



LINEKONG

● THIRD QUARTERLY REPORT ●

藍港互動集團有限公司

Linekong Interactive Group Co.,Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267



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



HIGHLIGHTS

	For the nine months ended September 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	168,522	403,013
Loss for the period	(10,433)	(69,139)
Adjusted net loss <i>(Note)</i>	(1,648)	(55,233)

Note:

Adjusted loss refers to the loss for the period which excludes share-based compensation and one-off compensation for loss of office paid. This item is deemed as supplemental information of the consolidated statement of comprehensive income/(loss) which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.

- Our revenue for the nine months ended September 30, 2019 amounted to approximately RMB168.5 million, representing a decrease of approximately 58.2% as compared to approximately RMB403.0 million for the nine months ended September 30, 2018.
- Our loss for the nine months ended September 30, 2019 amounted to approximately RMB10.4 million, representing a decrease of 84.9% as compared to a loss of approximately RMB69.1 million for the nine months ended September 30, 2018.
- Our adjusted net loss for the nine months ended September 30, 2019 amounted to approximately RMB1.6 million, representing a decrease of 97.0% as compared to an adjusted net loss of approximately RMB55.2 million for the nine months ended September 30, 2018.
- The board of Directors (the “**Board**”) did not recommend any payment of dividends for the nine months ended September 30, 2019.

THIRD QUARTERLY RESULTS (UNAUDITED)

The Board announces the unaudited consolidated results of Group for the nine months ended September 30, 2019, together with the unaudited comparative figures for the corresponding period in 2018, as follows:

Interim Condensed Consolidated Statement of Comprehensive Income/(Loss)

For the nine months ended September 30, 2019

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	62,528	111,901	168,522	403,013
Cost of revenue		(47,736)	(78,672)	(108,055)	(257,342)
Gross profit		14,792	33,229	60,467	145,671
Selling and marketing expenses		(6,778)	(11,489)	(24,406)	(85,598)
Administrative expenses		(11,120)	(14,292)	(33,936)	(57,448)
Research and development expenses		(4,027)	(7,283)	(21,892)	(56,959)
Net impairment losses on financial assets		(82)	(144)	(172)	(655)
Other operating income/(losses) — net		1,093	4,927	2,649	4,720
Operating profit/(loss)		(6,122)	4,948	(17,290)	(50,269)
Other gains/(losses) — net		111	(1,658)	5,812	(5,434)
Finance income/(costs) — net		141	(902)	918	(1,978)
Share of profit/(loss) of investments using equity accounting		553	(2,573)	443	(7,061)
Loss before income tax		(5,317)	(185)	(10,117)	(64,742)
Income tax expense	5	(279)	(172)	(316)	(4,397)
Loss for the period		(5,596)	(357)	(10,433)	(69,139)

Interim Condensed Consolidated Statement of Comprehensive Income/(Loss) (Continued)

For the nine months ended September 30, 2019

Note	Three months ended September 30,		Nine months ended September 30,	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss:				
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	1,749	2,494	1,850	3,238
Items that will not be reclassified to profit or loss:				
— Currency translation differences	13,385	19,217	14,288	23,805
Other comprehensive income for the period, net of tax	15,134	21,711	16,138	27,043
Total comprehensive income/(loss) for the period	9,538	21,354	5,705	(42,096)
Loss attributable to:				
Owners of the Company	(6,948)	(2,149)	(11,946)	(75,056)
Non-controlling interests	1,352	1,792	1,513	5,917
Loss for the period	(5,596)	(357)	(10,433)	(69,139)



Interim Condensed Consolidated Statement of Comprehensive Income/(Loss) (Continued)

For the nine months ended September 30, 2019

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Total comprehensive income/ (loss) attributable to:					
Owners of the Company		8,186	19,562	4,192	(47,967)
Non-controlling interests		1,352	1,792	1,513	5,871
Total comprehensive income/ (loss) for the period					
		9,538	21,354	5,705	(42,096)
Loss per share (expressed in RMB per share)					
— Basic	6	(0.02)	(0.01)	(0.03)	(0.21)
— Diluted	6	(0.02)	(0.01)	(0.03)	(0.21)

The above interim condensed consolidated statement of comprehensive income/(loss) should be read in conjunction with the accompanying notes.



Interim Condensed Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2019

(Unaudited)	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Shares held		Accumulated		Total		
			for RSU	Reserves	losses	RMB'000			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance as of January 1, 2019	59	1,720,690	(5,822)	405,894	(1,581,781)	539,040	9,287	548,327	
Comprehensive income/(loss)									
(Loss)/income for the period	—	—	—	—	(11,946)	(11,946)	1,513	(10,433)	
Other comprehensive income									
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	—	—	—	1,850	—	1,850	—	1,850	
— Currency translation differences	—	—	—	14,288	—	14,288	—	14,288	
Total comprehensive income/(loss) for the period	—	—	—	16,138	(11,946)	4,192	1,513	5,705	
Total contributions by and distributions to owners of the Company recognised directly in equity									
Increase in ownership interest in subsidiaries without change of control	—	—	—	723	—	723	(723)	—	
Acquisition of subsidiary	—	—	—	—	—	—	14,535	14,535	
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme	—	—	(3,371)	—	—	(3,371)	—	(3,371)	
— Value of employee services	—	—	—	3,064	—	3,064	195	3,259	
Total contributions by and distributions to owners of the Company for the period	—	—	(3,371)	3,787	—	416	14,007	14,423	
Balance as of September 30, 2019	59	1,720,690	(9,193)	425,819	(1,593,727)	543,648	24,807	568,455	

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the nine months ended September 30, 2019

