
5. Mr. Rao is interested in the entire issued share capital of Meteor Technology International Limited and he is therefore deemed to be interested in the Shares held by Meteor Technology Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors to be notified to our Company and the Stock Exchange.

## DIRECTORS' REPORT

**INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES OR UNDERLYING SHARES**

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

Name	Capacity	Number of Shares <sup>1</sup>	Percentage of shareholding
Sulfulon International Limited	Beneficial owner	117,600,000	36.75%
Mr. Zhang Yan <sup>2</sup>	Interest of controlled corporation	117,600,000	36.75%
Ms. Zheng Xin <sup>3</sup>	Interest of spouse	117,600,000	36.75%
Raglon International Limited	Beneficial owner	37,692,000	11.78%
Mr. Huang Yong <sup>4</sup>	Interest of controlled corporation	37,692,000	11.78%
Ms. Pan Li <sup>5</sup>	Interest of spouse	37,692,000	11.78%
R&P Global Limited	Beneficial owner	3,200,000	1.00%
Mr. Wu Zhe <sup>6</sup>	Interest of controlled corporation	3,200,000	1.00%
Ms. Xu Yao <sup>7</sup>	Interest of spouse	3,200,000	1.00%
Meteor Technology International Limited	Beneficial owner	3,200,000	1.00%
Mr. Rao Zhenwu <sup>8</sup>	Interest of controlled corporation	3,200,000	1.00%
Ms. Chen Xuanqi <sup>9</sup>	Interest of spouse	3,200,000	1.00%

*Notes:*

- All interests stated are long positions.

On 22 June 2018, the Company paid a final dividend for 2017 on the basis of 1 bonus share for every share held to the shareholders whose names appear on the register of members of the Company as at 8 June 2018, thereby increasing the number of shares of the Company from 160,000,000 to 320,000,000.

- Mr. Zhang Yan is interested in the entire issued share capital of Sulfulon International Limited and he is therefore deemed to be interested in the Shares held by Sulfulon International by virtue of the SFO.
- Ms. Zheng Xin is the spouse of Mr. Zhang Yan and she is therefore deemed to be interested in the Shares held by Mr. Zhang Yan by virtue of the SFO.
- Mr. Huang Yong is interested in the entire issued share capital of Raglon International Limited and he is therefore deemed to be interested in the Shares held by Raglon International by virtue of the SFO.
- Ms. Pan Li is the spouse of Mr. Huang Yong and she is deemed to be interested in the Shares held by Mr. Huang Yong by virtue of the SFO.
- Mr. Wu Zhe is interested in the entire issued share capital of R&P Global Limited and he is therefore deemed to be interested in the Shares held by R&P Global by virtue of the SFO.
- Ms. Xu Yao is the spouse of Mr. Wu Zhe and she is deemed to be interested in the Shares held by Mr. Wu Zhe by virtue of the SFO.
- Mr. Rao Zhenwu is interested in the entire issued share capital of Meteor Technology International Limited and he is therefore deemed to be interested in the Shares held by Meteor Technology by virtue of the SFO.
- Ms. Chen Xuanqi is the spouse of Mr. Rao Zhenwu and she is deemed to be interested in the Shares held by Mr. Rao Zhenwu by virtue of the SFO.

## DIRECTORS' REPORT

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

Neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

### DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

None of the Directors, the controlling shareholders, nor their respective associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year ended 31 December 2018.

### SHARE OPTION SCHEME

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

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

Eligible participants of the Share Option Scheme include:

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

As at 31 December 2018, the total number of Shares available for issue under the Share Option Scheme is 16,000,000 Shares, representing 5% of the issued share capital of the Company. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the "Cancelled Shares")) to each eligible

## DIRECTORS' REPORT

participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular and the approval of the Shareholders in general meeting.

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

Upon acceptance of an option to subscribe for shares granted pursuant to the scheme (the "Option"), the eligible participant shall pay HKD1.00 to the Company as consideration for the grant. The subscription price for the Shares subject to Options will be a price determined by the Board and notified to each participant and shall be the highest of:

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

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

## CONNECTED TRANSACTIONS

The Company has not entered into any connected transactions for the year ended 31 December 2018.

## NON-COMPETITION UNDERTAKING OF DIRECTORS

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

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

## DIRECTORS' REPORT

Each of the executive Directors confirmed that he/she has fulfilled the above non-competition undertakings from the date of Listing to the year ended 31 December 2018.

### PERMITTED INDEMNITY PROVISION

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

### INTEREST OF COMPLIANCE ADVISER

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

### COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

### MANAGEMENT CONTRACTS

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

### CONTRACTS OF SIGNIFICANCE

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

### AUDITOR

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

### REVIEW BY AUDIT COMMITTEE

The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2018 and made recommendations and advice.

By order of the Board

**Zhang Yan**

*Chairman*

Hong Kong, 18 March 2019

## INDEPENDENT AUDITOR'S REPORT



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### TO THE SHAREHOLDERS OF FIRE ROCK HOLDINGS LIMITED

火岩控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Fire Rock Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 82 to 132, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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

### KEY AUDIT MATTERS

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

BDO Limited  
香港立信德豪會計師事務所有限公司

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

## INDEPENDENT AUDITOR'S REPORT

### *Impairment assessment of intangible assets*

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

The carrying values of the Group's intangible assets as at 31 December 2018 were RMB7,602,162. Management has performed an impairment review in accordance with Hong Kong Accounting Standard ("HKAS") 36 "Impairment of Assets". The recoverable amounts are determined based on value in use calculations. Based on the result of the value in use calculations, an impairment loss of RMB864,159 was recognised in profit or loss during the year. These calculations involved significant assumptions and judgements made by management concerning the estimated future cash flows and the discount rate applied to future cash flow forecast.

### *Our response:*

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

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

## OTHER INFORMATION IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

### **DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## INDEPENDENT AUDITOR'S REPORT

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**BDO Limited**  
*Certified Public Accountants*

