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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: 1909)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS (UNAUDITED)

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

INTERIM RESULTS (UNAUDITED)

The board (the “**Board**”) of directors (the “**Directors**”) of the Company hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2020 (the “**Corresponding Period in 2020**”). Such results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE

	Notes	2021 HKD'000 (unaudited)	2020 HKD'000 (unaudited) (restated)
Revenue	4	497,073	314,385
Direct costs		(98,222)	(19,630)
Gross profit		398,851	294,755
Other income	4	13,093	2,880
Research and development costs		(5,734)	(2,996)
Distribution costs		(39,107)	(16,694)
Administrative expenses		(27,800)	(19,675)
Changes in fair value of financial assets at fair value through profit or loss		(2,538)	—
Finance costs		(9,289)	(235)
Profit before income tax	5	327,476	258,035
Income tax expense	6	(54,670)	(45,605)
Profit for the period		272,806	212,430
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences on translation of foreign operations		5,212	8,358
Other comprehensive income for the period		5,212	8,358
Total comprehensive income for the period		278,018	220,788
Profit for the period attributable to:			
Owners of the Company		271,691	211,689
Non-controlling interests		1,115	741
		272,806	212,430
Total comprehensive income attributable to:			
Owners of the Company		277,041	219,942
Non-controlling interests		977	846
		278,018	220,788
		HKD cents	HKD cents (restated)
Earnings per share			
Basic and diluted	8	7.08	5.51

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		As at 30 June 2021 <i>HKD'000</i> (unaudited)	As at 31 December 2020 <i>HKD'000</i> (audited) (restated)	As at 1 January 2020 <i>HKD'000</i> (audited) (restated)
	<i>Notes</i>			
Non-current liabilities				
Promissory notes	14	539,924	—	—
Lease liabilities		7,219	6,715	7,893
Deferred tax liabilities		81,134	36,358	21,211
		<u>628,277</u>	<u>43,073</u>	<u>29,104</u>
Net assets		<u>1,045,831</u>	<u>817,811</u>	<u>428,777</u>
Equity				
Share capital	15	3,200	3,200	3,200
Reserves		<u>1,040,406</u>	<u>812,920</u>	<u>425,882</u>
Equity attributable to owners of the Company		1,043,606	816,120	429,082
Non-controlling interests		<u>2,225</u>	<u>1,691</u>	<u>(305)</u>
Total equity		<u>1,045,831</u>	<u>817,811</u>	<u>428,777</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 November 2014. The address of its registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business is located at 9th Floor, Block 1, Chongwen Garden, Nanshan IPark, 3370 Liuxian Avenue, Nanshan District, Shenzhen, Guangdong, The People's Republic of China (the "PRC").

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

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

2. BASIS OF PREPARATION

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

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

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

Change in presentation currency

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

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

Change in units of presentation of accounts

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

3. SEGMENT INFORMATION

(a) Reportable segments

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

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

- Game and software development — Software, browser and mobile games development and licensing services for earning license fees and royalties from the licensed operators and business partners
- Game operation — Mobile game operation for earning game operation income

For the six months ended 30 June

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

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

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

	For the six months ended 30 June 2021			
	Game and software development HKD'000 (unaudited)	Game operation HKD'000 (unaudited)	Elimination HKD'000 (unaudited)	Total HKD'000 (unaudited)
Revenue from external customers	53,516	443,557	—	497,073
Inter-segment revenue	216,720	—	(216,720)	—
Reportable segment revenue	270,236	443,557	(216,720)	497,073
Reportable segment profit	35,222	318,661	—	353,883
Interest income	2,329	951	—	3,280
Government grant	2,718	3,690	—	6,408
Finance costs	185	41	—	226
Depreciation and amortisation	7,708	36,364	—	44,072
Additions to non-current assets	20,330	362,650	—	382,980

	As at 30 June 2021		
	Game and software development <i>HKD'000</i> (unaudited)	Game operation <i>HKD'000</i> (unaudited)	Total <i>HKD'000</i> (unaudited)
Reportable segment assets	379,688	670,860	1,050,548
Reportable segment liabilities	<u>33,872</u>	<u>134,158</u>	<u>168,030</u>