(Unaudited)	Attributable to owners of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for		Accumulated losses RMB'000	Non-controlling Total interests RMB'000	Total equity RMB'000	
			RSU Scheme RMB'000	Reserves RMB'000				
Balance as of January 1, 2018	59	1,720,690	(3,578)	368,203	(1,412,977)	672,397	3,760	676,157
Comprehensive income/(loss)								
Loss for the period	—	—	—	—	(75,056)	(75,056)	5,917	(69,139)
Other comprehensive income/(loss)								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	—	—	—	3,238	—	3,238	—	3,238
— Currency translation differences	—	—	—	23,851	—	23,851	(46)	23,805
Total comprehensive income/(loss) for the period	—	—	—	27,089	(75,056)	(47,967)	5,871	(42,096)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Contribution from shareholders	—	—	—	11,598	—	11,598	—	11,598
Increase in ownership interest in subsidiaries without change of control	—	—	—	(1,528)	—	(1,528)	1,528	—
Employee share option and RSU Scheme:								
— Shares repurchased for RSU Scheme	—	—	(738)	—	—	(738)	—	(738)
— Value of employee services	—	—	—	(2,609)	—	(2,609)	—	(2,609)
Total contributions by and distributions to owners of the Company for the period	—	—	(738)	7,461	—	6,723	1,528	8,251
Balance as of September 30, 2018	59	1,720,690	(4,316)	402,753	(1,488,033)	631,153	11,159	642,312

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to Interim Condensed Consolidated Financial Information

1. General information

Linekong Interactive Group Co., Ltd. (the “**Company**”), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Company’s shares have been listed on GEM of The Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in developing and publishing online games (the “**Game Business**”) in the People’s Republic of China (the “**PRC**”) and other countries and regions, and film business (the “**Film Business**”) in the PRC.

The interim condensed consolidated statements of comprehensive income/(loss) for the nine-month period and the three-month period ended September 30, 2019, changes in equity for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “**Interim Financial Information**”) have been approved by the Board of Directors on November 14, 2019.

The Interim Financial Information is presented in Renminbi (“**RMB**”), unless otherwise stated.

The Interim Financial Information has not been audited.



2. Basis of preparation

The Interim Financial Information have been prepared to comply with the disclosure requirements of the Rules Governing the Listing of Securities on the GEM (the “**GEM Listing Rules**”).

The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2018 as set out in the 2018 annual report of the Company (the “**2018 Financial Statements**”) and any public announcements made by the Company during the interim reporting period, which have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”).

3. Summary of significant accounting policies and critical accounting estimates and judgments

The accounting policies applied are consistent with those used in the 2018 Financial Statements, as described in the 2018 Financial Statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of standards, amendments and interpretations effective for the first time for the interim period. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

The adoption of standards, amendments and interpretations that are effective for the first time for this interim period does not have a material impact on the Group, except for the adoption of IFRS 16 “Leases” from January 1, 2019 as described in the 2018 Financial Statements.

The Group has not early adopted any new standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial period beginning January 1, 2019. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in their initial applications.

4. Revenue and segment information

The chief operating decision maker (“**CODM**”) of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

The Company separately manages the production and operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. For the nine months ended September 30, 2019, the Group is organised into two reportable operating segments. The comparative figures have been restated to conform with the current period’s presentation.

The Group identifies 2 segments as follows:

- The Game Business, which is primarily engaged in developing and publishing online games in the PRC and other countries and regions;
- The Film Business, which is primarily engaged in licensing self-developed film rights (including internet drama rights) to third-party publishers and producing film rights (including internet drama rights) for specific customers in the PRC.



4. Revenue and segment information (Continued)

The CODM assesses the performance of the operating segments based on the operating profit/loss of each reporting segments. The reconciliation of operating loss to loss before income tax is shown in the interim condensed consolidated statement of comprehensive income/(loss).

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:				
Game Business				
— Sales of in-game virtual items	33,643	64,241	104,587	258,816
— License fee and technical support fee	6,442	10,598	26,639	22,327
	40,085	74,839	131,226	281,143
Film Business				
— Production and licensing of film rights and others	22,443	37,062	37,296	121,870
Total	62,528	111,901	168,522	403,013
Segments results — operating (loss)/profit:				
— Game Business	(7,564)	(4,043)	(18,641)	(79,650)
— Film Business	1,442	8,991	1,351	29,381
Total	(6,122)	4,948	(17,290)	(50,269)

4. Revenue and segment information (Continued)

A breakdown of revenue derived from the PRC, South Korea and other overseas countries and regions for the respective period is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers:				
— PRC	42,497	65,632	100,045	242,379
— South Korea	15,161	20,146	53,977	93,292
— Other overseas countries and regions	4,870	26,123	14,500	67,342
	62,528	111,901	168,522	403,013

5. Income tax expense

The income tax expense of the Group the three months and nine months ended September 30, 2019 and 2018 is analysed as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax	236	194	404	2,961
Deferred income tax	43	(22)	(88)	1,436
Income tax expense	279	172	316	4,397

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

5. Income tax expense (Continued)

No income tax provision for Hong Kong profit tax has been made by the Group as the Company's subsidiaries incorporated in Hong Kong did not have any taxable profit generated from operations in Hong Kong for the three months and nine months ended September 30, 2019 and 2018.

The income tax provision of the Group in respect of operations in the PRC has been calculated based on the statutory tax rate of 25% on the estimated assessable profits for the nine months ended September 30, 2019 and 2018 of each of the group companies, except that: (i) one subsidiary of the Company, qualified as a Software Enterprise, was subject to a preferential income tax rate of 12.5% from 2018 to 2020; and (ii) one subsidiary of the Company, incorporated in Horgos, is exempted from income taxes under the relevant PRC tax rules and regulations.