Leung Tze Wai  
Practising Certificate Number P06158

Hong Kong, 18 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB	2017 RMB
<b>Revenue</b>	7	<b>160,700,166</b>	80,304,039
Direct costs		<b>(16,547,634)</b>	(11,474,346)
Gross profit		<b>144,152,532</b>	68,829,693
Other income	7	<b>2,353,761</b>	3,279,172
Game research costs		<b>(846,522)</b>	(194,924)
Distribution costs		<b>(742,204)</b>	(624,763)
Administrative expenses		<b>(25,369,225)</b>	(11,693,694)
<b>Operating profit</b>		<b>119,548,342</b>	59,595,484
Share of loss investments accounted for using equity accounting		<b>(615,175)</b>	—
Profit before income tax	8	<b>118,933,167</b>	59,595,484
Income tax expense	9	<b>(29,125,365)</b>	(16,196,567)
<b>Profit for the year</b>		<b>89,807,802</b>	43,398,917
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
— Exchange differences on translation of foreign operations		<b>2,050,037</b>	(2,537,720)
<b>Other comprehensive income for the year</b>		<b>2,050,037</b>	(2,537,720)
<b>Total comprehensive income for the year</b>		<b>91,857,839</b>	40,861,197
<b>Profit attributable to:</b>			
Owners of the Company		<b>89,862,732</b>	43,398,917
Non-controlling interests		<b>(54,930)</b>	—
		<b>89,807,802</b>	43,398,917
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>91,913,342</b>	40,861,197
Non-controlling interests		<b>(55,503)</b>	—
		<b>91,857,839</b>	40,861,197
<b>Earnings per share</b>		<b>RMB cents</b>	<b>RMB cents</b> <i>(Re-presented)</i>
Basic and diluted	11	<b>28.08</b>	13.56

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB	2017 RMB
<b>Non-current assets</b>			
Property, plant and equipment	14	1,506,674	1,746,442
Intangible assets	15	7,602,162	8,040,339
Investments accounted for using equity method	16	2,451,697	—
		<b>11,560,533</b>	9,786,781
<b>Current assets</b>			
Trade receivables	17	64,194,508	28,881,795
Prepayment, deposits and other receivables		733,200	2,101,559
Short-term bank deposits	18	—	10,000,000
Cash and cash equivalents	18	136,782,849	78,533,972
		<b>201,710,557</b>	119,517,326
<b>Current liabilities</b>			
Other payables and accruals	19	5,062,681	2,890,919
Deferred revenue	20	954,666	2,212,211
Dividend payables		—	451,391
Tax payables		6,129,047	2,443,991
		<b>12,146,394</b>	7,998,512
<b>Net current assets</b>		<b>189,564,163</b>	111,518,814
<b>Total assets less current liabilities</b>		<b>201,124,696</b>	121,305,595
<b>Non-current liabilities</b>			
Deferred revenue	20	65,752	844,307
Deferred tax liabilities	21	8,900,000	4,000,000
		<b>8,965,752</b>	4,844,307
<b>Net assets</b>		<b>192,158,944</b>	116,461,288
<b>Equity</b>			
Share capital	22	2,669,060	1,347,236
Reserves	23	189,525,273	115,114,052
Total equity attributable to owners of the Company		<b>192,194,333</b>	116,461,288
Non-controlling interests		<b>(35,389)</b>	—
<b>Total equity</b>		<b>192,158,944</b>	116,461,288

On behalf of the board of directors

**Huang Yong**  
Director

**Wu Zhe**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital	Share premium*	Capital reserve*	Merger reserve*	Statutory reserve*	Share-based payment reserve*	Foreign exchange reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 January 2017	1,347,236	35,021,914	11,201,260	10,000,000	7,198,564	—	2,664,590	28,775,087	96,208,651	—	96,208,651
Profit for the year	—	—	—	—	—	—	—	43,398,917	43,398,917	—	43,398,917
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations	—	—	—	—	—	—	(2,537,720)	—	(2,537,720)	—	(2,537,720)
Total comprehensive income for the year	—	—	—	—	—	—	(2,537,720)	43,398,917	40,861,197	—	40,861,197
Dividends (Note 10)	—	—	—	—	—	—	—	(20,608,560)	(20,608,560)	—	(20,608,560)
Appropriation to statutory reserve (Note 23 (d))	—	—	—	—	4,980,643	—	—	(4,980,643)	—	—	—
At 31 December 2017	1,347,236	35,021,914	11,201,260	10,000,000	12,179,207	—	126,870	46,584,801	116,461,288	—	116,461,288
At 1 January 2018	1,347,236	35,021,914	11,201,260	10,000,000	12,179,207	—	126,870	46,584,801	116,461,288	—	116,461,288
Profit/(Loss) for the year	—	—	—	—	—	—	—	89,862,732	89,862,732	(54,930)	89,807,802
Other comprehensive income for the year:											
– Exchange differences on translation of foreign operations	—	—	—	—	—	—	2,050,610	—	2,050,610	(573)	2,050,037
Total comprehensive income for the year	—	—	—	—	—	—	2,050,610	89,862,732	91,913,342	(55,503)	91,857,839
Dividends (Note 10)	—	—	—	—	—	—	—	(16,522,800)	(16,522,800)	—	(16,522,800)
Appropriation to statutory reserve (Note 23 (d))	—	—	—	—	320,793	—	—	(320,793)	—	—	—
Non-controlling interests arising on establishment of a non wholly-owned subsidiary	—	—	—	—	—	—	—	—	—	20,114	20,114
Issuance of bonus shares (Notes 10 and 22)	1,321,824	—	—	—	—	—	—	(1,321,824)	—	—	—
Equity-settled share-based transactions (Note 24)	—	—	—	—	—	342,503	—	—	342,503	—	342,503
At 31 December 2018	2,669,060	35,021,914	11,201,260	10,000,000	12,500,000	342,503	2,177,480	118,282,116	192,194,333	(35,389)	192,158,944

\* The aggregate balances of these reserve amounts of RMB189,525,273 and RMB115,114,052 are included as reserves as at 31 December 2018 and 2017 respectively in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB	2017 RMB
<b>Cash flows from operating activities</b>		
Profit before income tax	118,933,167	59,595,484
Adjustments for:		
Amortisation of intangible assets	6,153,168	6,266,279
Impairment loss of intangible assets	864,159	—
Depreciation of property, plant and equipment	1,028,670	860,667
Interest income	(1,404,687)	(476,904)
Share of loss arising from investment accounted for using equity method	615,175	—
Share-based payment expenses	342,503	—
Operating profit before working capital changes	126,532,155	66,245,526
Increase in trade receivables	(35,312,525)	(15,665,834)
Decrease/(Increase) in prepayments, deposits and other receivables	1,381,086	(1,434,787)
Increase in other payables and accruals	2,103,907	1,034,126
Decrease in deferred revenue	(2,036,100)	(552,297)
Cash generated from operating activities	92,668,523	49,626,734
Tax paid	(20,540,309)	(11,182,643)
Net cash generated from operating activities	72,128,214	38,444,091
<b>Cash flows from investing activities</b>		
Interest received	1,404,687	476,904
Additions of intangible assets	(6,579,150)	(6,683,951)
Decrease in short-term bank deposits	10,000,000	—
Acquisition of investment accounted for using equity method	(3,163,268)	—
Purchases of property, plant and equipment	(782,574)	(1,050,048)
Net cash generated from/(used in) investing activities	879,695	(7,257,095)
<b>Cash flows from financing activities</b>		
Dividends paid	(17,385,296)	(20,292,959)
Establishment of a non-wholly owned subsidiary	20,114	—
Net cash used in financing activities	(17,365,182)	(20,292,959)
<b>Net increase in cash and cash equivalents</b>	<b>55,642,727</b>	10,894,037
<b>Cash and cash equivalents at beginning of the year</b>	<b>78,533,972</b>	70,105,578
<b>Effect of foreign exchange rate changes</b>	<b>2,606,150</b>	(2,465,643)
<b>Cash and cash equivalents at end of the year</b>	<b>136,782,849</b>	78,533,972
<b>Analysis of cash and cash equivalents</b>		
Cash at banks and on hand	88,020,849	40,841,745
Short-term bank deposits with original maturity of less than three months	48,762,000	37,692,227
	<b>136,782,849</b>	78,533,972

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

## 1. GENERAL INFORMATION

Fire Rock Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 3 November 2014. The address of its registered office is Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 4/F, Dongjiang Environment Building, No.9 Langshan Road, 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 browser and mobile games development, including the game design, programming and graphics and licensing of its games in the PRC and overseas markets.

