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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 2018

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 2018, the Group's revenue amounted to approximately RMB160.7 million (2017: approximately RMB80.3 million), representing an increase of approximately 100.1%.
- For the year ended 31 December 2018, the Group's gross profit amounted to approximately RMB144.2 million (2017: approximately RMB68.8 million), representing an increase of approximately 109.6%.
- For the year ended 31 December 2018, the Group's profit for the year amounted to approximately RMB89.8 million (2017: approximately RMB43.4 million), representing an increase of approximately 106.9%.
- Our Board recommended the payment of a final dividend for the 2018 financial year, in the form of cash dividend of HK\$0.075 per 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 2018 together with the comparative figures for the year ended 31 December 2017.

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

For the year ended 31 December 2018

	<i>Notes</i>	2018 RMB	2017 RMB
Revenue	3	160,700,166	80,304,039
Direct costs		<u>(16,547,634)</u>	<u>(11,474,346)</u>
Gross profit		144,152,532	68,829,693
Other income	3	2,353,761	3,279,172
Game research costs		(846,522)	(194,924)
Distribution costs		(742,204)	(624,763)
Administrative expenses		<u>(25,369,225)</u>	<u>(11,693,694)</u>
Operating profit		119,548,342	59,595,484
Share of loss investments accounted for using equity accounting		<u>(615,175)</u>	—
Profit before income tax	4	118,933,167	59,595,484
Income tax expense	5	<u>(29,125,365)</u>	<u>(16,196,567)</u>
Profit for the year		89,807,802	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		<u>2,050,037</u>	<u>(2,537,720)</u>
Other comprehensive income for the year		<u>2,050,037</u>	<u>(2,537,720)</u>
Total comprehensive income for the year		<u>91,857,839</u>	<u>40,861,197</u>
Profit attributable to:			
Owners of the Company		89,862,732	43,398,917
Non-controlling interests		(54,930)	—
		<u>89,807,802</u>	<u>43,398,917</u>
Total comprehensive income attributable to:			
Owners of the Company		91,913,342	40,861,197
Non-controlling interests		(55,503)	—
		<u>91,857,839</u>	<u>40,861,197</u>
Earnings per share		RMB cents	RMB cents <i>(Re-presented)</i>
Basic and diluted	7	<u>28.08</u>	<u>13.56</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 RMB	2017 RMB
Non-current assets			
Property, plant and equipment		1,506,674	1,746,442
Intangible assets	<i>8</i>	7,602,162	8,040,339
Investments accounted for using equity method		2,451,697	—
		<u>11,560,533</u>	<u>9,786,781</u>
Current assets			
Trade receivables	<i>9</i>	64,194,508	28,881,795
Prepayment, deposits and other receivables		733,200	2,101,559
Short-term bank deposits	<i>10</i>	—	10,000,000
Cash and cash equivalents	<i>10</i>	136,782,849	78,533,972
		<u>201,710,557</u>	<u>119,517,326</u>
Current liabilities			
Other payables and accruals	<i>11</i>	5,062,681	2,890,919
Deferred revenue	<i>12</i>	954,666	2,212,211
Dividend payables		—	451,391
Tax payables		6,129,047	2,443,991
		<u>12,146,394</u>	<u>7,998,512</u>
Net current assets		<u>189,564,163</u>	<u>111,518,814</u>
Total assets less current liabilities		<u>201,124,696</u>	<u>121,305,595</u>
Non-current liabilities			
Deferred revenue	<i>12</i>	65,752	844,307
Deferred tax liabilities	<i>13</i>	8,900,000	4,000,000
		<u>8,965,752</u>	<u>4,844,307</u>
Net assets		<u>192,158,944</u>	<u>116,461,288</u>
Equity			
Share capital	<i>14</i>	2,669,060	1,347,236
Reserves		189,525,273	115,114,052
Total equity attributable to owners of the Company		<u>192,194,333</u>	116,461,288
Non-controlling interests		<u>(35,389)</u>	—
Total equity		<u>192,158,944</u>	<u>116,461,288</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 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 HONG KONG FINANCIAL REPORTING STANDARDS (“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.