6. Loss per share

(a) Basic

Basic loss per share for the three months and the nine months ended September 30, 2019 and 2018 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended September 30, 2019 (Unaudited)		Nine months ended September 30, 2019 (Unaudited)	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Loss attributable to owners of the Company (RMB'000)	(6,948)	(2,149)	(11,946)	(75,056)
Weighted average number of ordinary shares in issue ('000)	347,868	352,974	349,900	352,977
Loss per share (expressed in RMB per share)	(0.02)	(0.01)	(0.03)	(0.21)

6. Loss per share (Continued)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the three months and nine months ended September 30, 2019 and 2018, the Company had two categories of potential ordinary shares, restricted share units and share options granted to eligible person. As the Group incurred loss for the three months and nine months ended September 30, 2019 and 2018, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the three months and nine months ended September 30, 2019 and 2018 are the same as basic loss per share of the period.

7. Dividends

No dividends have been paid or declared by the Company during each of the nine months ended September 30, 2019 and 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Linekong Interactive Group recorded a significant decrease in net loss of 84.9% for the first three quarters of 2019 as compared with the corresponding period of the previous year. The Group's review and analysis of its business development from January 1, 2019 to September 30, 2019 are set out below.

Promoting self-development of new products and accelerate expansion of overseas markets by Linekong Entertainment

The open-beta testing of "Uproar in Heaven (鬧鬧天宮)" was launched on March 28, 2019, which was distributed under the Tencent A.C.E Program. As a MOBA game, "Uproar in Heaven (鬧鬧天宮)" has been well received by nearly ten millions of registered players since its release and has entered a stable long-term operation stage. The Group will continue to work together with the Tencent A.C.E Program to offer exciting gaming experience to players through continuous updates.

In order to further expand its product line and enhance the competitiveness of the Group in the casual game market, Linekong has established its minigame development teams in Beijing and Shenzhen, which are designated for the development of products such as hyper-casual games, moderate casual games and strategy games.

Our South Korea subsidiary will distribute "一夢江湖" (formerly known as "楚留香") ("검은달" in Korean), which is developed by NetEase. A closed-beta testing on the game had been conducted from September 17 to September 25 in South Korea.



Based on our global distribution strategy and our in-depth research and understanding of overseas markets, the Group has focused on the expansion of Japan market in the year, following our overseas expansion in South Korea. Our Japan market distribution team was established in the first quarter of 2019, the members of which have experience in publishing Top 30 best-selling games in Japan. Linekong is going to launch two mobile games in Japan, including “Fantasy & Puzzle”, a nijigen (二次元) match three RPG card game, a closed-beta testing on which will be conducted in the fourth quarter of 2019, and “Ys VIII: Mobile”, a classic ARPG game in Japan. The Group has been licensed to exclusively adapt and globally distribute “Ys VIII: Mobile” and has engaged well-known Japanese writers to refine and upgrade the plot of the game and a number of famous Japanese painters to create modern artworks. In Tokyo Game Show (TGS) held in September, the Group offered a demo of “Ys VIII: Mobile” on site, attracting a long queue of players and reported by well-known Japanese media of the industry, such as 4Gamer and Famitsu (ファミ通). The adaption of “Ys VIII: Mobile” is supervised by Falcom and the game is expected to be officially launched in 2020.

In addition, as of the end of the Reporting Period, games such as “Daybreak Legends (黎明之光)” have continued to contribute profit to the Group. The Group will continue to promote and operate “Daybreak Legends (黎明之光)” and other products globally.

Linekong Pictures has a rich reserve of IPs and rapid development pace

Linekong Pictures adheres to its planned annual output of two to three high-quality productions, which are targeted for Generation Z viewers covering different TV or Internet drama categories.



In January 2019, the exclusive broadcasting of “Long For You 2 (我與你的光年距離2)” on Mango TV and Youku has completed, receiving favourable comments from the internet drama market and welcomed by audience for its high quality. After three years of development and accumulation of experience and brands, Linekong Pictures has a series of outstanding drama reserves, including prime drama (頭部劇), secondary drama (腰部劇) and micro drama (微劇). “Ancient Music Records (古樂風華錄)” and “Tales of Sea of Clouds (雲海藏山傳)” (formerly known as “the Tomb Guardian (鎮墓獸)”) are the Group’s prime IPs (頭部IP). A nostalgic animated IP, “Ancient Music Records (古樂風華錄)”, was included and ranked first in the 2017 List of National Items for Reforms and Development (改革發展項目庫2017年入庫名額) by promoting Chinese traditional music with nostalgic painting style and the comic on which the drama was based was included in the 2016 Mobility Supporting Plan for Chinese Original Comic and Animation (2016年原動力中國原創動漫出版扶持計劃) of the State Administration of Press, Publication, Radio, Film and Television (國家廣電總局).

After the completion of three selected dramas namely “Long For You (我與你的光年距離)”, “Unexpected (來到你的世界)” and “Long For You 2 (我與你的光年距離2)”, the Group cooperated with Mango TV and produced a romantic drama, “LOVE THE WAY YOU ARE (身為一個胖子)” in the first half of 2019, bringing correct value of pursuing inner beauty to teenagers. “LOVE THE WAY YOU ARE (身為一個胖子)” was completed on August 30, 2019 in Qingdao after a 76-day filming period and is scheduled to be broadcasted in the fourth quarter of 2019.

In addition, for our light-hearted romantic internet dramas, “原來你是這樣的顧先生” which is a love story between the main actor and main actress experiencing an accidental marriage and the process of mutual supporting; the ancient romantic drama; “花好月半圓”, an original IP of the Group, is about a rich girl became a busker after an accident, while an illiterate musician is going to be married with an army general’s family and pretending to be a well-educated rich girl and the two girls switched their identity and started an adventure respectively; besides, “喂兒”, one of the key projects of the Group, is a new-type drama which the traditional culture meets inspirational youth stories. “喂兒” is a story about two love-hate friends pursuing their dream as crosstalk partners, filled with traditional cultures such as Peking Opera, Ping Opera and other operas, to promote Chinese cultural treasures.