The consolidated financial statements for the year ended 31 December 2018 were approved and authorised for issue by the board of directors on 18 March 2019.

## 2. ADOPTION OF HKFRSs

### (a) Adoption of new or revised HKFRSs — effective 1 January 2018

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to Hong Kong Accounting Standard (“HKAS”) 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendment to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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

### **Annual Improvements to HKFRSs 2014–2016 Cycle, Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2. ADOPTION OF HKFRSs (Continued)

#### (a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)

##### **Amendments to HKFRS 2, Classification and Measurement of Share-Based Payment Transactions**

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

##### **HKFRS 9, Financial Instruments**

###### (i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39, “*Financial Instruments: Recognition and Measurement*” for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group’s classification and measurement of financial assets is set out below.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2. ADOPTION OF HKFRSs (Continued)***(a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)***HKFRS 9, Financial Instruments (Continued)****(i) Classification and measurement of financial instruments (Continued)**

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“amortised cost”); (ii) financial assets at fair value through other comprehensive income (“FVOCI”); or (iii) FVTPL (as defined in above).

The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group may makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in the investment’s fair value are recognised in other comprehensive income. This election is made on an investment-by-investment basis. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2. ADOPTION OF HKFRSs (Continued)***(a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)***HKFRS 9, Financial Instruments (Continued)****(i) Classification and measurement of financial instruments (Continued)**

All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

Amortised cost                      Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 RMB	Carrying amount as at 1 January 2018 under HKFRS 9 RMB
Trade receivables	Loans and receivables	Amortised cost	28,881,795	28,881,795
Deposits and other receivables	Loans and receivables	Amortised cost	1,764,209	1,764,209
Short-term bank deposits	Loans and receivables	Amortised cost	10,000,000	10,000,000
Cash and cash equivalents	Loans and receivables	Amortised cost	78,533,972	78,533,972

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2. ADOPTION OF HKFRSs (Continued)***(a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)***HKFRS 9, Financial Instruments (Continued)****(ii) Impairment of financial assets**

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for trade receivables and financial assets at amortised cost earlier than HKAS 39. Short-term bank deposit and cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current year.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the end of the reporting period; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

**Measurement of ECLs**

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's other financial instruments are considered to have low credit risk since there was no recent history of default.

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

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 2. ADOPTION OF HKFRSs (Continued)

#### (a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)

##### HKFRS 9, Financial Instruments (Continued)

##### (ii) Impairment of financial assets (Continued)

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade receivables. To measure the ECLs, these receivables have been grouped based on shared credit risk characteristics and the days past due. Based on the result of assessment, the directors of the Company consider that the financial impact arising from the adoption of expected credit loss approach on all trade receivables as at 1 January 2018 and during the year ended 31 December 2018 is immaterial.

Other financial assets at amortised cost of the Group including other receivables. The directors of the Company also reviewed and assessed the impairment on the Group's other financial assets and considered that there was no significant financial impact on the consolidated financial statements of the Group.

##### (iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationship.

##### (iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2. ADOPTION OF HKFRSs (Continued)****(a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)****HKFRS 9, Financial Instruments (Continued)****(iv) Transition (Continued)**

The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group) (the “DIA”):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

**HKFRS 15, Revenue from Contracts with Customers**

HKFRS 15 supersedes HKAS 11 “*Construction Contracts*”, HKAS 18 “*Revenue*” and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 “*Revenue from Contracts with Customers*” from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively. The Group assessed the impacts of adopting HKFRS 15 on its consolidated financial statements. Based on the assessment, the adoption of HKFRS 15 does not have a significant impact on the Group’s revenue recognition.

**Revenue recognition**

License fees is recognised in profit or loss over the time that granting the right to the license operators to operate the Group’s self-developed games within the contracted period. License fees represented the upfront fee from its licensed operators in exchange for exclusive operating rights of the Group’s self-developed games in certain regions and provides continuing related technical support.

Royalties is recognised in profit or loss at the point in time and calculated on a monthly basis, based on a pre-determined percentage of net sales of credits of the licensed operators which have been exchanged into in-game tokens purchased through platforms designated by the licensed operators and typically unaffected by the marketing discounts on the prices of credits offered by the licensed operators.

The Group assessed the impacts of adopting HKFRS 15 on its consolidated financial statements. The directors of the Company consider that the adoption of HKFRS 15 does not have a significant impact on the Group’s revenue recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2. ADOPTION OF HKFRSs (Continued)***(a) Adoption of new or revised HKFRSs — effective 1 January 2018 (Continued)***HKFRS 15, Revenue from Contracts with Customers (Continued)**

## Contract assets and contract liabilities

The excess of the cumulative revenue recognised over the cumulative consideration received and due from the contracted customer is recognised as a contract asset on the consolidated statement of financial position. On the contrary, the excess of the cumulative consideration received from the contracted customer over the cumulative revenue recognised is recognised as a contract liability recorded in deferred revenue. The contract asset and the contract liability are classified as current and non-current portions based on their respective recovery or settlement periods. No contract asset is recognised by the Group upon transition and at the end of the reporting period. Contract liability is recorded as deferred revenue (Note 20) as at the end of the reporting period.

**Amendments HKFRS 15, Revenue from Contracts with Customers (Clarifications to HKFRS 15)**

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

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first year.