	For the six months ended 30 June 2020			
	Game and software development <i>HKD'000</i> (unaudited) (restated)	Game operation <i>HKD'000</i> (unaudited) (restated)	Elimination <i>HKD'000</i> (unaudited) (restated)	Total <i>HKD'000</i> (unaudited) (restated)
Revenue from external customers	284,428	29,957	—	314,385
Inter-segment revenue	<u>257</u>	<u>—</u>	<u>(257)</u>	<u>—</u>
Reportable segment revenue	<u>284,685</u>	<u>29,957</u>	<u>(257)</u>	<u>314,385</u>
Reportable segment profit	256,817	3,013	—	259,830
Interest income	1,004	5	—	1,009
Government grant	1,654	—	—	1,654
Finance costs	228	7	—	235
Depreciation and amortisation	6,949	238	—	7,187
Additions to non-current assets	<u>9,131</u>	<u>70</u>	<u>—</u>	<u>9,201</u>

	As at 31 December 2020		
	Game and software development <i>HKD'000</i> (audited) (restated)	Game operation <i>HKD'000</i> (audited) (restated)	Total <i>HKD'000</i> (audited) (restated)
Reportable segment assets	810,846	16,984	827,830
Reportable segment liabilities	<u>74,720</u>	<u>10,201</u>	<u>84,921</u>

Reconciliation of reportable segment profit, assets and liabilities:

	For the six months ended 30 June	
	2021	2020
	HKD'000	HKD'000
	(unaudited)	(unaudited) (restated)
<i>Profit before income tax</i>		
Reportable segment profit	353,883	259,830
Interest income	55	—
Unallocated corporate expenses	(26,462)	(1,795)
Consolidated profit before income tax	<u>327,476</u>	<u>258,035</u>
	As at	As at
	30 June	31 December
	2021	2020
	HKD'000	HKD'000
	(unaudited)	(audited) (restated)
<i>Assets</i>		
Reportable segment assets	1,050,548	827,830
Unallocated corporate assets	897,644	80,077
Consolidated total assets	<u>1,948,192</u>	<u>907,907</u>
<i>Liabilities</i>		
Reportable segment liabilities	168,030	84,921
Unallocated corporate liabilities	734,331	5,175
Consolidated total liabilities	<u>902,361</u>	<u>90,096</u>

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

(b) Disaggregation of revenue from contracts with customers by geographic market and timing of revenue

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

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

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

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

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

Note: Non-current assets exclude financial instruments.

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

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

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

4. REVENUE AND OTHER INCOME

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

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

5. PROFIT BEFORE INCOME TAX

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

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

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

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

6. INCOME TAX EXPENSE

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

7. DIVIDENDS

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

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

8. EARNINGS PER SHARE

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

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

9. INTANGIBLE ASSETS

For the six months ended 30 June 2021, additional development costs of approximately HKD19,716,000 (for the six months ended 30 June 2020: approximately HKD8,476,000) and additions to intangible assets arising from the business acquisition of HKD357,792,000 (note 16).

10. GOODWILL

	As at 30 June 2021 HKD'000 (unaudited)
COST	
At beginning of the period	—
Acquisition of a subsidiary (<i>note 16</i>)	766,188
Exchange alignment	2,339
	<hr/>
	768,527
	<hr/> <hr/>

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

	As at 30 June 2021 <i>HKD’000</i> (unaudited)
Game operation — PRC	<u>768,527</u>

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

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

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

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2021 <i>HKD’000</i> (unaudited)
Unlisted fund investment	<u>15,403</u>

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

12. TRADE RECEIVABLES

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

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

The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

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

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

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

14. PROMISSORY NOTES

	As at 30 June 2021 <i>HKD'000</i> (unaudited)
At beginning of the period	—
Issue of promissory notes (<i>note 16</i>)	719,638
Accrued interest expenses	9,004
Exchange alignment	261
	<u>728,903</u>
At end of the period	<u>728,903</u>

On 4 February 2021, the Company issued promissory notes with aggregate principal amount of RMB600,000,000 (equivalent to approximately HKD719,638,000) as part of the consideration to acquire the entire equity interest in the Tak Shing International (*note 16*). The promissory notes are unsecured, interest-bearing at 3% per annum and mature on 31 December 2024. All interests are accrued and paid annually. The Company may redeem (in full or in part) the promissory notes at any time prior to its maturity (i.e. 31 December 2024) by giving prior written notice to the promissory note holder. The promissory notes are measured at amortised cost and using the effective interest rates at 3.31%.

