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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR YEAR ENDED 31 DECEMBER 2017**

**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.

*This announcement, 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 (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 announcement 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 announcement misleading.*

HIGHLIGHTS

- For the year ended 31 December 2017, the Group's revenue amounted to approximately RMB80.3 million (2016: approximately RMB45.0 million), representing an increase of approximately 78.4%.
- For the year ended 31 December 2017, the Group's gross profit amounted to approximately RMB68.8 million (2016: approximately RMB37.6 million), representing an increase of approximately 83.0%.
- For the year ended 31 December 2017, the Group's profit for the year amounted to approximately RMB43.4 million (2016: approximately RMB22.0 million), representing an increase of approximately 97.3%.
- Our Board recommended the payment of a final dividend for the 2017 financial year, in the form of cash dividend of HK\$0.125 per share and bonus shares on the basis of 1 share for every share.

ANNUAL RESULTS

The board of Directors (the “**Board**”) of the Company hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2017 together with the comparative figures for the year ended 31 December 2016.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2017

	<i>Notes</i>	2017 RMB	2016 RMB
Revenue	3	80,304,039	44,976,635
Direct costs		<u>(11,474,346)</u>	<u>(7,379,397)</u>
Gross profit		68,829,693	37,597,238
Other income	3	3,279,172	2,565,342
Game research costs		(194,924)	(634,773)
Distribution costs		(624,763)	(768,320)
Administrative expenses		<u>(11,693,694)</u>	<u>(12,827,467)</u>
Profit before income tax	4	59,595,484	25,932,020
Income tax expense	5	<u>(16,196,567)</u>	<u>(3,910,050)</u>
Profit for the year		<u>43,398,917</u>	<u>22,021,970</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
— Exchange differences on translation of foreign operations		<u>(2,537,720)</u>	<u>2,058,966</u>
Other comprehensive income for the year		<u>(2,537,720)</u>	<u>2,058,966</u>
Total comprehensive income for the year		<u>40,861,197</u>	<u>24,080,936</u>
Profit attributable to:			
Owners of the Company		<u>43,398,917</u>	<u>22,021,970</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>40,861,197</u>	<u>24,080,936</u>
Earnings per share		RMB cents	RMB cents
Basic and diluted	7	<u>27.12</u>	<u>14.23</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	2017 RMB	2016 <i>RMB</i>
Non-current assets			
Property, plant and equipment		1,746,442	1,556,933
Intangible assets	8	8,040,339	7,622,667
		<u>9,786,781</u>	<u>9,179,600</u>
Current assets			
Trade receivables	9	28,881,795	13,217,121
Prepayment, deposits and other receivables		2,101,559	687,993
Short-term bank deposits	10	10,000,000	10,000,000
Cash and cash equivalents	10	78,533,972	70,105,578
		<u>119,517,326</u>	<u>94,010,692</u>
Current liabilities			
Trade and other payables	11	2,890,919	1,901,447
Deferred revenue	12	2,212,211	3,313,956
Dividend payables		451,391	—
Tax payables		2,443,991	1,430,067
		<u>7,998,512</u>	<u>6,645,470</u>
Net current assets		<u>111,518,814</u>	<u>87,365,222</u>
Total assets less current liabilities		<u>121,305,595</u>	<u>96,544,822</u>
Non-current liabilities			
Deferred revenue	12	844,307	336,171
Deferred tax liabilities	13	4,000,000	—
		<u>4,844,307</u>	<u>336,171</u>
Net assets		<u>116,461,288</u>	<u>96,208,651</u>
Equity			
Share capital	14	1,347,236	1,347,236
Reserves		115,114,052	94,861,415
Total equity		<u>116,461,288</u>	<u>96,208,651</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

Fire Rock Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 3 November 2014. The address of its registered office is Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 4/F, Dongjiang Environmental 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 2017 were approved and authorised for issue by the board of directors on 26 March 2018.

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

(a) Adoption of new or revised HKFRSs — effective 1 January 2017

Amendments to Hong Kong Accounting Standards (“ HKAS ”) 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

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

Amendments to HKAS 7, Disclosure Initiative

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

The adoption of the amendments does not have an impact on the Group’s consolidated financial statements as there is no liabilities included in the Group’s financing activities during the 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.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards ¹
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 ²
HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ¹
HK(IFRIC)—Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)—Int 23	Uncertainty over Income Tax Treatments ²

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

² Effective for annual periods beginning on or after 1 January 2019

HKFRS 9, Financial Instruments

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

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

In addition, HKFRS 9 introduces new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements. However, the Group currently does not have any hedge relationship and therefore it will not have any impact on the Group's consolidated financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

HKFRS 15, Revenue from Contracts with customers

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

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

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

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

The Group is currently assessing the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

HKFRS 16, Leases

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

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 2017, the Group had non-cancellable operating lease commitments of RMB1,071,072. 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.

Amendments to HKFRS 9, Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

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.