In addition, Linekong Pictures follows the hottest trend of short videos and plans to produce a real-life micro drama adapting “和女兒的日常”, an animation with a high score of 8.7 on Douban.com. With respect to films, the Group will adapt “與君相戀100次”, a top Japanese romance film released in 2016, to a youth and campus musical film, which is expected to start filming in the first quarter of 2020. During the reporting period, artist agency business of the Group also had relatively sound development. The contracted artist of Linekong Pictures, Zhang Ge, a potential actress born after the 00s, entered Weibo Hot Searches twice due to the role of Xiao Ai in “Go Go Squid (親愛的·熱愛的)”.

In the fourth quarter of 2019, the Group will focus on the self-development of games, the deployment of casual game, the expansion in the Japan market, the launch of “LOVE THE WAY YOU ARE (身為一個胖子)” and the filming of “原來你是這樣的顧先生” and “花好月半圓”. The Group will adhere to its practical and customer oriented principle to create high quality products and offer interesting and marvellous entertainment.



Financial Review

Revenue

The Group's revenue decreased by approximately 58.2% from approximately RMB403.0 million for the nine months ended September 30, 2018 to approximately RMB168.5 million for the nine months ended September 30, 2019.

The following table sets out the breakdown of the Group's results by segments:

	For the nine months ended	
	September 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Segment revenue:		
Game Business		
— Sales of in-game virtual items	104,587	258,816
— License fee and technical support fee	26,639	22,327
	131,226	281,143
Film Business		
— Production and licensing of film rights and others	37,296	121,870
Total	168,522	403,013



The following table sets forth the breakdown of the Group's revenue by geographical locations:

	For the nine months ended September 30,			
	2019 approximate		2018 approximate	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
China (including Hong Kong, Macau and Taiwan regions)	100,045	59.4	242,379	60.1
South Korea	53,997	32.0	93,292	23.2
Other overseas countries and regions	14,500	8.6	67,342	16.7
Total	168,522	100.0	403,013	100.0

For the nine months ended September 30, 2019, the revenue contributed by game business decreased by approximately 53.3% or RMB149.9 million as compared with the corresponding period of 2018, which was attributable to a decrease in revenue as a result of attenuation of existing games. The Group has implemented the strategy to reserve more time to strengthen the quality of game development and distribution to roll out competitive games.

In respect of the Group's film business, the Group recognised revenue of approximately RMB37.3 million from production and licensing of film rights and others for the nine months ended September 30, 2019, representing a decrease of approximately 69.4% or RMB84.6 million as compared with the corresponding period of 2018, which was mainly due to the cyclical impact of film business and the difference between the income recognised from customised drama and the sales of license.



Cost

The Group's cost for the nine months ended September 30, 2019 was approximately RMB108.1 million, representing a decrease of approximately 58.0% as compared to approximately RMB257.3 million for the nine months ended September 30, 2018.

The decrease in cost of the Group was mainly due to the reduction of cost in line with decrease in revenue from games as well as effective cost control.

Gross profit and gross profit margin

The Group's gross profit for the nine months ended September 30, 2019 was approximately RMB60.4 million, representing a decrease of approximately 58.5% from approximately RMB145.7 million for the nine months ended September 30, 2018.

The Group's gross profit margin for the nine months ended September 30, 2019 was approximately 35.8%, representing a decrease of approximately 0.4 percentage point as compared to approximately 36.2% for the nine months ended September 30, 2018.

Selling and marketing expenses

The Group's selling and marketing expenses for the nine months ended September 30, 2019 were approximately RMB24.4 million, representing a decrease of approximately 71.5% from approximately RMB85.6 million for the nine months ended September 30, 2018. The decrease in selling and marketing expenses was primarily due to the reduction of advertising and promotion expenses incurred when publishing new games.

Administrative expenses

The Group's administrative expenses for the nine months ended September 30, 2019 were approximately RMB33.9 million, representing a decrease of 40.9% from approximately RMB57.4 million for the nine months ended September 30, 2018. The decrease in administrative expenses was primarily due to the reduction in expenses so as to meet the needs of the business and development strategy of the Company.

Research and development expenses

The Group's research and development expenses for the nine months ended September 30, 2019 were approximately RMB21.9 million, representing a decrease of approximately 61.6% from approximately RMB57.0 million for the nine months ended September 30, 2018. The decrease in research and development expenses was primarily due to the reduction in salary expenses as a result of reduction in headcounts and improvement in efficiency so as to meet the needs of the business and development strategy of the Company.

Share of income/(loss) of investments using equity accounting

The Group's share of income of investments using equity accounting for the nine months ended September 30, 2019 was approximately RMB0.4 million, as compared to a loss of approximately RMB7.1 million for the nine months ended September 30, 2018, mainly due to the turnaround of Fuze Entertainment Co., Ltd., our investee, for the current period.

Loss for the period

As a result of the foregoing, the loss for the nine months ended September 30, 2019 was approximately RMB10.4 million as compared to a loss of approximately RMB69.1 million for the nine months ended September 30, 2018, representing a decrease in loss of approximately 84.9%.

Non-IFRSs measure — adjusted net loss

To supplement our condensed consolidated quarterly financial results presented in accordance with the GEM Listing Rules, we also adopted adjusted net loss as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted net loss was derived from our net loss for the period deducted share-based compensation expenses and one-off compensation for loss of office paid. The adjusted net loss measured at Non-IFRSs is an unaudited figure.