The promissory notes are due and analysed as follows:

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

Represented by:

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

15. SHARE CAPITAL

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

Notes:

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

16. BUSINESS COMBINATION DURING THE PERIOD

Acquisition of Tak Shing International

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

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

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

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

- * Included in trade and other payables, an amount of HKD79,722,000 was due to the Group, which was eliminated in the condensed consolidated statement of financial position as at 30 June 2021.

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

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

Fair value of net assets to be acquired represents:

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

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

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

Cash (inflow)/outflow arising from the Acquisition:

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

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

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

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

17. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

Note:

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2021. The interim results have been reviewed by the Audit Committee of the Company.

Business Review and Prospects

Review

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

Online Game Business

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

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

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

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

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

Language version	Game title	Platform	Initial commercial launch date
<i>Sweeties Fighting (零食大亂鬥) series of games</i>			
Simplified Chinese	零食大乱斗	Mobile	May 2017/June 2019*
<i>Forest Gala (森林大聯歡) series of games</i>			
Simplified Chinese	森林大联欢	Mobile	July 2017
<i>Fish Catching Contest (捕魚大亂鬥) series of games</i>			
Simplified Chinese	捕鱼大乱斗	Mobile	December 2017
Simplified Chinese	捕鱼大乱斗之龙族秘宝	Mobile	April 2021
<i>Super Cute Monster (超級逗萌獸) series of games</i>			
Simplified Chinese	超级逗萌兽	Mobile	December 2017
<i>Super Diglett Fighting (超級地鼠大亂鬥) series of games</i>			
Simplified Chinese	超级地鼠大乱斗	Mobile	July 2019
<i>Royal Tycoon (皇家大亨) series of games</i>			
Thai	รอยัลเศรษฐี	Mobile	July 2019
<i>Royal Fish Catching (皇家捕魚) series of games</i>			
Thai	เกมยิงปลาหารรษา	Mobile	July 2019
<i>Age of Star Wars (星戰紀) series of games</i>			
Simplified Chinese	星战纪	Mobile	June 2018/March 2020*
<i>Jungle Treasure (叢林秘寶) series of games</i>			
Thai	ล่าสมบัติแห่งพงไพร	Mobile	May 2020
<i>Bull Hunter (獵牛達人) series of games</i>			
Thai	นักล่ากระทิง	Mobile	December 2020

Language version	Game title	Platform	Initial commercial launch date
<i>Fighting Cells (戰鬥細胞) series of games</i> Thai	Battle Cell	Mobile	April 2021
<i>Super Tycoon (超級大亨) series of games</i> Simplified Chinese	超級大亨	Mobile	July 2017/ June 2021*

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

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

Game title	Genre	Expected launch date	Start of game inception and evaluation
Witty Pinball (智力彈球) series (tentative name)	H5	Third quarter of 2021	Third quarter of 2019
Demon Conquer of the East Sea (東海降魔) series (tentative name)	Leisure	Fourth quarter of 2021	First quarter of 2020
Feng Ling Dominion — Overlord of the Martial Arts World (風凌天下之武林盟主) series (tentative name)	MMORPG	Fourth quarter of 2021	Third quarter of 2020
XY3 series (tentative name)	Card game	Fourth quarter of 2021	Fourth quarter of 2020
Family & Friends Happy Battle (親朋歡樂激鬥) series (formerly known as TD series)	Single-player leisure	Third quarter of 2021	Fourth quarter of 2020
South American Chamber (南美大廳) series (tentative name)	Leisure	Third quarter of 2021	Fourth quarter of 2020
Indonesian Chamber (印尼大廳) series (tentative name)	Leisure	Third quarter of 2021	Fourth quarter of 2020
Middle East Chamber (中東大廳) series (tentative name)	Leisure	First quarter of 2022	First quarter of 2021

Game title	Genre	Expected launch date	Start of game inception and evaluation
Fish Catching Contest — Cute Pets' Paradise (捕魚大亂鬥之萌寵樂園) series (tentative name)	Single-player leisure	Second quarter of 2022	Second quarter of 2021