3. REVENUE AND OTHER INCOME

	2017 <i>RMB</i>	2016 <i>RMB</i>
Revenue		
License fees and Royalties	<u>80,304,039</u>	<u>44,976,635</u>
Other income		
Government grants (<i>Note</i>)	2,221,000	1,350,000
Interest income	476,904	278,141
Exchange gain, net	484,783	753,557
Others	<u>96,485</u>	<u>183,644</u>
	<u>3,279,172</u>	<u>2,565,342</u>

Note:

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

4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2017 <i>RMB</i>	2016 <i>RMB</i>
Auditors' remuneration	444,490	416,461
Depreciation of property, plant and equipment*	860,667	640,887
Amortisation of intangible assets**	6,266,279	5,278,759
Operating lease rentals in respect of land and buildings	1,896,878	1,653,826
Operating lease rentals in respect of servers	297,232	294,414
Listing expenses	<u>—</u>	<u>3,817,593</u>

* 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

5. INCOME TAX EXPENSE

	2017 <i>RMB</i>	2016 <i>RMB</i>
Current year — PRC Enterprise Income Tax (“EIT”)		
— Tax for the year	7,126,098	3,900,712
— Under provision in respect of prior years	76,258	9,338
— Dividends withholding tax	4,994,211	—
	<u>12,196,567</u>	<u>3,910,050</u>
Deferred tax (<i>Note 13</i>)	4,000,000	—
	<u>16,196,567</u>	<u>3,910,050</u>

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 2017 and 2016.

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 profit making year, followed by a 50% reduction for the next three years on 5 August 2014. Shenzhen Fire Element started generating taxable profit during the year ended 31 December 2013 and therefore is exempted from EIT for the years ended 31 December 2013 and 2014. For the years ended 31 December 2015 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 is still valid for now.

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.

6. DIVIDENDS

Neither dividends were paid or declared by the Company during the year ended 31 December 2016.

On 26 September 2017, the Company paid an interim dividend of Hong Kong Dollars (“**HK\$**”) 0.15 (approximately RMB0.129) per share amounting to HK\$24,000,000 (equivalent to approximately RMB20,608,560) 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.

Subsequent to the end of the reporting period, a final dividend, in the form of a cash dividend of HK\$0.125 per share (equivalent to approximately RMB0.104 per share) and bonus shares on the basis of 1 share for every share in respect of the year ended 31 December 2017 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 reporting period.

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to owners of the Company for the year ended 31 December 2017 of RMB43,398,917 (2016: RMB22,021,970), and the weighted average number of 160,000,000 ordinary shares (2016: 154,740,000 ordinary shares) outstanding during the year.

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

8. INTANGIBLE ASSETS

	Game intellectual properties RMB	Development costs RMB	Total RMB
Cost			
At 1 January 2016	6,356,436	5,673,825	12,030,261
Additions	—	3,365,050	3,365,050
Transfer from development costs	7,405,137	(7,405,137)	—
	<u>13,761,573</u>	<u>1,633,738</u>	<u>15,395,311</u>
At 31 December 2016 and 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)	—
	<u>20,830,837</u>	<u>1,248,425</u>	<u>22,079,262</u>
At 31 December 2017	20,830,837	1,248,425	22,079,262
Accumulated amortisation			
At 1 January 2016	2,493,885	—	2,493,885
Charge for the year	5,278,759	—	5,278,759
	<u>7,772,644</u>	<u>—</u>	<u>7,772,644</u>
At 31 December 2016 and 1 January 2017	7,772,644	—	7,772,644
Charge for the year	6,266,279	—	6,266,279
	<u>14,038,923</u>	<u>—</u>	<u>14,038,923</u>
At 31 December 2017	14,038,923	—	14,038,923
Net carrying value			
At 31 December 2017	<u>6,791,914</u>	<u>1,248,425</u>	<u>8,040,339</u>
At 31 December 2016	<u>5,988,929</u>	<u>1,633,738</u>	<u>7,622,667</u>

9. TRADE RECEIVABLES

The Group allows credit period within 120 days (2016: 120 days) to its Licensed Operators.

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

	2017 <i>RMB</i>	2016 <i>RMB</i>
0–30 days	11,602,300	5,162,885
31–60 days	8,285,209	4,689,544
61–90 days	7,782,952	2,607,341
91–120 days	304,147	145,776
more than 120 days	907,187	611,575
	<u>28,881,795</u>	<u>13,217,121</u>

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

	2017 <i>RMB</i>	2016 <i>RMB</i>
Cash at banks and on hand	40,841,745	49,705,578
Short-term bank deposits with original maturity of less than three months	<u>37,692,227</u>	<u>20,400,000</u>
Cash and cash equivalents	78,533,972	70,105,578
Short-term bank deposits with original maturity of more than three months	<u>10,000,000</u>	<u>10,000,000</u>
	<u>88,533,972</u>	<u>80,105,578</u>

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:

	2017 <i>RMB</i>	2016 <i>RMB</i>
Euro (“EUR”)	40,655	38,073
HK\$	47,915,243	35,929,153
United States Dollars (“USD”)	4,659,957	4,907,874
RMB	<u>35,918,117</u>	<u>39,230,478</u>
	<u>88,533,972</u>	<u>80,105,578</u>

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.