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.

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.

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.
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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	Carrying amount as at 1 January 2018
			under HKAS 39 RMB	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

(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.

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.

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.

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 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 ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKAS 1 (Revised) and HKAS 8	Definition of Material ²
Amendments to HKFRS 3	Definition of Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
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 ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹

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.

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. 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.

3. REVENUE AND OTHER INCOME

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

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.

4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

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

	2018	2017
	<i>RMB</i>	<i>RMB</i>
Current year — PRC Enterprise Income Tax		
— Tax for the year	19,918,554	7,126,098
— Under provision in respect of prior years	306,811	76,258
— Dividends withholding tax	<u>4,000,000</u>	<u>4,994,211</u>
	24,225,365	12,196,567
Deferred tax (<i>Note 13</i>)	<u>4,900,000</u>	<u>4,000,000</u>
	<u>29,125,365</u>	<u>16,196,567</u>

6. DIVIDENDS

On 22 June 2018, the Company paid a final dividend for 2017, in form of HKD20.0 million (equivalent to approximately RMB16.5 million) in cash (or HKD0.125 (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.

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.

7. 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.

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.

8. INTANGIBLE ASSETS

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

9. TRADE RECEIVABLES

The Group normally allows credit period within 120 days to its Licensed Operators.

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

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

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

	2018	2017
	<i>RMB</i>	<i>RMB</i>
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
Cash and cash equivalents	136,782,849	78,533,972
Short-term bank deposits with original maturity of more than three months	—	10,000,000
	<u>136,782,849</u>	<u>88,533,972</u>

11. OTHER PAYABLES AND ACCRUALS

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

12. DEFERRED REVENUE

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

13. DEFERRED TAX LIABILITIES

	2018	2017
	<i>RMB</i>	<i>RMB</i>
At 1 January	4,000,000	—
Charged to profit or loss for the year (<i>Note 5</i>)	<u>4,900,000</u>	<u>4,000,000</u>
At 31 December	<u><u>8,900,000</u></u>	<u><u>4,000,000</u></u>

14. SHARE CAPITAL

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

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.

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.

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.

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 Sulfulons (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.

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 mobile 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.

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 & Legends (王者召喚) series of games</i>			
English	Ancient Summoner/Rise of Mythos (Name changed in June 2014)	Browser	May 2013
Japanese	Kings and Legends	Browser	December 2012
	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
<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	魔界外传	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	零食大乱斗	Mobile	May 2017
<i>Super Tycoon (超級大亨) series of games</i>			
Simplified Chinese	超級大亨	Mobile	July 2017

Language version	Game title	Platform	Initial commercial launch date
<i>Forest Gala (森林大聯歡) series of games</i> Simplified Chinese	森林大联欢	Mobile	July 2017
<i>Fish Catching Contest (捕魚大亂鬥) series of games</i> Simplified Chinese	捕鱼大乱斗	Mobile	December 2017
<i>Super Cute Monster (超級逗萌獸) series of games</i> Simplified Chinese	超级逗萌兽	Mobile	December 2017
<i>Super Rich (超級大富翁) series of games</i> Simplified Chinese	超级大富翁	Mobile	February 2018
<i>Age of Star Wars (星戰紀) series of games</i> Simplified Chinese	星战纪	Mobile	June 2018
<i>Shaky Battle (晃晃大作戰) series of games</i> Simplified Chinese	晃晃大作战	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

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.