Internet Application Technology Business

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

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

Investment and Acquisition Business

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

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

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

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

For the six months ended 30 June 2021, revenue generated by our five leading game series in monetary amounts and as a percentage of total revenue are set out as follows: the mobile version of the Fish Catching Contest (捕魚大亂鬥) series commercially launched in December 2017 reported revenue of approximately HKD265.7 million for the six months ended 30 June 2021, accounting for approximately 53.5% of our total revenue; the mobile version of the Sweeties Fighting (零食大亂鬥) series commercially launched in May 2017 reported revenue of approximately HKD54.1 million for the six months ended 30 June 2021, accounting for approximately 10.9% of our total revenue; the mobile version of the Age of Star Wars (星戰紀) series commercially relaunched in March 2020 reported revenue of approximately HKD49.0 million for the six months ended 30 June 2021, accounting for approximately 9.9% of our total revenue; the mobile version of the Royal Tycoon (皇家大亨) series self-operated through commercial launch in July 2019 reported revenue of approximately HKD46.9 million for the six months ended 30 June 2021, accounting for approximately 9.4% of our total revenue; and the mobile version of the Super Diglett Fighting (超級地鼠大亂鬥) series commercially launched in July 2019 reported revenue of approximately HKD38.9 million for the six months ended 30 June 2021, accounting for approximately 7.8% of our total revenue.

PROSPECTS

For our primary business, the Group will continue to enhance its strengths in R&D so as to develop premium mobile games with higher quality, longer life-cycle and innovative game types. We will upgrade and optimise existing games, and consistently invest substantial resources in the R&D of mobile games. Moreover, the Group also intends to increase its R&D efforts in the future with thorough exploration of users’ game preferences and needs, developing unique styles and contents as well as browser games of higher quality using H5 technology or other new technologies in order to maintain its core competitiveness in the R&D of browser games. On top of our presence in the

Chinese game market, we will actively expand into overseas markets and promote our games to new potential areas and regions, in an ongoing effort to cement our position in major global markets and take our competitiveness to a higher level.

In the future, we will continue to enhance our R&D of intellectual property rights (computer software) to launch novel internet application technologies and products as well as provide premium intellectual property rights (computer software) licensing services to our business partners (including licensed operators), with a view to fostering closer connections with our business partners. We believe the utilisation of intellectual property rights will form an integral part of the Group's future development.

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

The Group will actively explore opportunities for joint venture and acquisition that could generate synergies, in particular joint venture opportunities that can enhance the stability and diversity of our revenue, so as to cope with the increasing competition in the industry and the possible impacts caused by constantly changing industry policies on the principal business of the Company.

FINANCIAL REVIEW

Revenue

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

During the six months ended 30 June 2021, our revenue mainly originated from our licensed operators/enterprises/game players and was derived from the following revenue types: (i) license fees in accordance with the contractual terms agreed with our licensed operators for granting the exclusive operating rights for specific games and services within an agreed period and designated territories; (ii) royalties which were calculated based on a pre-determined percentage sharing of the net sales of credits of our licensed operators which have been exchanged into our in-game tokens purchased through platforms designated by our licensed operators in accordance with the terms of the licensing agreements; (iii) intellectual property rights service fees which were charged

monthly in accordance with the terms of the agreement; and (iv) revenue which was calculated based on the proportion of values converted upon the purchases of in-game virtual items with the values of the game credits (purchased by game players through payment channels) consumed during gameplay.

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

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

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

Revenue by geographical markets

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

	For the six months ended 30 June			
	2021		2020	
	<i>HKD'000</i>	%	<i>HKD'000</i>	%
	(unaudited)		(unaudited)	
			(restated)	
The PRC (place of domicile)	446,561	89.8	283,812	90.3
Asia Pacific	50,502	10.2	30,080	9.6
Europe	10	(Note)	493	0.1
Total	<u>497,073</u>	<u>100.0</u>	<u>314,385</u>	<u>100.0</u>