11. TRADE AND OTHER PAYABLES

	2017 <i>RMB</i>	2016 <i>RMB</i>
Trade payables	—	99,000
Accruals	1,935,675	1,295,044
Other payables	955,244	507,403
	<u>2,890,919</u>	<u>1,901,447</u>

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

	2017 <i>RMB</i>	2016 <i>RMB</i>
More than 1 year	—	99,000

12. DEFERRED REVENUE

	2017 <i>RMB</i>	2016 <i>RMB</i>
Deferred license fees		
— Current	2,212,211	3,313,956
— Non-current	844,307	336,171
	<u>3,056,518</u>	<u>3,650,127</u>

13. DEFERRED TAX LIABILITIES

	2017 <i>RMB</i>	2016 <i>RMB</i>
At 1 January	—	—
Charged to profit or loss for the year (<i>Note 5</i>)	4,000,000	—
At 31 December	<u>4,000,000</u>	<u>—</u>

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 RMB4,825,789 at 31 December 2017 (2016: RMB45,002,000) as the Group is able to control the timing of the reversal of the temporary differences will not reverse in the foreseeable future.

14. SHARE CAPITAL

	2017		2016	
	Number	Amount RMB	Number	Amount RMB
Authorised:				
Ordinary shares of HK\$0.01 each				
At 1 January	500,000,000	4,199,383	39,000,000	312,000
Increase in authorised shares (<i>Note (a)</i>)	—	—	461,000,000	3,887,383
At 31 December	<u>500,000,000</u>	<u>4,199,383</u>	<u>500,000,000</u>	<u>4,199,383</u>
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At 1 January	160,000,000	1,347,236	100	1
Capitalisation issue (<i>Note (b)</i>)	—	—	119,999,900	1,011,899
Placing (<i>Note (c)</i>)	—	—	40,000,000	335,336
At 31 December	<u>160,000,000</u>	<u>1,347,236</u>	<u>160,000,000</u>	<u>1,347,236</u>

Notes:

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

Of the gross proceeds from the placing of HK\$51,200,000 (equivalent to approximately RMB42,923,008), HK\$400,000 (equivalent to approximately RMB335,336) representing the aggregate par value of shares issued was credited to the Company's share capital whereas the remaining amount of HK\$50,800,000 (equivalent to approximately RMB42,587,672) was credited to share premium account as at 31 December 2016.

The share issuance expenses, which amounted to HK\$7,817,662 (equivalent to approximately RMB6,553,859), was deducted from share premium account as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Overview

Being a game developer focusing on the development of browser and mobile games, we achieved substantial growth in our results for the year 2017. 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 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 78.4% from approximately RMB45.0 million for 2016 to approximately RMB80.3 million for 2017, of which the revenue of mobile games amounted to approximately RMB67.0 million, represented an increase of approximately 270.2% as compared to the same period in 2016. Revenue of mobile games amounted to 83.4% of our total revenue. Profit increased by 97.3% from approximately RMB22.0 million for 2016 to approximately RMB43.4 million for 2017.

In terms of game products, in 2017, the Group commercially launched eight game series, being Number Drop, G-game, Sweeties Fighting (零食大亂鬥), War of the Sulfulons (薩弗隆戰記), Super Tycoon (超級大亨), Forest Gala (森林大聯歡), Fish Catching Contest (捕魚大亂鬥) and Super Cute Monster (超級逗萌獸), which further expanded our game portfolio and diversified our revenue sources.

As of 31 December 2017, the Group has licensed fourteen 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 and the mobile version of Super Cute Monster (超級逗萌獸) series to various game operators for the operation, publication and distribution of such games within an agreed period and within designated territories.

In 2017, affected by the downslope trend in the browser games industry, the revenue of our browser games amounted to approximately RMB13.3 million, represented a drastic drop compared to the same period in 2016 yet it managed to account for 16.6% of the

Group's total revenue. This was attributable to our analysis on game players' demand and the continuous optimization on the games' core mode of play so as to constantly enhance the attractiveness of our games to the players.

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 2017:

Business objectives	Actual business progress for the reporting year ended 31 December 2017
Continual optimisation of our existing games on various platforms	We have spent approximately HK0.8 million on the continual optimisation of our existing games on various platforms
Development of our new game series in the browser platform and mobile platform	We have spent approximately HK\$3.5 million on development of new games
Enhancement of game development capabilities	We have spent approximately HK\$0.5 million
Seek opportunities to obtain/acquire the adaption rights of appropriate source materials, and acquiring of/ investment in game developers and related companies	We are currently actively seeking opportunities to obtain/acquire the adaption rights of appropriate source materials, and acquiring of/ investment in game developers and related companies

Industry Review

In 2017, 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 "2017 Report on the Game Industry of China" (《二零一七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 RMB203.61 billion in 2017, represented an increase of 23.0% over the corresponding period last year. Of which the revenue of mobile games amounted to 57.0% of the total revenue, represented an increase of 41.7% over the corresponding period last year, while the revenue of browser games amounted to only 7.6% of the total revenue, and represented a decrease of 16.6% 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 reducing the amount of and improving the quality of browser games, while investing substantial resources in the research and development of mobile games, which achieved a breakthrough amid the keen competition of the mobile game market.