The following table respectively sets out the reconciliation from loss for the period under IFRSs to the adjusted net loss for the nine months ended September 30, 2019 and 2018:

	For the nine months ended September 30,		
	2019	2018	Change
	RMB'000	RMB'000	approximate
	(Unaudited)	(Unaudited)	%
Loss for the period	(10,433)	(69,139)	(84.9)
Add:			
Share-based compensation expenses	3,259	(2,609)	224.9
One-off compensation for loss of office paid	5,526	16,515	(66.5)
Adjusted net loss	(1,648)	(55,233)	(97.0)

The Group's adjusted net loss for the nine months ended September 30, 2019 was approximately RMB1.6 million, representing a decrease of approximately 97.0% as compared to the adjusted net loss of approximately RMB55.2 million for the nine months ended September 30, 2018. The decrease in our adjusted net loss for the current period was mainly due to the combined effect of: (i) the decrease in advertising and marketing expenses for games distribution; (ii) the decrease in salary expenses as a result of the reduction in headcount for improving efficiency.



Liquidity and Financial Resources

During the nine months ended September 30, 2019, we financed our businesses primarily through cash generated from our major operating activities. The Group has been maintaining a solid cash position since the listing of the Company's shares (the "**Shares**") on the Stock Exchange (the "**Listing**") for obtaining the net proceeds which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the nine months ended September 30, 2019, most of the Group's idle capital was invested in short-term wealth management products issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives.

Cash and cash equivalents, short-term bank deposits and restricted deposits

As of September 30, 2019, we had cash and cash equivalents of approximately RMB140.1 million (as of December 31, 2018: approximately RMB176.6 million), which primarily consisted of cash at bank, other financial institutions and cash in hand and were mainly denominated in U.S. dollars ("**USD**") (as to approximately 44.9%), HKD (as to approximately 41.4%), RMB (as to approximately 12.0%) and other currencies (as to approximately 2.0%).

As of September 30, 2019, we had short-term bank deposits of approximately RMB99.0 million (as of December 31, 2018: RMB102.9 million).

As of September 30, 2019, approximately RMB236.4 million (as of December 31, 2018: approximately RMB233.8 million) are restricted deposits held at a bank as its reserve for the provision of a loan facility of RMB199.1 million (as of December 31, 2018: RMB199.1 million) provided by the bank which will expire within 1 year.

Capital Structure

The Shares were listed on GEM of the Stock Exchange on December 30, 2014. The capital structure of the Company comprises ordinary Shares.

Borrowing and Gearing Ratio

As at September 30, 2019, bank loans borrowed by the Group amounted to approximately RMB199.1 million (as at December 31, 2018: approximately RMB199.1 million). As at September 30, 2019, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 34.0% (as at December 31, 2018: approximately 38.8%).

Charge on Group Assets

As at September 30, 2019, restricted deposits of approximately RMB236.4 million of the Group were pledged to secure bank borrowings (as at December 31, 2018: approximately RMB233.8 million).

Information on Employees and Remuneration Policy

The Group has established the remuneration committee on April 21, 2014 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 regarding the remuneration and compensation of the Directors and the senior management of the Group. The Group offers a 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.

As at September 30, 2019, the Group had 188 employees. For the nine months ended September 30, 2019, total remuneration for employees of the Group was approximately RMB57.0 million (for the nine months ended September 30, 2018: approximately RMB126.9 million).

The Company has adopted a share option scheme as incentive to the Directors and eligible persons, details of which are set out in the paragraph headed "Share Option Scheme" of this report.

In addition, the Company has adopted a restricted share unit scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

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 Company 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. The Company also provides various incentives to motivate its employees.

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

There was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the nine months ended September 30, 2019.

REVIEW OF THE QUARTERLY RESULTS

The quarterly financial results of the Group for the nine months ended September 30, 2019 is unaudited and has not been reviewed by the auditors of the Company, but has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

The Audit Committee has reviewed the Group’s unaudited condensed consolidated quarterly financial results for the nine months ended September 30, 2019 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters of the Group.

DIVIDEND

The Board did not recommend the payment of a dividend for the nine months ended September 30, 2019.

USE OF IPO PROCEEDS

The net proceeds of the Company from the public offering of Shares in December 2014 amounted to approximately HKD686.2 million after deducting the underwriting commission and other expenses in connection with the public offering (the **“IPO Proceeds”**).



As of September 30, 2019, the IPO Proceeds have been utilised as follows:

	Net proceeds million HKD	Amounts utilised as of December 31, 2018 million HKD	Amounts utilised during the nine months ended September 30, 2019 million HKD	Amounts unutilised million HKD
Overseas expansions (expanding our business in overseas markets)	137.2	119.7	9.9	7.6
Potential strategic acquisition or investment in companies in online game or related businesses	68.6	36.6	11.1	20.9
Creating pan-entertainment environment	157.8	122.2	35.6	0
Licensing more high quality games with different genres and themes from Chinese and overseas game developers and the operation of such games	68.6	65.4	0	3.2
Research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content	137.2	135.5	0	1.7
Providing funding for our working capital and other general corporate purposes	34.3	6.4	10.9	17.0
Investing in our technology platform, including developing and improving our game development tools and purchase of commercialized game engines developed by third parties	34.3	0.9	25.3	8.1
Mastering user usage flow entry point via developing intellectual hardware and mobile phone software	48.2	9.4	0	38.8
Total	686.2	496.1	92.8	97.3

As of September 30, 2019, approximately HKD97.3 million of the IPO Proceeds remained unutilised. The unutilised IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

Among the unutilised proceeds, those reserved for the expansion of overseas business are expected to be fully utilised in 2019; funding reserved for acquisition will be utilised in accordance with the progress of our potential acquisition projects. We will utilise the funding reserved for working capital in the Company's operations; funding for investing in our technology platform will be used in 2019 to purchase and develop new game engines; and funding for development of intellectual hardware and mobile phone software for mastering user usage flow entry point will be utilised in accordance with the development progress in 2019.

The Company will continue to utilise the IPO Proceeds for the purposes which are consistent with those set out in the announcement of "Change in Use of Proceeds" of the Company dated March 29, 2016.