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

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

HKFRS 16	Leases <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKAS 1 (Revised) and HKAS 8	Definition of Material <sup>2</sup>
Amendments to HKFRS 3	Definition of Business <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Tax; HKAS 23, Borrowing Costs; HKFRS 3, Business Combinations; HKFRS 11, Joint Arrangements <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>

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

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**2. ADOPTION OF HKFRSs (Continued)****(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)****HKFRS 16, Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for offices which are currently classified as operating leases. The application of the new accounting model is expected to lead an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As at 31 December 2018, the Group had non-cancellable operating lease commitments of RMB3,027,689 as set out in Note 26. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 3. BASIS OF PREPARATION

#### *(a) Statement of compliance*

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

#### *(b) Basis of measurement*

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

#### *(c) Functional and presentation currency*

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of consolidation*

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

#### *(b) Subsidiaries*

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

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

#### *(c) Associates*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) *Intangible assets (Continued)*

##### (ii) **Research and development costs**

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(f) Leasing**

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

**The Group as lessee**

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

**(g) (1) Financial instruments (accounting policies applied from 1 January 2018)****(i) Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(g) (1) Financial instruments (accounting policies applied from 1 January 2018) (Continued)*

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

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

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

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

##### **(iii) Financial liabilities**

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

##### **Financial liabilities at amortised cost**

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

##### **(iv) Effective interest method**

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

##### **(v) Equity instruments**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) (1) *Financial instruments (accounting policies applied from 1 January 2018) (Continued)*****(vi) Derecognition**

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

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

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

**(g) (2) *Financial instruments (accounting policies applied until 31 December 2017)*****(i) Financial assets**

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

**Loans and receivables**

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) (2) *Financial instruments (accounting policies applied until 31 December 2017)***  
***(Continued)*****(ii) Impairment loss on financial assets**

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

Evidence of impairment may include:

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

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

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

**(iii) Financial liabilities**

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

**Financial liabilities at amortised cost**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) (2) Financial instruments (accounting policies applied until 31 December 2017)  
(Continued)****(iv) Effective interest method**

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

**(v) Equity instruments**

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

**(vi) Derecognition**

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

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

**(h) (1) Revenue recognition (accounting policies applied from 1 January 2018)**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****(h) (1) Revenue recognition (accounting policies applied from 1 January 2018) (Continued)*****(i) (Continued)**

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

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

***(h) (2) Revenue recognition (accounting policies applied until 31 December 2017)***

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

The Group's self-developed browser and mobile games are designed under free-to-play model. These games are operated directly by the Licensed Operators on their own platforms as well as third party internet platforms, subject to the contractual terms agreed with them. Moreover, the Licensed Operators are responsible for hosting the games, providing customers' services to game players, determining the selling price of the in-game token, selection of distribution and payment channels and preventing, detecting and resolving cheating and hacking activities.

The Group has evaluated and determined it is not the primary obligor in the rendering services to game players. Accordingly, the Group considers the Licensed Operators as their customers and the License fees and Royalties reported in the financial statements are net of taxes and related surcharges.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) (2) Revenue recognition (accounting policies applied until 31 December 2017)  
(Continued)****(i) (Continued)**

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

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

**(i) Cash and cash equivalents**

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

**(j) Income taxes**

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(k) Foreign currency*

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

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

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

#### *(l) Employee benefits*

##### **(i) Retirement benefit costs**

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

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

##### **(ii) Short-term employee benefits**

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

##### **(iii) Share award scheme**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****(m) Impairment of other assets***

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

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

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

***(n) Government grants***

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

***(o) Provisions and contingent liabilities***

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(p) Related parties*

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In addition to information disclosed elsewhere in this consolidated financial statements, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

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

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

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

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

**(ii) Impairment of intangible assets**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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

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

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

#### *(iv) Provision for expected credit losses of trade receivables*

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

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

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

### 6. SEGMENT INFORMATION

#### *(a) Reportable segments*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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

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

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

	2018 RMB	2017 RMB
<i>Revenue from licensed operators*</i>		
<b>Primary geographical markets</b>		
The PRC (place of domicile)	<b>159,344,122</b>	76,378,243
North America	—	1,943,863
Japan	<b>539,970</b>	855,485
Taiwan	<b>121,938</b>	207,990
Germany	<b>694,136</b>	918,458
	<b>160,700,166</b>	80,304,039
* Based on location of Licensed Operators		
<b>Timing of revenue recognition</b>		
Over time	<b>2,017,502</b>	3,920,048
At a point in time	<b>158,682,664</b>	76,383,991
	<b>160,700,166</b>	80,304,039

	Non-current assets	
	2018 RMB	2017 RMB
The PRC	<b>11,560,533<sup>#</sup></b>	9,786,781

<sup>#</sup> The total segment assets included investment accounted for using equity method accounting to RMB2,451,697.

**(c) Information about major Licensed Operators**

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

	2018 RMB	2017 RMB
Licensed Operator A	<b>126,457,269</b>	32,147,253
Licensed Operator B	<b>N/A*</b>	29,364,542
	<b>126,457,269</b>	61,511,795

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**7. REVENUE AND OTHER INCOME**

	2018 RMB	2017 RMB
<b>Revenue</b>		
License fees and Royalties	<b>160,700,166</b>	80,304,039
<b>Other income</b>		
Government grants ( <i>Note</i> )	<b>917,900</b>	2,221,000
Interest income	<b>1,404,687</b>	476,904
Exchange gain, net	<b>—</b>	484,783
Others	<b>31,174</b>	96,485
	<b>2,353,761</b>	3,279,172

*Note:*

During the year ended 31 December 2018, the Group received government grant from the PRC government for awarding the contribution to economic growth and technology development amounting to RMB300,000 and RMB100,000 respectively and subsidising the operating lease rentals of office premises and copyright registration of self-developed games amounting to RMB508,000 and RMB9,900 respectively. During the year ended 31 December 2017, the Group received government grants from the government of the PRC for subsidising its successful listing in Hong Kong and copyright registration of self-developed games amounting to RMB2,200,000 and RMB21,000 respectively. There are no unfulfilled conditions or contingencies related to these grants.

**8. PROFIT BEFORE INCOME TAX**

Profit before income tax is arrived at after charging:

	2018 RMB	2017 RMB
Auditors' remuneration	<b>557,847</b>	444,490
Depreciation of property, plant and equipment*	<b>1,028,670</b>	860,667
Amortisation of intangible assets**	<b>6,153,168</b>	6,266,279
Impairment loss of intangible assets	<b>864,159</b>	—
Operating lease rentals in respect of land and buildings	<b>2,654,919</b>	1,896,878
Operating lease rentals in respect of servers	<b>288,571</b>	297,232
Legal and professional fees	<b>5,560,869</b>	630,426
Exchange loss, net	<b>2,027,801</b>	—
Employee costs (including directors' remuneration) ( <i>Note 12</i> )	<b>18,243,469</b>	9,894,002

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

## 9. INCOME TAX EXPENSE

	2018 RMB	2017 RMB
Current year — PRC Enterprise Income Tax (“EIT”)		
– Tax for the year	19,918,554	7,126,098
– Under provision in respect of prior years	306,811	76,258
– Dividends withholding tax	4,000,000	4,994,211
	<b>24,225,365</b>	12,196,567
Deferred tax ( <i>Note 21</i> )	4,900,000	4,000,000
	<b>29,125,365</b>	16,196,567

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

	2018 RMB	2017 RMB
Profit before income tax	118,933,167	59,595,484
Tax on profit before income tax, calculated at the applicable tax rate of 25%	29,733,292	14,898,871
Effect on different tax rates of foreign operations	1,056,721	125,862
Tax effect of non-deductible expenses for tax purpose	2,738,898	455,964
Tax effect of non-taxable income for tax purpose	(505,756)	(763,152)
Effect of tax exemption granted to a PRC subsidiary	(13,104,601)	(7,591,447)
Dividends withholding tax	8,900,000	8,994,211
Under provision in respect of prior years	306,811	76,258
Income tax expense	<b>29,125,365</b>	16,196,567

No Hong Kong Profits Tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from or arising in Hong Kong during the years ended 31 December 2018 and 2017.