Our Games

In 2017, we maintained our capabilities and advantages in R&D 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 various mobile games with high quality and creative modes of play. Also, we continued to optimise and upgrade our existing games and we commercially launched eight mobile game products during the year by grasping our strong accumulation of technological knowledge and our innovative creativity in R&D, which further expanded our game portfolio and diversified our revenue sources.

As of 31 December 2017, the Group has commercially launched fourteen major games series in aggregate, including the mobile and browser versions of Kings & Legends (王者召喚) series, the mobile and browser versions of Hero's Crown (英雄皇冠) series, the browser version of Heroines of Three Kingdoms (姬戰三國) series, the mobile version of Endless Battles (無盡爭霸) series, the mobile version of Legend of Fairies (萌仙記) series, the mobile version of Road of Vengeance (復仇之路) series, the mobile version of Number Drop series, the mobile version of G-game series, the mobile version of Sweeties Fighting (零食大亂鬥) series, the mobile version of War of the Sulfulons (薩弗隆戰記) series, the mobile version of Super Tycoon (超級大亨) series, the mobile version of Forest Gala (森林大聯歡) series, the mobile version of Fish Catching Contest (捕魚大亂鬥) series and the mobile version of Super Cute Monster (超級逗萌獸) series.

Our self-developed Kings & Legends (王者召喚) game series and Hero's Crown (英雄皇冠) game series continued to deliver satisfactory performance during the year and maintained an important position in our game portfolio. The percentage of revenue contribution to our total revenue for the year from the Kings & Legends (王者召喚) game series and Hero's Crown (英雄皇冠) game series was approximately 8.8% and 20.9%, respectively. Since their respective commercial launch in March 2012 and January 2015, their ability to achieve a longer lifespan than the industry averages was attributable to our ongoing efforts in carrying out upgrades and enhancements to the content of the games with the view of retaining players' interest, increasing players' engagement to the game and enhancing the players' gaming experience. It also generates stable revenue for us.

We commercially launched eight new mobile game series in 2017, being the Number Drop series, the G-game series, the Sweeties Fighting (零食大亂鬥) series, the War of the Sulfulons (薩弗隆戰記) series, the Super Tycoon (超級大亨) series, the Forest Gala (森林大聯歡) series, the Fish Catching Contest (捕魚大亂鬥) series and the Super Cute Monster (超級逗萌獸) series, which further expanded our game portfolio and diversified our game products. The revenue generated from these eight new types of games was

approximately RMB41.7 million, amounted to about 51.9% of our total revenue. The revenue and the proportion of their revenue to our total revenue for five of our major new games are listed as follows: the mobile version of our Sweeties Fighting (零食大亂鬥) series was commercially launched in May 2017 and our revenue from the game series amounted to approximately RMB28.1 million for the year ended 31 December 2017, amounted to 35.0% of our total revenue; the mobile version of our G-game series was commercially launched in March 2017 and our revenue from the game series amounted to approximately RMB4.7 million for the year ended 31 December 2017, amounted to 5.8% of our total revenue; the mobile version of our Number Drop series was commercially launched in March 2017 and our revenue from the game series amounted to approximately RMB4.6 million for the year ended 31 December 2017, amounted to 5.7% of our total revenue; the mobile version of our Fish Catching Contest (捕魚大亂鬥) series was commercially launched in December 2017 and our revenue from the game series amounted to approximately RMB2.8 million for the year ended 31 December 2017, amounted to 3.5% of our total revenue; the mobile version of our Forest Gala (森林大聯歡) series was commercially launched in July 2017 and our revenue from the game series amounted to approximately RMB1.1 million for the year ended 31 December 2017, amounted to 1.4% of our total revenue.

The table below sets forth the 14 main series of games which are under operation and commercially launched by our licensed operators as of 31 December 2017:

Language version	Game title	Platform	Initial commercial launch date
<i>Kings & Legends (王者召喚) series of games</i>			
English	Ancient Summoner/Rise of Mythos(Name changed in June 2014)	Browser	May 2013
	Kings and Legends	Browser	December 2012
Japanese	デイヴァイン・グリモワール /Divine Grimoire	Browser	September 2012
German	Kings and Legends	Browser	July 2013
French	Kings and Legends	Browser	December 2013
Traditional Chinese	卡卡們的大亂鬥	Browser	June 2012
Simplified Chinese	王者召喚	Browser	March 2012