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

Direct Costs

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

	For the six months ended 30 June			
	2021		2020	
	<i>HKD'000</i>	%	<i>HKD'000</i>	%
	(unaudited)		(unaudited)	
			(restated)	
Staff costs and benefits	4,569	4.7	3,878	19.7
Amortisation of intangible assets	40,461	41.2	4,671	23.8
Self-operated channel costs	13,008	13.2	9,005	45.9
Licensed distribution costs	20,921	21.3	—	—
Others	19,263	19.6	2,076	10.6
Total	<u>98,222</u>	<u>100.0</u>	<u>19,630</u>	<u>100.0</u>

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

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

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

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

Others mainly comprised (i) other tax and surcharges; and (ii) outsourcing services fee for art/graphic design and audio production of sound effects and background music provided by third party service providers. In general, the increase in other tax and surcharges for the six months ended 30 June 2021 was due to the inclusion of relevant taxes of Tak Shing International and its subsidiaries following the completion of the substantial acquisition by the Company during the Reporting Period.

Gross profit and gross profit margin

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

Other income

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

Research and development costs

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

Distribution costs

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

Administrative expenses

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

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

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

Income tax expense

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

Profit for the period

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

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2021, we mainly financed our business with cash generated from our operating activities. We intend to fund our expansion and business operations through our internal resources and on-going internal growth.

TREASURY POLICY

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

CASH AND CASH EQUIVALENTS

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

CAPITAL EXPENDITURES

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment and leasehold improvements. For the six months ended 30 June 2021, our total capital expenditures amounted to approximately HKD5.0 million, representing the purchase of furniture and office equipment (the six months ended 30 June 2020: approximately HKD0.7 million, representing the purchase of furniture and office equipment). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

The Shares were listed on GEM of the Stock Exchange on 18 February 2016. Listing of the Shares has been transferred from GEM to the Main Board since 27 June 2019. The capital structure of the Company comprised of issued share capital and reserves.

BORROWINGS AND GEARING RATIO

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

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

CHARGE ON GROUP ASSETS

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

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

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

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

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

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

SIGNIFICANT INVESTMENTS IN OR MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

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

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

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

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any significant contingent liabilities (31 December 2020: Nil).

FOREIGN EXCHANGE RISKS

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR, THB and HKD. Approximately 10.2% of the revenue are denominated in currencies other than the functional currency of the operating units making the sales for the six months ended 30 June 2021 (30 June 2020: approximately 9.7%). Therefore, foreign exchange risks primarily arose from recognised assets in the Group when receiving or planning to receive foreign currencies from overseas cooperated counter parties.

Approximately 89.8% (30 June 2020: approximately 90.3%) of the transactions of the Company are denominated and settled in its functional currency, RMB. The Company's foreign exchange risks primarily arose from the cash and cash equivalents denominated in USD, EUR, HKD and THB.

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

USE OF PROCEEDS FROM THE PLACING

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

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

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

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

	Original allocation <i>HKD million</i>	Original allocation <i>percentage</i>	30 June 2021 Amount used <i>HKD million</i>	30 June 2021 Amount used <i>percentage</i>	30 June 2021 Amount unused <i>HKD million</i>	30 June 2021 Amount unused <i>percentage</i>
Continual optimisation of our existing games on various platforms	2.9	10.0%	2.9	10.0%	—	—
Development of new games						
— Browser games	7.2	25.0%	7.2	25.0%	—	—
Development of new games						
— Mobile games	7.2	25.0%	7.2	25.0%	—	—
Seeking opportunities to obtain/acquire the adaption rights of appropriate source materials	3.6	12.5%	2.5	8.7%	1.1	3.8%
Acquiring of/investment in game developers and related companies	3.6	12.5%	3.6	12.5%	—	—
Enhancement and diversification of our game development capabilities	2.9	10.0%	2.5	8.7%	0.4	1.3%
Working capital and other general corporate purposes	1.5	5.0%	1.5	5.0%	—	—
Total	28.9	100.0%	27.4	94.8%	1.5	5.2%

SHARE SUBDIVISION

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

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

EARNINGS PER SHARE

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

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

DIVIDENDS

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

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

Corporate Governance Practices

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

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

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

Repurchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

Audit Committee

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

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

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

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

REVIEW BY AUDITOR

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 have been reviewed by BDO Limited, the auditor of the Company, in accordance with HKSRE 2410 issued by the HKICPA.

CHANGE IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

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

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk, 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 interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the above websites in due course.

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

Hong Kong, Friday, 20 August 2021

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