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

On 29 September 2013, Shenzhen Fire Element Network Technology Co., Ltd (“Shenzhen Fire Element”), one of the subsidiaries was qualified as an enterprise of Software and Integrated Circuit Industries (軟件產業和集成電路產業) in the PRC and is exempted from EIT for two years starting from the first year of generating assessable profit, followed by a 50% reduction for the next three years on 5 August 2014. Shenzhen Fire Element started generating taxable profit during the year ended 31 December 2013 and therefore is exempted from EIT for the years ended 31 December 2013 and 2014. For the years ended 31 December 2015 to 2017, Shenzhen Fire Element enjoyed a reduced EIT rate of 12.5% as a 50% reduction on the statutory tax rate. The certification of software enterprise has been cancelled by the State Council of the PRC on 24 February 2015, but the aforementioned EIT preferential treatment related to certified software enterprise was still valid in 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

### 9. INCOME TAX EXPENSE (Continued)

Shenzhen Fire Element was qualified as a “Hi-Tech Enterprise” in 2018. Pursuant to the PRC EIT Law, it is subject to a preferential rate of 15%. Therefore, the effective income tax rate of Shenzhen Fire Element for the year ended 31 December 2018 was 15%.

Shenzhen Fire Element Network Science and Technology Company Limited, a new subsidiary incorporated in the PRC during the year ended 31 December 2018, is subject to statutory tax rate of 25%.

Firerock Co., Ltd., (“Firerock”) is a subsidiary newly incorporated in Thailand during year ended 31 December 2018, and it is generally subject to corporate income tax at 20% of net profit. However, small business, paid-up capital less than Thai Baht (“THB”) 5 million, is entitled to a rate reduction. If it has net profit more than THB 3 million, the corporate income tax is 20%. If it has a net profit of THB 300 thousand and THB 3 million, the corporate income tax is 15%. It is exempted from the corporate income tax if net profit is less than THB 300 thousand.

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.

### 10. DIVIDENDS

On 26 September 2017, the Company paid an interim dividend of HKD0.15 (approximately RMB0.129) per share amounting to HKD24.0 million (equivalent to approximately RMB20.6 million) in aggregate for the 160,000,000 shares in issue to the shareholders listed on the register of members of the Company as at 5 September 2017.

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

Subsequent to the end of the reporting period, a final dividend, in the form of a cash dividend of HKD0.075 per share (equivalent to approximately RMB0.066 per share) in respect of the year ended 31 December 2018 has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting. The proposed final dividends have not been recognised as a liability at the end of the reporting period.

### 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB89,862,732 (2017: RMB43,398,917) and the weighted average number of 320,000,000 ordinary shares (2017: 320,000,000 ordinary shares after adjusting for the bonus issue in 2018) in issue during the year.

The weighted average number of ordinary shares used in the calculation of earnings per share for the years ended 31 December 2018 and 2017 has been adjusted to reflect the bonus issue which was completed on 22 June 2018 as disclosed in Note 22.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2018 and 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**12. EMPLOYEE COSTS**

	2018 RMB	2017 RMB
Employee costs (including directors' emoluments ( <i>Note 13(a)</i> ) comprise:		
Salaries, allowances and benefits in kind	16,569,583	8,924,278
Contributions to defined contribution retirement plans	1,331,383	969,724
Share-based payment expenses ( <i>Note 24</i> )	342,503	—
	<b>18,243,469</b>	<b>9,894,002</b>

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

The emoluments of the directors are set out below:

**Year ended 31 December 2018**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS  
(Continued)***(a) Directors' emoluments (Continued)***Year ended 31 December 2017**

	Fees <i>RMB</i>	Salaries, allowances and benefits in kind <i>RMB</i>	Contributions to defined retirement pension scheme <i>RMB</i>	Discretionary bonus <i>RMB</i>	Total <i>RMB</i>
<i>Executive directors</i>					
Mr. Huang Yong	—	359,500	10,824	20,000	390,324
Mr. Wu Zhe	—	300,000	10,464	20,000	330,464
Mr. Rao Zhen Wu	—	300,000	10,764	20,000	330,764
<i>Non-executive directors</i>					
Mr. Zhang Yan	—	300,000	10,824	20,000	330,824
Mr. Zhang Xiongfeng <i>(Re-designated from independent non-executive director to non-executive director on 30 June 2017)</i>	142,725	—	—	—	142,725
Ms. Yang Kan <i>(Appointed on 30 June 2017)</i>	77,850	—	—	—	77,850
<i>Independent Non-executive directors</i>					
Mr. Chan King Fai	142,725	—	—	—	142,725
Mr. He Yunpeng	—	—	—	—	—
Mr. Chen Di <i>(Appointed on 30 June 2017)</i>	77,850	—	—	—	77,850
<b>Total</b>	<b>441,150</b>	<b>1,259,500</b>	<b>42,876</b>	<b>80,000</b>	<b>1,823,526</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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

Of the five individuals with the highest emoluments in the Group, one (2017: three) was/were director(s) of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining four (2017: two) highest paid individuals during the year ended 31 December 2018 were as follows:

	2018 <i>RMB</i>	2017 <i>RMB</i>
Salaries, allowances and benefits in kind	<b>1,661,566</b>	759,137
Discretionary bonus	<b>135,700</b>	22,000
Share-based payment expenses	<b>59,986</b>	—
Contributions to defined contribution retirement plans	<b>35,498</b>	19,549
	<b>1,892,750</b>	800,686

The emoluments of each of the above non-director highest paid individuals were all within the band of Nil to HKD1,000,000 for the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, Mr. He Yunpeng waived the emoluments of HKD180,000 as an independent non-executive director of the Company (equivalent to approximately RMB152,354) (2017: waived the emoluments of HKD165,000 (equivalent to approximately RMB142,725)).

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, except for Mr. He Yunpeng, none of the directors waived or agreed to waive any emoluments during the current and prior years.