Language version	Game title	Platform	Initial commercial launch date
<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	魔戒外传	Mobile	April 2016
<i>Heroines of Three Kingdoms (姬戰三國) series of games</i>			
Simplified Chinese	姬战三国	Browser	January 2015
<i>Endless Battles (無盡爭霸) series of games</i>			
Simplified Chinese	无尽争霸	Mobile	February 2016
<i>Legend of Fairies (萌仙記) series of games</i>			
Simplified Chinese	萌仙记	Mobile	March 2016
<i>Road of Vengeance (復仇之路) series of games</i>			
Simplified Chinese	复仇之路	Mobile	August 2016
<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	零食大乱斗	Mobile	May 2017
<i>War of the Sulfulons (薩弗隆戰記) series of games</i>			
Simplified Chinese	萨弗隆战记	Mobile	July 2017

Language version	Game title	Platform	Initial commercial launch date
<i>Super Tycoon (超級大亨) series of games</i>			
Simplified Chinese	亲朋有点萌	Mobile	July 2017
<i>Forest Gala (森林大聯歡) series of games</i>			
Simplified Chinese	亲朋点点点	Mobile	July 2017
<i>Fish Catching Contest (捕魚大亂鬥) series of games</i>			
Simplified Chinese	捕鱼大乱斗	Mobile	December 2017
<i>Super Cute Monster (超級逗萌獸) series of games</i>			
Simplified Chinese	超级逗萌兽	Mobile	December 2017

As of 31 December 2017, we also had one game series under research and development, i.e. the Super Rich (超級大富翁) series. It was subsequently launched in February 2018.

PROSPECTS

Looking forward to 2018, we will further optimize the quality of self-developed game products, keep on investing more resources to our core products, and maintain our R&D strength and innovative ideas, with an aim to strengthen and enhance our game products. With the above efforts, we seek to reinforce players' stickiness by developing exquisite games with quality and vitality and providing our game players with the best gaming experience, hence bringing stable revenue for us. In future, we will enhance our cooperation with licensed operators through discussion on the operation mode, precise management and way of promotion of our innovative games in order to give full play to our strengths in games research and development as well as to enhance the Group's profile in games research and development. Meanwhile, the Group has made active attempts into the development of innovative game types by introducing innovative technology during the process with further exploration, innovation and development. Leveraging our strength in games research and development, we will launch far more high quality and innovative products as to diversify our gaming portfolio, attracting the players and catering the needs of them.

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.

FINANCIAL REVIEW

Revenue

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

During the year ended 31 December 2017, our revenue was originated from our licensed operators and derived from the following revenue types: (i) license fees in accordance with the contractual terms agreed with our licensed operators for granting the exclusive operating right for specific games within an agreed period and designated territories; and (ii) royalties which were calculated based on a pre-determined percentage sharing of the net sales of credits of our licensed operators which have been exchanged into our in-game tokens purchased through platforms designated by our licensed operators in accordance with the terms of the licensing agreements.

Our revenue increased by approximately 78.4% from approximately RMB45.0 million for the year ended 31 December 2016 to approximately RMB80.3 million for the year ended 31 December 2017. The increase in revenue was mainly due to the increase in revenue brought by the commercial launch of eight mobile game series in 2017, including Number Drop game series, G-game game series, Sweeties Fighting (零食大亂鬥) game series, War of the Sulfurons (薩弗隆戰記) game series, Super Tycoon (超級大亨) game series, Forest Gala (森林大聯歡) game series, Fish Catching Contest (捕魚大亂鬥) game series and Super Cute Monster (超級逗萌獸) game series.

Revenue by Game Platforms and Revenue Types

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

	For the year ended 31 December			
	2017		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Browser version	13,305	16.6	26,901	59.8
License fees	1,211	1.5	3,160	7.0
Royalties	12,094	15.1	23,741	52.8
Mobile version	66,999	83.4	18,076	40.2
License fees	2,709	3.4	1,416	3.1
Royalties	64,290	80.0	16,660	37.1
	<u>80,304</u>	<u>100.0</u>	<u>44,977</u>	<u>100.0</u>

Revenue by Game Series

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

	For the year ended 31 December			
	2017		2016	
	RMB'000	%	RMB'000	%
Kings & Legends (王者召喚)	7,079	8.8	11,044	24.6
Hero's Crown (英雄皇冠)	16,775	20.9	23,650	52.6
Heroines of the Three Kingdoms (姬戰三國)	245	0.3	589	1.3
Endless Battles (無盡爭霸)	4,101	5.1	2,940	6.5
Legend of Fairies (萌仙記)	5,874	7.3	4,550	10.1
Road of Vengeance (復仇之路)	4,558	5.7	2,204	4.9
Number Drop	4,589	5.7	—	—
G-game	4,692	5.8	—	—
Sweeties Fighting (零食大亂鬥)	28,093	35.0	—	—
War of the Sulfurons (薩弗隆戰記)	244	0.3	—	—
Super Tycoon (超級大亨)	129	0.2	—	—
Forest Gala (森林大聯歡)	1,134	1.4	—	—
Fish Catching Contest (捕魚大亂鬥)	2,791	3.5	—	—
Super Cute Monster (超級逗萌獸)	—	—	—	—
	<u>80,304</u>	<u>100.0</u>	<u>44,977</u>	<u>100.0</u>