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

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

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

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
Kings & Legends (王者召喚)		
• License fees	—	505
• Royalties	3,850	6,574
Hero's Crown (英雄皇冠)		
• License fees	254	2,421
• Royalties	3,543	14,354
Heroines of the Three Kingdoms (姬戰三國)		
• License fees	—	—
• Royalties	107	245
Endless Battles (無盡爭霸)		
• License fees	—	—
• Royalties	357	4,101
Legend of Fairies (萌仙記)		
• License fees	34	142
• Royalties	794	5,732
Road of Vengeance (復仇之路)		
• License fees	—	—
• Royalties	3,046	4,558
Number Drop		
• License fees	236	179
• Royalties	2,874	4,410
G-game		
• License fees	236	178
• Royalties	2,906	4,514
Sweeties Fighting (零食大亂鬥)		
• License fees	236	152
• Royalties	51,547	27,941
War of the Sulfurons (薩弗隆戰記)		
• License fees	369	102
• Royalties	83	142

	For the year ended	
	31 December	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Super Tycoon (超級大亨)		
• License fees	236	113
• Royalties	51	16
Forest Gala (森林大聯歡)		
• License fees	98	109
• Royalties	1,316	1,025
Fish Catching Contest (捕魚大亂鬥)		
• License fees	236	19
• Royalties	65,560	2,772
Super Cute Monster (超級逗萌獸)		
• License fees	—	—
• Royalties	1,830	—
Super Rich (超級大富翁)		
• License fees	—	—
• Royalties	792	—
Age of Star Wars (星戰紀)		
• License fees	82	—
• Royalties	4,474	—
Shaky Battle (晃晃大作戰)		
• License fees	—	—
• Royalties	15,553	—
	<hr/>	<hr/>
Total	160,700	80,304
	<hr/> <hr/>	<hr/> <hr/>

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	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
The PRC ¹	159,344	99.2	74,730	93.1
The PRC ^{2, 4}	—	—	1,648	2.1
North America ²	—	—	1,944	2.4
Asia Pacific (including Japan and Taiwan) ²	662	0.4	1,064	1.3
Europe ³	694	0.4	918	1.1
Total	<u>160,700</u>	<u>100.0</u>	<u>80,304</u>	<u>100.0</u>

Notes:

1 Settled in RMB

2 Settled in USD

3 Settled in EUR

4 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.

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

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	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff costs and benefits	9,288	56.1	4,699	41.0
Amortisation of intangible assets	6,153	37.2	6,266	54.6
Others	1,107	6.7	509	4.4
Total	<u>16,548</u>	<u>100.0</u>	<u>11,474</u>	<u>100.0</u>

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.

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.

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>
Game research costs as recognised in consolidated statement of profit or loss and other comprehensive income:		
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	—
	<hr/>	<hr/>
Subtotal	847	195
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December
2018 **2017**
RMB'000 *RMB'000*

Game development costs as recognised in consolidated statement of financial position:

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	—
	<hr/>	<hr/>
Subtotal	6,579	6,684
	<hr/> <hr/>	<hr/> <hr/>
Total game research and development costs	7,426	6,879
	<hr/> <hr/>	<hr/> <hr/>

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	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
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
Total	25,369	100.0	11,693	100.0

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.

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).

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	
	<i>Number employees</i>	<i>% of total</i>	<i>Number employees</i>	<i>% of total</i>
Management	7	6.4%	9	8.9%
Project development	66	60.6%	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%
Project Support	24	22.0%	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%
Finance and administration	12	11.0%	10	9.9%
Total	109	100.0%	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.

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.

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 percentage	31 December 2018 Amount used <i>HKD million</i>	31 December 2018 Amount used percentage	31 December 2018 Amount unused <i>HKD million</i>	31 December 2018 Amount unused percentage
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 adaptation 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%	—	—
Total	<u>28.9</u>	<u>100.00%</u>	<u>16.1</u>	<u>55.60%</u>	<u>12.8</u>	<u>44.40%</u>

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.

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.

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; (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% 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.

(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.

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 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

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.

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.

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 2018.

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 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. 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 2018 and made recommendations and advice.

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 2018.

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.

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 2018 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 2018. 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 2018 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, 18 March 2019

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 and Ms. Yang Kan; and the independent non-executive Directors are Mr. Chan King Fai, Mr. He Yunpeng and Mr. Chen Di.