**(c) Senior management**

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

	2018 <i>No. of individuals</i>	2017 <i>No. of individuals</i>
Nil — HKD1,000,000	<b>3</b>	5

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**14. PROPERTY, PLANT AND EQUIPMENT**

	Office equipment <i>RMB</i>	Furniture and fixtures <i>RMB</i>	Leasehold improvement <i>RMB</i>	Total <i>RMB</i>
<b>Cost</b>				
At 1 January 2017	2,555,526	147,514	225,000	2,928,040
Additions	817,304	—	232,744	1,050,048
Exchange alignment	(513)	—	(2,116)	(2,629)
At 31 December 2017 and 1 January 2018	<b>3,372,317</b>	<b>147,514</b>	<b>455,628</b>	<b>3,975,459</b>
Additions	<b>770,032</b>	<b>12,542</b>	<b>—</b>	<b>782,574</b>
Exchange alignment	<b>3,545</b>	<b>355</b>	<b>11,116</b>	<b>15,016</b>
At 31 December 2018	<b>4,145,894</b>	<b>160,411</b>	<b>466,744</b>	<b>4,773,049</b>
<b>Accumulated depreciation</b>				
At 1 January 2017	1,166,863	72,994	131,250	1,371,107
Charge for the year	682,548	23,567	154,552	860,667
Exchange alignment	(81)	—	(2,676)	(2,757)
At 31 December 2017 and 1 January 2018	<b>1,849,330</b>	<b>96,561</b>	<b>283,126</b>	<b>2,229,017</b>
Charge for the year	<b>871,598</b>	<b>21,399</b>	<b>135,673</b>	<b>1,028,670</b>
Exchange alignment	<b>827</b>	<b>41</b>	<b>7,820</b>	<b>8,688</b>
At 31 December 2018	<b>2,721,755</b>	<b>118,001</b>	<b>426,619</b>	<b>3,266,375</b>
<b>Net carrying value</b>				
At 31 December 2018	<b>1,424,139</b>	<b>42,410</b>	<b>40,125</b>	<b>1,506,674</b>
At 31 December 2017	<b>1,522,987</b>	<b>50,953</b>	<b>172,502</b>	<b>1,746,442</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

## 15. INTANGIBLE ASSETS

	Game intellectual properties <i>RMB</i>	Development costs <i>RMB</i>	Total <i>RMB</i>
<b>Cost</b>			
At 1 January 2017	13,761,573	1,633,738	15,395,311
Additions	—	6,683,951	6,683,951
Transfer from development costs	7,069,264	(7,069,264)	—
At 31 December 2017 and 1 January 2018	<b>20,830,837</b>	<b>1,248,425</b>	<b>22,079,262</b>
Additions	—	<b>6,579,150</b>	<b>6,579,150</b>
Transfer from development costs	<b>3,445,131</b>	<b>(3,445,131)</b>	—
At 31 December 2018	<b>24,275,968</b>	<b>4,382,444</b>	<b>28,658,412</b>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2017	7,772,644	—	7,772,644
Charge for the year	6,266,279	—	6,266,279
At 31 December 2017 and 1 January 2018	<b>14,038,923</b>	—	<b>14,038,923</b>
Charge for the year	<b>6,153,168</b>	—	<b>6,153,168</b>
Impairment for the year	<b>864,159</b>	—	<b>864,159</b>
At 31 December 2018	<b>21,056,250</b>	—	<b>21,056,250</b>
<b>Net carrying value</b>			
At 31 December 2018	<b>3,219,718</b>	<b>4,382,444</b>	<b>7,602,162</b>
At 31 December 2017	<b>6,791,914</b>	<b>1,248,425</b>	<b>8,040,339</b>

As there are certain intellectual properties recorded a loss during the year ended 31 December 2018, management considered that there was indication for impairment and an impairment loss of RMB864,159 (2017: Nil) was recognised in the consolidated statement of profit or loss and other comprehensive income to write the carrying amount of certain intellectual properties down to its recoverable amount. The recoverable amount was determined by value in use calculation based on cash flow projections which represented the approved budget covering the licensing period. The pre-tax discount rate used ranged from 64% to 116%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	2018 <i>RMB</i>	2017 <i>RMB</i>
Share of net assets	<b>2,451,697</b>	—

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

Name	Place of incorporation and operation	Registered and Issue capital	Percentage of interests held by the Group		Principal activity
			2018	2017	
Newbie Media Co., Ltd.	Thailand	THB 35,000,000	45%	N/A	Advertising management and planning for online game

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

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

	<i>RMB</i>
<b>As at 31 December:</b>	
Current assets	6,471,836
Non-current assets	26,325
Current liabilities	(1,049,945)
Net assets	5,448,216
Group's share of the net assets of investments accounted for using equity method	2,451,697
<b>For the period from 1 February 2018 (date of incorporation) to 31 December 2018:</b>	
Revenue	1,603,208
Loss for the period	(1,367,055)
Other comprehensive income	(160,637)
Total comprehensive income	(1,527,692)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

**17. TRADE RECEIVABLES**

The Group normally allows credit period within 120 days to its Licensed Operators. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 31(a).

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

	<b>2018</b> <i>RMB</i>	2017 <i>RMB</i>
0-30 days	<b>17,864,763</b>	11,602,300
31-60 days	<b>16,118,351</b>	8,285,209
61-90 days	<b>16,611,439</b>	7,782,952
91-120 days	<b>12,907,026</b>	304,147
more than 120 days	<b>692,929</b>	907,187
	<b>64,194,508</b>	28,881,795

No impairment allowance was provided as there has not been a significant change in credit quality based on historical experience. The Group determined that there were no significant financial impact arising from the adoption of expected credit loss approach under HKFRS 9 for all trade and other receivables as at 1 January 2018 and 31 December 2018.

The Group does not hold any collateral over these balances.

**18. SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS**

	<b>2018</b> <i>RMB</i>	2017 <i>RMB</i>
Cash at banks and on hand	<b>88,020,849</b>	40,841,745
Short-term bank deposits with original maturity of less than three months	<b>48,762,000</b>	37,692,227
Cash and cash equivalents	<b>136,782,849</b>	78,533,972
Short-term bank deposits with original maturity of more than three months	—	10,000,000
	<b>136,782,849</b>	88,533,972

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**18. SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS  
(Continued)**

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

	<b>2018</b> <i>RMB</i>	2017 <i>RMB</i>
Euro ("EUR")	<b>40,888</b>	40,655
HKD	<b>51,638,709</b>	47,915,243
United States dollars ("USD")	<b>91,639</b>	4,659,957
THB	<b>943,999</b>	—
RMB	<b>84,067,614</b>	35,918,117
	<b>136,782,849</b>	88,533,972

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.