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			
	2017		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
The PRC ¹	74,730	93.1	36,010	80.1
The PRC ^{2, 4}	1,648	2.1	1,962	4.3
The PRC ^{3, 4}	—	—	3	—
North America ²	1,944	2.4	2,235	5.0
Asia Pacific (including Japan and Taiwan) ²	1,064	1.3	3,293	7.3
Europe ³	918	1.1	1,474	3.3
Total	<u>80,304</u>	<u>100.0</u>	<u>44,977</u>	<u>100.0</u>

Notes:

¹ Settled in RMB

² Settled in USD

³ Settled in EUR

⁴ Revenue derived from R2Game Co., Limited and Reality Squared Game Co., Limited, in which Reality Squared Game Co., Limited and R2Game Co., Limited are group companies based in the PRC. The license we gave to R2Game Co., Limited for the operation of our games had been transferred to Reality Squared Game Co., Limited in 2016. Both companies had commercially launched our games in Europe and North America.

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	
	2017	2016
Kings & Legends (王者召喚)		
• Average MPU	2,076	3,912
• ARPPU (RMB) ⁵	241	215
Hero's Crown (英雄皇冠)		
• Average MPU	7,452	6,488
• ARPPU (RMB) ⁵	158	309
Endless Battles (無盡爭霸)		
• Average MPU	25,913	27,679
• ARPPU (RMB) ⁵	13	9
Legend of Fairies (萌仙記)		
• Average MPU	8,514	11,991
• ARPPU (RMB) ⁵	58	38
Road of Vengeance (復仇之路)		
• Average MPU	3,881	15,608
• ARPPU (RMB) ⁵	108	31
Number Drop¹		
• Average MPU	5,148	—
• ARPPU (RMB) ⁵	70	—
G-game²		
• Average MPU	8,116	—
• ARPPU (RMB) ⁵	52	—
Sweeties Fighting (零食大亂鬥)³		
• Average MPU	39,632	—
• ARPPU (RMB) ⁵	90	—
Fish Catching Contest (捕魚大亂鬥)⁴		
• Average MPU	68,801	—
• ARPPU (RMB) ⁵	40	—

Notes:

1. The mobile version of Number Drop series was commercially launched in March 2017.
2. The mobile version of G-game game series was commercially launched in March 2017.
3. The mobile version of Sweeties Fighting (零食大亂鬥) series was commercially launched in May 2017.

4. The mobile version of Fish Catching Contest (捕魚大亂鬥) series was commercially launched in December 2017.
5. ARPPU is calculated by dividing the average monthly royalties from the net sale of credits of licensed operators for the in-game tokens during a certain period by the average MPU during the same period. As all of our games adopt the free-to-play model, the ARPPU of games should not be affected by the frequency of game players spending time on the games if they do not purchase credits from our licensed operators to exchange for in-game tokens which can be used for acquiring virtual items and premium features.

Direct costs

Our direct costs for the year ended 31 December 2017 amounted to approximately RMB11.5 million, representing an increase of approximately 55.4% as compared to approximately RMB7.4 million for the year ended 31 December 2016. The increase in our direct costs was mainly because we commercially launched eight new mobile games during the year, being the Number Drop series, the G-game series, the Sweeties Fighting (零食大亂鬥) series, the War of the Sulfulons (薩弗隆戰記) series, the Super Tycoon (超級大亨) series, the Forest Gala (森林大聯歡) series, Fish Catching Contest (捕魚大亂鬥) and Super Cute Monster (超級逗萌獸) which resulted in the increase in amortisation of our intangible assets, the increase in salaries and welfare expenses and the increase in other tax and surcharges resulted from the significant increase in revenue.

Gross profit and gross profit margin

Our gross profit for the year ended 31 December 2017 amounted to approximately RMB68.8 million, representing an increase of approximately RMB31.2 million as compared to approximately RMB37.6 million for the year ended 31 December 2016. Our gross profit margin for the year ended 31 December 2017 amounted to approximately 85.7% and approximately 83.6% for the year ended 31 December 2016. 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 2017, our other income was approximately RMB3.3 million, compared with approximately RMB2.6 million in 2016. Such increase was mainly attributable to the increase of government grants of a PRC subsidiary of the Group received from the local government from approximately RMB1.4 million in 2016 to approximately RMB2.2 million during the year.

Game Research Costs

Our game research costs for the year ended 31 December 2017 amounted to approximately RMB0.2 million, representing a decrease of approximately RMB0.4 million as compared to approximately RMB0.6 million for year ended 31 December 2016. The significant decrease in our game research costs as compared with last year was due to the fact that we have invested less manpower and resources to the mobile games which entered into the game inception and evaluation stage for the year ended 31 December 2017 as most of the games were small-scale productions, thus lowering our game research costs.

Distribution Costs

Our distribution costs for the year ended 31 December 2017 amounted to approximately RMB0.6 million, representing a decrease as compared to approximately RMB0.8 million in 2016. The decrease was mainly due to the decrease in the number of promotional personnel.