CORPORATE GOVERNANCE AND OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of September 30, 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in Shares and underlying Shares

Director/Chief executive	Capacity/Nature of interest	Number of Shares (Note 1)	Approximate percentage of interest (Note 2)
Mr. Wang Feng (Note 3)	Interest of controlled corporation	66,576,160 (L)	21.48%
	Beneficial owner	12,640,380 (L)	
Ms. Liao Mingxiang (Note 4)	Beneficial owner	14,985,769 (L)	7.36%
	Interest of controlled corporation	12,168,720 (L)	
Mr. Wang Jin (Note 5)	Beneficial owner	5,500,000 (L)	1.49%
Mr. Chen Hao (Note 6)	Beneficial owner	3,575,841 (L)	0.97%

Notes:

1. (L) denotes long position.
2. Based on the number of issued Shares as of September 30, 2019, being 368,730,964 Shares.
3. Mr. Wang Feng held the entire issued share capital of Wangfeng Management Limited, which in turn directly held 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in all the 66,576,160 Shares held by Wangfeng Management Limited under the SFO.

In addition, Mr. Wang Feng held 4,207,072 Shares and was interested in 8,433,308 RSUs granted to him under the RSU Scheme (as defined below) entitling him to receive 8,433,308 Shares subject to vesting. As of September 30, 2019, all the RSUs have been vested.

4. Ms. Liao Mingxiang held the entire issued share capital of Liaomingxiang Holdings Limited, which in turn directly held 12,168,720 Shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in all the 12,168,720 Shares held by Liaomingxiang Holdings Limited under the SFO.

In addition, Ms. Liao Mingxiang held 174,000 Shares and was interested in (a) 3,500,000 share options granted to her on September 12, 2019 under the share option scheme of the Company entitling her to receive 3,500,000 Shares upon exercise; and (b) 11,311,769 RSUs granted to her under the RSU Scheme entitling her to receive 11,311,769 Shares subject to vesting, among which, 2,811,769 RSUs have been vested as of September 30, 2019.

For further details on the share options, please refer to the section headed "Share Option Scheme" in this report.

5. The 5,500,000 Shares that Mr. Wang Jin was interested in consisted of (a) 300,000 share options, 1,000,000 share options and 1,600,000 share options granted to him on June 15, 2016, April 1, 2019 and September 12, 2019, respectively, under the share option scheme of the Company entitling him to receive an aggregate of 2,900,000 Shares upon exercise; and (b) 2,600,000 RSUs granted to him under the RSU Scheme entitling him to receive 2,600,000 Shares subject to vesting, among which, 500,000 RSUs have been vested as of September 30, 2019.

For further details on the share options, please refer to the section headed "Share Option Scheme" in this report.

6. The 3,575,841 Shares that Mr. Chen Hao was interested in consisted of (a) 100,000 share options, 1,000,000 share options and 1,000,000 share options granted to him on October 9, 2015, January 18, 2017 and September 12, 2019, respectively, under the share option scheme of the Company entitling him to receive an aggregate of 2,100,000 Shares upon exercise; and (b) 1,475,841 RSUs granted to him under the RSU Scheme entitling him to receive 1,475,841 Shares subject to vesting, among which 325,841 RSUs have been vested as of September 30, 2019.

For further details on the share options, please refer to the section headed "Share Option Scheme" in this report.

Save as disclosed above, as of September 30, 2019, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(ii) Interest in other member(s) of the Group

As of September 30, 2019, the following Directors or the chief executive of the Company are directly or indirectly (other than indirectly by virtue of their interest in the Company) interested in the shares or underlying shares of other member(s) of the Group as follows:

Director/ Chief executive	Company concerned	Capacity/ Nature of interest	Register share capital	Approximate percentage of interest
Mr. Wang Feng	Linekong Online (Beijing) Technology Co., Ltd. ("Linekong Online")	Beneficial owner <i>(note 1)</i>	RMB7,545,000	75.45%
Ms. Liao Mingxiang	Linekong Online	Beneficial owner <i>(note 1)</i>	RMB1,364,000	13.64%
Mr. Wang Jin	Horgos Linekong Pictures Corporation	Beneficial owner	RMB4,155,000	8.31%

Note:

- Linekong Online is a subsidiary of the Company controlled through contractual arrangements. Mr. Wang Feng and Ms. Liao Mingxiang are the registered shareholders of Linekong Online.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

So far as is known to the Directors, as of September 30, 2019, the following persons (other than Directors and chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO:

(i) Substantial Shareholders

Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate percentage of interest (Note 2)
Zhu Li (Note 3)	Interest of spouse	79,216,540 (L)	21.48%
Wangfeng Management Limited (Note 4)	Beneficial owner	66,576,160 (L)	18.06%
Starwish Global Limited (Note 5)	Beneficial owner	52,318,760 (L)	14.19%
China Momentum Fund, L.P. (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun China Momentum Fund GP, Ltd. (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Momentum Holdings Limited (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Financial Holdings Limited (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Limited (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%

Shareholder	Nature of interest	Number of Shares <i>(Note 1)</i>	Approximate percentage of interest <i>(Note 2)</i>
Fosun Holdings Limited <i>(Note 5)</i>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Holdings Limited <i>(Note 5)</i>	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang <i>(Note 5)</i>	Interest of controlled corporation	52,318,760 (L)	14.19%
The Core Trust Company Limited <i>(Note 6)</i>	Trustee of a trust	41,461,586 (L)	11.24%
TCT (BVI) Limited <i>(Note 6)</i>	Trustee of a trust	41,461,586 (L)	11.24%
Premier Selection Limited <i>(Note 6)</i>	Nominee for another person	41,461,586 (L)	11.24%

Notes:

- (L) denotes long position.
- Based on the number of issued Shares as of September 30, 2019, being 368,730,964 Shares.
- Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in the Shares in which Mr. Wang Feng is interested under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report.
- Mr. Wang Feng, chairman of the Company and Director, holds the entire issued share capital of Wangfeng Management Limited.
- Starwish Global Limited is wholly-owned by China Momentum Fund, L.P. ("**China Momentum**"), an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. ("**Fosun China Momentum**") is the general partner of China Momentum and is in turn wholly-owned by Fosun Momentum Holdings Limited ("**Fosun Momentum Holdings**"). Fosun Momentum Holdings is wholly-owned by Fosun Financial Holdings Limited ("**Fosun Financial Holdings**") which is in turn wholly-owned by Fosun International Limited ("**Fosun International**"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00656).