**19. OTHER PAYABLES AND ACCRUALS**

	<b>2018</b> <i>RMB</i>	2017 <i>RMB</i>
Other payables	<b>2,295,070</b>	955,244
Accruals	<b>2,767,611</b>	1,935,675
	<b>5,062,681</b>	2,890,919

**20. DEFERRED REVENUE**

	<b>2018</b> <i>RMB</i>	2017 <i>RMB</i>
Deferred license fees		
— Current	<b>954,666</b>	2,212,211
— Non-current	<b>65,752</b>	844,307
	<b>1,020,418</b>	3,056,518

Deferred license fees are received from Licensed Operators for obtaining the exclusive rights granted to them to operate the Group's self-developed games. Deferred revenue is classified as contract liability under HKFRS 15.

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts amounted to RMB1,020,418. The Group will recognise the expected revenue in future when or as the service is rendered, which is expected to occur over the next 12 to 24 months. As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to remaining performance obligations as of 31 December 2017 is not disclosed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**20. DEFERRED REVENUE (Continued)**

	2018 RMB
<b>Movements in deferred revenue</b>	
At 1 January	3,056,518
Decreased in deferred revenue as a result of recognising revenue during the year that was included in the deferred revenue at the beginning of the year	(2,017,502)
Others	(18,598)
At 31 December	1,020,418

**21. DEFERRED TAX LIABILITIES**

	2018 RMB	2017 RMB
At 1 January	4,000,000	—
Charged to profit or loss for the year (Note 9)	4,900,000	4,000,000
At 31 December	8,900,000	4,000,000

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to RMB676,042 at 31 December 2018 (2017: RMB4,825,789) as the Group is able to control the timing of the reversal of the temporary differences will not reverse in the foreseeable future.

**22. SHARE CAPITAL**

	2018		2017	
	Number	Amount RMB	Number	Amount RMB
<b>Authorised:</b>				
Ordinary shares of HKD0.01 each				
At 1 January and 31 December	500,000,000	4,199,383	500,000,000	4,199,383
<b>Issued and fully paid:</b>				
Ordinary shares of HKD0.01 each				
At 1 January	160,000,000	1,347,236	160,000,000	1,347,236
Issuance of bonus shares (Note)	160,000,000	1,321,824	—	—
At 31 December	320,000,000	2,669,060	160,000,000	1,347,236

Note:

On 22 June 2018, the Company issued 160,000,000 bonus shares to the shareholders on the basis of 1 bonus share for every share (Note 10).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 23. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2018 and 2017 is presented in the consolidated statement of changes in equity. The nature and purposes of reserves within equity are as follows:

#### *(a) Share premium*

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

#### *(b) Capital reserve*

On 20 March 2015, each of the shareholders of the Company advanced a shareholders' loan (the "Shareholders' Loan") amounted to HKD28,000,000 (equivalent to approximately RMB22,094,240) in aggregate to the Company but irrevocably waived by them on 24 March 2015. The Shareholders' Loan was classified as capital reserve of the Company on the same date. The funds were used to provide an inter-group loan to Fire Rock International (HK) Limited ("Fire Rock (HK)").

On 21 April 2015, Fire Rock (HK) paid a cash consideration of HKD13,800,000 (equivalent to approximately RMB10,892,980) to Mr. Zhang Yan, Mr. Wu Zhe, Mr. Rao Zhen Wu and Mr. Huang Yong, the shareholders of Shenzhen Fire Element in exchange for their equity interests in Shenzhen Fire Element as part of the Group's reorganisation in 2016. The consideration was funded by the Shareholders' Loan. The remaining balance of the Shareholders' Loan would be used for general working capital requirements and the expenses of the Group.

The above transactions represented an integral part of the Group's reorganisation and in substance are accounted for by the Group as a single arrangement. Accordingly, the capital reserve of the Group reflects the cash inflow of HKD14,200,000 (equivalent to approximately RMB11,201,260) to the Group during the year ended 31 December 2015.

#### *(c) Merger reserve*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**23. RESERVES (Continued)****(d) Statutory reserve**

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

**The Company**

	Share premium <i>RMB</i>	Capital reserve <i>RMB</i>	Foreign exchange reserve <i>RMB</i>	Share-based payment reserve <i>RMB</i>	(Accumulated losses)/ Retained profits <i>RMB</i>	Total <i>RMB</i>
At 1 January 2017	35,021,914	22,094,240	4,588,272	—	(13,891,292)	47,813,134
Profit for the year	—	—	—	—	76,531,474	76,531,474
Other comprehensive income for the year:						
— Exchange loss on translation of financial statements	—	—	(4,036,997)	—	—	(4,036,997)
Total comprehensive income for the year	—	—	(4,036,997)	—	76,531,474	72,494,477
Dividends ( <i>Note 10</i> )	—	—	—	—	(20,608,560)	(20,608,560)
At 31 December 2017 and 1 January 2018	<b>35,021,914</b>	<b>22,094,240</b>	<b>551,275</b>	—	<b>42,031,622</b>	<b>99,699,051</b>
Profit for the year	—	—	—	—	<b>72,497,756</b>	<b>72,497,756</b>
Other comprehensive income for the year:						
— Exchange gain on translation of financial statements	—	—	<b>3,600,428</b>	—	—	<b>3,600,428</b>
Total comprehensive income for the year	—	—	<b>3,600,428</b>	—	<b>72,497,756</b>	<b>76,098,184</b>
Dividends ( <i>Note 10</i> )	—	—	—	—	<b>(16,522,800)</b>	<b>(16,522,800)</b>
Issuance of bonus shares ( <i>Notes 10 and 22</i> )	—	—	—	—	<b>(1,321,824)</b>	<b>(1,321,824)</b>
Equity-settled share-based transactions ( <i>Note 24</i> )	—	—	—	<b>342,503</b>	—	<b>342,503</b>
At 31 December 2018	<b>35,021,914</b>	<b>22,094,240</b>	<b>4,151,703</b>	<b>342,503</b>	<b>96,684,754</b>	<b>158,295,114</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**24. SHARE AWARD SCHEME**

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

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

	<b>2018</b> <i>Number</i>
At 1 January	—
Granted during the year	<b>708,000</b>
At 31 December	<b>708,000</b>

During the year ended 31 December 2018, share-based payment expenses of RMB342,503 has been recognised by the Group as employee costs (Note 12) in profit or loss.

**25. RELATED PARTY TRANSACTIONS**

- (a) Except for those disclosed elsewhere in the consolidated financial statements, the Group did not entered into any related party transactions with its related parties during the years ended 31 December 2018 and 2017.
- (b) Members of key management comprise only of the directors whose emoluments are set out in Note 13.