Administrative Expenses

Our administrative expenses for the year ended 31 December 2017 amounted to approximately RMB11.7 million, representing a decrease of 8.6% as compared to approximately RMB12.8 million for the year ended 31 December 2016. Without taken into account the listing related expenses incurred in 2016, our administrative expenses for the year ended 31 December 2017 amounted to approximately RMB11.7 million, representing an increase of approximately 30.0% as compared to approximately RMB9.0 million for the year ended 31 December 2016. The increase in administrative expenses was mainly due to the increase in salaries of our personnel as well as the increase in rentals for our operating premises.

Income Tax Expense

Our income tax expense for the year ended 31 December 2017 amounted to approximately RMB16.2 million while we recorded RMB3.9 million for the year ended 31 December 2016. 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 2016 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 97.3% from approximately RMB22.0 million for 2016 to approximately RMB43.4 million for 2017.

LIQUIDITY AND FINANCIAL RESOURCES

In 2017, 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 2017, the Group deposited its idle capital with commercial banks in the PRC and Hong Kong as short-term time deposits to allow inactive capital of the Group to generate certain return and did not engage in any investments with high risks or speculative derivative instruments.

Cash and cash equivalents

As of 31 December 2017, our cash and cash equivalents amounted to approximately RMB78.5 million, compared with approximately RMB70.1 million as of 31 December 2016, which primarily consisted of cash at bank and cash on hand and which are mainly denominated in RMB (as to approximately 33.0%), HKD (as to approximately 61.0%), USD (as to approximately 5.9%) 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 2017, our total capital expenditures amounted to 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 (2016: approximately RMB0.3 million, representing the purchase of furniture and office equipment of approximately RMB0.3 million). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

As of 31 December 2017, we did not have any short-term or long-term bank borrowings.

As of 31 December 2017, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 9.9% (31 December 2016: approximately 6.8%).

CHARGE ON GROUP ASSETS

As of 31 December 2017, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2016: Nil).

EVENTS AFTER REPORTING PERIOD

The Group invested in two companies in Thailand in January and February 2018 respectively, for the expansion in overseas markets, through which the Group can keep abreast of the information and trends of the Thai gaming 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, China, in January 2018 to engage in research and development of game products for the better management of our game development project team.

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2017, the Group had 101 employees (31 December 2016: 75), mainly worked and are located in the PRC. The table below sets forth the number of employees by function as at 31 December 2017 and 2016:

Department	2017		2016	
	<i>Number employees</i>	<i>% of total</i>	<i>Number employees</i>	<i>% of total</i>
Management	9	8.9%	9	12%
Project development	65	64.4%	46	61%
Game design	11	10.9%	13	17%
Programming	32	31.7%	20	27%
Art	22	21.8%	13	17%
Project Support	17	16.8%	14	19%
Marketing	1	1.0%	1	1%
Licensing and operator support	13	12.8%	8	11%
Information technology	3	3.0%	5	7%
Finance and administration	10	9.9%	6	8%
Total	101	100%	75	100%

The total remuneration of the employees of the Group was approximately RMB9.9 million for the year ended 31 December 2017 (2016: approximately RMB6.3 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 organizes various training programs on a regular basis for its employees to enhance their knowledge of online game development, improve time management and internal communications and strengthen team building.

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

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

CONTINGENT LIABILITIES

As of 31 December 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

FOREIGN EXCHANGE RISKS

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR, JPY, RUB and HKD. Approximately 6.9% 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 2017 (2016: approximately 19.9%). Therefore, foreign exchange risk primarily arose from recognised assets in the Group when receiving or to receive foreign currencies from overseas cooperated counter parties.

93.1% (2016: approximately 80.1%) 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 HK\$28.9 million. During the year, the Group has spent approximately HK\$3.5 million on the development of new games, approximately HK\$0.8 million on the continual optimisation of our existing games on various platforms, and approximately HK\$0.5 million on enhancing its game development power. The Group is currently actively seeking opportunities to obtain/acquire the adaptation rights of appropriate source materials, opportunities to acquire/invest in game developers, and enhance and diversify our game development capabilities.

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.

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

(i) Risks relating to our business

Although the revenue contribution by two of our games series, Kings & Legends (王者召喚) series and Hero's Crown (英雄皇冠) series decreased from 77.2% in 2016 to 29.7% in 2017, in case of any unfavourable developments in relation to our existing self-developed games may materially and adversely affect our business, financial condition and results of operations. In response, we expanded our game portfolio during the year. In 2017, the mobile version of eight games series, namely the Number Drop series, the G-game series, the Sweeties Fighting (零食大亂鬥) series, the War of the Sulfurons (薩弗隆戰記) series, the Super Tycoon (超級大亨) series, the Forest Gala (森林大聯歡) series, Fish Catching Contest (捕魚大亂鬥) and Super Cute Monster (超級逗萌獸) were launched, and Super rich (超級大富翁) series will be launched soon, to further expand and enrich our game portfolio.