As of September 30, 2019, based on information available on the Stock Exchange, Fosun International is 70.76% owned by Fosun Holdings Limited (“**Fosun Holdings**”) which is in turn wholly-owned by Fosun International Holdings Ltd. (“**Fosun International Holdings**”), a company controlled as to approximately 85.29% by Mr. Guo Guangchang.

Accordingly, each of Guo Guangchang, Fosun International Holdings, Fosun Holdings, Fosun International, Fosun Financial Holdings, Fosun Momentum Holdings, Fosun China Momentum and China Momentum is deemed to be interested in all the Shares held by Starwish Global Limited under the SFO.

6. The Core Trust Company Limited, being the RSU trustee, directly held the entire issued share capital of TCT (BVI) Limited, which in turn directly held the entire issued share capital of Premier Selection Limited (the RSU nominee).

(ii) Other Shareholders

Shareholder	Nature of interest	Number of Shares <small>(Note 1)</small>	Approximate percentage of interest <small>(Note 2)</small>
Ho Chi Sing <small>(Note 3 & 4)</small>	Interest of controlled corporation	29,922,996 (L)	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. <small>(Note 3)</small>	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund Associates, L.P. <small>(Note 3)</small>	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund L.P. <small>(Note 3)</small>	Beneficial owner	23,061,443 (L)	6.25%
Zhou Quan <small>(Note 3)</small>	Interest of controlled corporation	27,774,323 (L)	7.53%
Fubon Financial Holding Co., Ltd. <small>(Note 5)</small>	Interest of controlled corporation	23,739,000 (L)	6.44%
Fubon Life Insurance Co., Ltd. <small>(Note 5)</small>	Beneficial owner	23,739,000 (L)	6.44%

Notes:

1. (L) denotes long position.
2. Based on the number of issued Shares as of September 30, 2019, being 368,730,964 Shares.
3. Each of IDG-Accel China Growth Fund L.P. ("**IDG Fund**", holding 23,061,443 Shares) and IDG-Accel China Growth Fund-A LP. ("**IDG Fund-A**", holding 4,712,880 Shares) is controlled by its sole general partner, IDG-Accel China Growth Fund Associates, L.P. ("**IDG Fund Associates**"), which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. ("**IDG GP Associates**"). IDG GP Associates is held as to 35.00% by each of Zhou Quan and Ho Chi Sing.

Accordingly, each of Zhou Quan, Ho Chi Sing, IDG GP Associates and IDG Fund Associates is deemed to be interested in all the Shares held by IDG Fund and IDG Fund-A under the SFO.

4. IDG-Accel China Investors L.P. ("**IDG China Investors**", holding 2,148,673 Shares) is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd. ("**IDG Associates**"), which in turn is held as to 100.00% by Mr. Ho Chi Sing.

Accordingly, each of Mr. Ho Chi Sing and IDG Associates is deemed to be interested in all the Shares held by IDG China Investors under the SFO.

5. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..

Share Option Scheme

The Company adopted a share option scheme on November 20, 2014 (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full-time or part-time) or a director of a member of the Group or associated companies of the Company or any person who provides or has provided consultancy or other advisory services to the Group. Key terms of the Share Option Scheme are summarized in Appendix IV "Share Option Scheme" of the Prospectus.

Details of the granted and outstanding share options of the Company as of September 30, 2019 and movement during the nine months ended September 30, 2019 are as follows:

Category	Date of grant	Option period (year/s)	Share Options granted	Exercise price HKD	Closing Price of the Shares immediately before the date of grant HKD	Outstanding balance as at January 1, 2019	During the reporting period				Outstanding balance as at September 30, 2019	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Ms. Liao Mingxiang	September 12, 2019	September 12, 2019 to September 11, 2029	3,500,000 (year/s)	0.72	0.72	—	3,500,000	—	—	—	3,500,000	—	—
Mr. Chen Hao	October 9, 2015	October 9, 2015 to October 8, 2025	100,000 (year/s)	7.18	7.18	100,000	—	—	—	—	100,000	—	12,500
	January 18, 2017	January 18, 2017 to January 17, 2027	1,000,000 (year/s)	3.10	3.10	1,000,000	—	—	—	—	1,000,000	—	250,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,000,000 (year/s)	0.72	0.72	—	1,000,000	—	—	—	1,000,000	—	—
Mr. Wang Jin	June 15, 2016	June 15, 2016 to June 14, 2026	300,000 (year/s)	4.366	4.18	300,000	—	—	—	—	300,000	—	37,500
	April 1, 2019	April 1, 2019 to March 31, 2029	1,000,000 (year/s)	0.88	0.88	—	1,000,000	—	—	—	1,000,000	—	500,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,600,000 (year/s)	0.72	0.72	—	1,600,000	—	—	—	1,600,000	—	—
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 (year/s)	8.10	8.10	462,298	—	—	—	—	462,298	—	—
	October 9, 2015	October 9, 2015 to October 8, 2025	5,910,000 (year/s)	7.18	7.18	2,856,250	—	—	—	77,500	2,778,750	—	128,750
	June 15, 2016	June 15, 2016 to June 14, 2026	1,450,000 (year/s)	4.366	4.18	675,000	—	—	—	—	675,000	—	—
	January 18, 2017	January 18, 2017 to January 17, 2027	8,225,000 (year/s)	3.10	3.10	2,487,500	—	—	—	153,750	2,333,750	—	197,500
	April 1, 2019	April 1, 2019 to March 31, 2029	300,000 (year/s)	0.88	0.88	—	300,000	—	—	—	300,000	—	150,000
	August 16, 2019	August 16, 2019 to August 15, 2029	860,000 (year/s)	0.65	0.64	—	860,000	—	—	—	860,000	—	—
	September 12, 2019	September 12, 2019 to September 11, 2029	800,000 (year/s)	0.72	0.72	—	800,000	—	—	—	800,000	—	—

Notes:

1. The vesting period of the share options starts from the date of acceptance of the grant to the commencement of the exercise period.