**26. OPERATING LEASE COMMITMENTS**

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

	<b>2018</b> <i>RMB</i>	2017 <i>RMB</i>
Within one year	<b>2,389,816</b>	861,352
In the second to fifth year inclusive	<b>637,873</b>	209,720
	<b>3,027,689</b>	1,071,072

The Group leases premises under operating leases. The leases run for periods between one and three years (2017: between two and three years). The above lease commitments only include commitments for basic rental and none of the lease includes any contingent rental.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 27. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>2018</b> <b>RMB</b>	2017 <b>RMB</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries		<b>341,361</b>	7
<b>Current assets</b>			
Prepayments, deposits and other receivables		<b>44,537</b>	160,842
Amounts due from subsidiaries	<i>28</i>	<b>73,399,686</b>	53,237,876
Dividend receivables		<b>80,100,000</b>	36,000,000
Cash and cash equivalents		<b>10,571,378</b>	14,974,101
		<b>164,115,601</b>	104,372,819
<b>Current liabilities</b>			
Accruals		<b>1,301,870</b>	784,975
Amounts due to subsidiaries	<i>28</i>	<b>2,190,918</b>	2,090,173
Dividend payables		—	451,391
		<b>3,492,788</b>	3,326,539
<b>Net current assets</b>		<b>160,622,813</b>	101,046,280
<b>Net assets</b>		<b>160,964,174</b>	101,046,287
<b>EQUITY</b>			
Share capital	<i>22</i>	<b>2,669,060</b>	1,347,236
Reserves	<i>23</i>	<b>158,295,114</b>	99,699,051
<b>Total equity</b>		<b>160,964,174</b>	101,046,287

On behalf of the Board

\_\_\_\_\_  
**Huang Yong**  
*Director*

\_\_\_\_\_  
**Wu Zhe**  
*Director*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**28. INTERESTS IN SUBSIDIARIES**

Details of the subsidiaries are as follows:

Name	Form of business structure	Place of incorporation	Place of operations	Description of shares held	Proportion of effective equity interests held by the Company		Principal activities
					2018	2017	
<b>Directly held:</b>							
Fire Rock International Limited	Corporation	The British Virgin Islands	Hong Kong	Ordinary Share of HKD1	100%	100%	Investment holding
<b>Indirectly held:</b>							
Fire Rock (HK)	Corporation	Hong Kong	Hong Kong	Ordinary Share of HKD1	100%	100%	Investment holding and licensing browser games
Shenzhen Fire Element	Corporation	The PRC	The PRC	Registered capital of RMB25,000,000	100%	100%	Browser and mobile games development, including the game design, programming and graphics
Shenzhen Fire Element Network Science and Technology Company Limited	Corporation	The PRC	The PRC	Registered capital of RMB5,000,000	100%	N/A	Browser and mobile games development, including the game design, programming and graphics
Firerock	Corporation	Thailand	Thailand	Registered capital of THB5,000,000	98%	N/A	Development of online games

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

**29. CAPITAL MANAGEMENT**

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

The Group defines "capital" as including all components of equity. The capital of the Group at 31 December 2018 was RMB192,158,944 (2017: RMB116,461,288).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**30. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY**

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

	2018 <i>RMB</i>	2017 <i>RMB</i>
<b>Financial assets</b>		
<i>At amortised cost:</i>		
Trade receivables	64,194,508	—
Deposits and other receivables	599,838	—
Short-term bank deposits	—	—
Cash and cash equivalents	136,782,849	—
	<b>201,577,195</b>	—
<b>Financial assets</b>		
<i>Loans and receivables:</i>		
Trade receivables	—	28,881,795
Deposits and other receivables	—	1,764,209
Short-term bank deposits	—	10,000,000
Cash and cash equivalents	—	78,533,972
	—	119,179,976
<b>Financial liabilities</b>		
<i>At amortised cost:</i>		
Other payables and accruals	4,199,309	2,260,606
Dividend payables	—	451,391
	<b>4,199,309</b>	2,711,997

***Financial instruments not measured at fair value***

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**31. FINANCIAL RISK MANAGEMENT**

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

**(a) Credit risk**

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

In respect of trade and other receivables, individual credit evaluations are performed on Licensed Operators. These evaluations focus on their past history of making payments when due and current ability to pay, and take into account information specific to them as well as pertaining to the economic environment in which they operate. Trade receivables are due within 120 days. Normally, the Group does not obtain collateral from Licensed Operators. Also, management reviews regularly the recoverable amount of individual trade and other receivables to ensure that adequate impairment provision is made for irrecoverable amount.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each Licensed Operator. The default risk of the industry and country in which Licensed Operators operate also has an influence on credit risk but to a lesser extent. As at 31 December 2018, two Licensed Operators with the highest trade receivables balance (2017: two Licensed Operators) were approximately RMB60,905,000 (2017: RMB24,966,000) and represented 95% (2017: 86%) of the total balance of trade receivables.

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

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

Prior to 1 January 2018, no impairments for trade receivables are recognised. The ageing analysis of trade receivables that are not considered to be impaired was as follows:

	2017 RMB
Neither past due nor impaired	27,974,608
Past due for less than 30 days	110,368
Past due for more than 30 days but less than 60 days	357,875
Past due for more than 60 days but less than 120 days	273,978
Past due for more than 120 days but less than 1 year	162,893
Past due for more than 1 year	2,073
	28,881,795

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Receivables that were neither past due nor impaired related to Licensed Operators for whom there was no recent history of default. Receivables that were past due but not impaired related other Licensed Operators with long business relationship. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

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

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

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

**(b) Liquidity risk**

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

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

	Carrying amount RMB	Total contractual undiscounted cash flows RMB	Within 1 year or on demand RMB
<b>At 31 December 2018</b>			
Other payables and accruals	4,199,309	4,199,309	4,199,309
<b>At 31 December 2017</b>			
Other payables and accruals	2,260,606	2,260,606	2,260,606
Dividend payables	451,391	451,391	451,391
	2,711,997	2,711,997	2,711,997

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**31. FINANCIAL RISK MANAGEMENT (Continued)****(c) Interest rate risk**

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

As at 31 December 2018 and 2017, the Group has no interest-bearing liabilities, which may expose the Group to any interest rate risk.

**(d) Currency risk**

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

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

	<b>Assets</b>	
	<b>2018</b>	<b>2017</b>
	<b>RMB</b>	<b>RMB</b>
EUR	<b>897,356</b>	961,737
USD	<b>441,148</b>	5,536,093
JPY	<b>101,872</b>	103,992
HKD	<b>80</b>	6,258,991

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

		Year ended 31 Increase in profit for the year and retained profits <i>RMB</i>	December 2017 Decreases against RMB	Decrease in profit for the year and retained profits <i>RMB</i>
	Appreciates against RMB		Depreciates against RMB	
EUR	5%	41,990	5%	(41,990)
USD	5%	232,882	5%	(232,882)
JPY	5%	4,550	5%	(4,550)
HKD	5%	273,831	5%	(273,831)

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

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