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. In response, we adopted the following measures in 2017 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 OF RISKS

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

ENVIRONMENT POLICY AND PERFORMANCE

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

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

COMPLIANCE OF LAWS AND REGULATIONS

The Company is aware of the importance of complying with the relevant laws and regulations. The Company has distributed human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication. From the date of Listing to 31 December 2017, to the knowledge of Directors, the Company is in compliance with the SFO, GEM Listing Rules and other relevant codes and regulations. During the year under review, the Group has complied, to the best of our knowledge, with the Securities and Futures Ordinance (“SFO”), the listing rules, the trading rules and the clearing house rules of the Stock Exchange, as well as the rules formulated by the Ministry of Cultural Management of the PRC government, being the Administrative Measures for Internet Information Services (互聯網信息服務管理辦法), the Provisional Regulations on the Administration of Internet Culture (互聯網文化管理暫行規定), the Interim Measures for the Administration of Online Games (網絡遊戲管理暫行辦法) and other relevant rules and regulations.

RELATIONSHIP WITH EMPLOYEES, LICENCED OPERATORS AND SUPPLIERS

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

The Group regards its employees as the most important and valuable assets. The objectives of human resources management are to motivate outstanding staff with competitive remuneration packages and comprehensive performance assessment, and assist the staff to develop their career and get promotion in the Group by providing suitable training and opportunities. 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”.

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.

FINAL DIVIDENDS AND ISSUE OF BONUS SHARES

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. Our Board recommended the payment of a final dividend for the 2017 financial year, in the form of cash dividend of HK\$0.125 per share (equivalent to approximately RMB0.104 per share) and bonus shares on the basis of 1 share for every share. Any dividends distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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 26 September 2017, the Company paid an interim dividend of HK\$0.15 (approximately RMB0.129) per share amounting to HK\$24.0 million (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 in accordance with the dividend payment notice as set out in the Company's announcement of interim results for the six months ended 30 June 2017 dated 14 August 2017.

Saved as disclosed above, no dividends were declared or paid during the year ended 31 December 2017. During the board meeting held on 26 March 2018, the Board recommended the payment of a final dividend, in the form of a cash dividend of HK\$0.125 per share (equivalent to approximately RMB0.104 per share) and bonus shares on the basis of 1 share for every share to the shareholders.

CLOSURE OF REGISTER OF MEMBERS FOR THE ANNUAL GENERAL MEETING

For the purpose of determining shareholders' entitlements to attend and vote at the annual general meeting of the Company (the "AGM") to be held on Friday, 1 June 2018, the register of members of the Company will be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018, during which period no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on Monday, 28 May 2018 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 Monday, 28 May 2018.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDENDS AND BONUS SHARES

For the purpose of determining shareholders' entitlements to the final dividends and the bonus shares, the register of members of the Company will be closed from Thursday, 7 June 2018 to Friday, 8 June 2018, during which period no transfer of shares will be registered. The record date for determination of entitlements to the final dividends and the bonus shares will be on Friday, 8 June 2018. Shareholders whose names appear on the register of members of the Company on Friday, 8 June 2018 will be entitled to receive the final dividends and the bonus shares. In order to qualify for the final dividends and the bonus shares, 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, 6 June 2018.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2017.

CORPORATE GOVERNANCE PRACTICE

The Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of our shareholders and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has applied the principles and code provisions in the Corporate Governance Code (the “Code”) as set out in Appendix 15 to the GEM Listing Rules. The Directors consider that the Company has complied with the code provisions as set out in the Code for the year ended 31 December 2017.

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 to the general prohibition on dealing in the Company’s listed securities during the blackout periods before the publication of announcements of financial results of the Group. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the year ended 31 December 2017.

AUDIT COMMITTEE

We established an 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. The primary responsibilities of the audit committee are to supervise our internal control, financial information disclosure and financial reporting matters. At present, the audit committee of our Company 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.

The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2017 and made recommendations and advice.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2017 as set out in this annual results announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the annual results announcement.

PUBLICATION OF FINAL RESULTS AND DESPATCH OF ANNUAL REPORT

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk and the GEM website at www.hkgem.com, in the case of this announcement, on the "Latest Company Announcements" page for at least seven days from the day of its posting. This announcement will also be published on the Company's website at www.firerock.hk. The annual report of the Company for the year ended 31 December 2017 containing all the information required by the GEM Listing Rules will be despatched to the shareholders and published on the above websites in due course.

By order of the Board
Fire Rock Holdings Limited
Huang Yong
Executive Director and CEO

Hong Kong, Monday, 26 March 2018

As at the date of this announcement, the executive Directors are Mr. Huang Yong, Mr. Wu Zhe and Mr. Rao Zhenwu; the non-executive Directors are Mr. Zhang Yan, Mr. Zhang Xiongfeng and Ms. Yang Kan; and the independent non-executive Directors are Mr. Chan King Fai, Mr. He Yunpeng and Mr. Chen Di.