2. The share options granted on August 12, 2015 may be exercised in accordance with the following vesting timetable:

Vesting dates	Cumulative percentage of share options vested
10 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
16 months upon the acceptance of the offer for grant of share options	37.5% (rounded down to the nearest integral number of shares) of the share options granted
22 months upon the acceptance of the offer for grant of share options	50% (rounded down to the nearest integral number of shares) of the share options granted
28 months upon the acceptance of the offer for grant of share options	62.5% (rounded down to the nearest integral number of shares) of the share options granted
34 months upon the acceptance of the offer for grant of share options	75% (rounded down to the nearest integral number of shares) of the share options granted
40 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
46 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

3. The share options granted on October 9, 2015, June 15, 2016, January 18, 2017 and August 16, 2019 may be exercised in accordance with the following vesting timetable:

Vesting dates	Cumulative percentage of share options vested
12 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
18 months upon the acceptance of the offer for grant of share options	37.5% (rounded down to the nearest integral number of shares) of the share options granted
24 months upon the acceptance of the offer for grant of share options	50% (rounded down to the nearest integral number of shares) of the share options granted
30 months upon the acceptance of the offer for grant of share options	62.5% (rounded down to the nearest integral number of shares) of the share options granted
36 months upon the acceptance of the offer for grant of share options	75% (rounded down to the nearest integral number of shares) of the share options granted
42 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
48 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

4. The share options granted on April 1, 2019 may be exercised in accordance with the following vesting timetable:

Vesting dates	Cumulative percentage of share options vested
Upon the acceptance of the offer	50% (rounded down to the nearest integral number of shares) of the share options granted
6 months upon the acceptance of the offer for grant of share options	58.5% (rounded down to the nearest integral number of shares) of the share options granted
12 months upon the acceptance of the offer for grant of share options	67% (rounded down to the nearest integral number of shares) of the share options granted
18 months upon the acceptance of the offer for grant of share options	75.5% (rounded down to the nearest integral number of shares) of the share options granted
24 months upon the acceptance of the offer for grant of share options	84% (rounded down to the nearest integral number of shares) of the share options granted
30 months upon the acceptance of the offer for grant of share options	92.5% (rounded down to the nearest integral number of shares) of the share options granted
36 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

5. The share options granted on September 12, 2019 may be exercised in accordance with the following vesting timetable:

Vesting dates	Cumulative percentage of share options vested
1 January 2020	50% (rounded down to the nearest integral number of shares) of the share options granted
6 months upon the acceptance of the offer for grant of share options	58.5% (rounded down to the nearest integral number of shares) of the share options granted
12 months upon the acceptance of the offer for grant of share options	67% (rounded down to the nearest integral number of shares) of the share options granted
18 months upon the acceptance of the offer for grant of share options	75.5% (rounded down to the nearest integral number of shares) of the share options granted
24 months upon the acceptance of the offer for grant of share options	84% (rounded down to the nearest integral number of shares) of the share options granted
30 months upon the acceptance of the offer for grant of share options	92.5% (rounded down to the nearest integral number of shares) of the share options granted
36 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

Share Incentive Scheme

As incentive to Directors and eligible persons, the Company approved and adopted the restricted share unit scheme ("**RSU Scheme**") on March 21, 2014 (amended on August 22, 2014) where each restricted share unit ("**RSU**") granted thereunder represents one underlying Share. The RSU Scheme is not subject to the provisions of Chapter 23 of the GEM Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

As of September 30, 2019, there were 43,851,294 RSUs granted and outstanding, among which 30,391,294 RSUs have been vested.

During the nine months ended September 30, 2019, 13,960,000 RSUs were granted to 21 grantees (including 8,500,000 RSUs to Ms. Liao Mingxiang, 2,600,000 RSUs to Mr. Wang Jin and 1,000,000 RSUs to Mr. Chen Hao, all our Directors); no RSU was exercised; and no RSU was cancelled or lapsed. In addition, The Core Trust Company Limited, the RSU trustee assisting with the administration and vesting of RSUs granted, purchased 5,183,000 Shares on the Stock Exchange during the nine months ended September 30, 2019, which will be used to satisfy the RSUs upon exercise.



Interests in Competing Business

None of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group during the nine months ended September 30, 2019.

Purchase, Sale or Redemption of Listed Securities of the Company

During the nine months ended September 30, 2019, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance Code

The Company has applied the principles and code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with the CG Code throughout the nine months ended September 30, 2019.



Audit Committee

The Audit Committee was established on April 24, 2014. The chairman of the Audit Committee is Ms. Wu Yueqin, an independent non-executive Director. Other members included Mr. Pan Donghui, a non-executive Director, Ms. Zhao Yifang and Mr. Zhang Xiangdong, independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM website and on 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 the Company's risk management and internal control systems, the effectiveness of the internal audit function, 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 complied with the requirements under Rule 5.28 of the GEM Listing Rules in relation to the composition of the Audit Committee.

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. After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings throughout the nine months ended September 30, 2019.

