



# LINEKONG

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● 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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**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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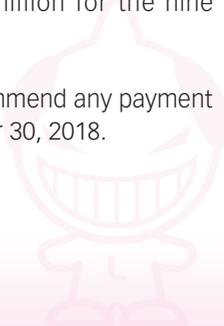
*This report, for which the directors (the “**Directors**”) of Linekong Interactive Group Co., Ltd. (the “**Company**” or “**we**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock 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

	<b>For the nine months ended September 30,</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue	<b>403,013</b>	368,206
Loss for the period	<b>(69,139)</b>	(109,808)
Adjusted net loss	<b>(55,233)</b>	(91,173)

- Adjusted net loss refers to the loss for the period excluding share-based compensation expenses and one-off compensation for loss of office paid to staff to improve management efficiency. Such information is deemed as a useful supplement in the interim condensed 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, 2018 amounted to approximately RMB403.0 million, representing an increase of approximately 9.5% as compared to approximately RMB368.2 million for the nine months ended September 30, 2017.
- Our loss for the nine months ended September 30, 2018 amounted to approximately RMB69.1 million, as compared to a loss of approximately RMB109.8 million for the nine months ended September 30, 2017.
- Our adjusted net loss for the nine months ended September 30, 2018 amounted to approximately RMB55.2 million, as compared to an adjusted net loss of approximately RMB91.2 million for the nine months ended September 30, 2017.
- The board of Directors (the “**Board**”) did not recommend any payment of dividends for the nine months ended September 30, 2018.



## Third Quarterly Results (unaudited)

The Board announces the unaudited interim condensed consolidated quarterly results and the unaudited interim condensed consolidated financial statements of the Group for the nine months ended September 30, 2018 together with the comparative figures for the nine months ended September 30, 2017. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Directors, of which one independent non-executive Director serves as the chairman of the audit committee.



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

For the nine months ended September 30, 2018

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	111,901	76,077	403,013	368,206
Cost of revenue		(78,672)	(51,070)	(257,342)	(218,800)
<b>Gross profit</b>		<b>33,229</b>	25,007	<b>145,671</b>	149,406
Selling and marketing expenses		(11,489)	(34,217)	(85,598)	(126,734)
Administrative expenses		(14,292)	(22,548)	(57,448)	(63,667)
Research and development expenses		(7,283)	(32,869)	(56,959)	(98,328)
Net impairment losses on financial assets		(144)	(336)	(655)	(1,953)
Other gains/(losses) — net	6	3,269	6,913	(714)	38,564
<b>Operating profit/(loss)</b>		<b>3,290</b>	(58,050)	<b>(55,703)</b>	(102,712)
Finance (costs)/income — net		(902)	(1,078)	(1,978)	370
Share of loss of investments using equity accounting		(2,573)	(3,696)	(7,061)	(25,646)
<b>Loss before income tax</b>		<b>(185)</b>	(62,824)	<b>(64,742)</b>	(127,988)
Income tax (expense)/credit	7	(172)	3,381	(4,397)	18,180
<b>Loss for the period</b>		<b>(357)</b>	(59,443)	<b>(69,139)</b>	(109,808)
<b>Other comprehensive income/(loss)</b>					
Items that may be subsequently reclassified to profit or loss:					
— Changes in fair value of available-for-sale financial assets, net of tax		-	5,183	-	27,243
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	(32)	-	(17,945)
— Share of other comprehensive income/(loss) of investments accounted for using the equity method, net of tax		2,494	(2,160)	3,238	(4,567)
Items that will not be reclassified to profit or loss:					
— Currency translation differences		19,217	(15,185)	23,805	(31,836)
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>21,711</b>	(12,194)	<b>27,043</b>	(27,105)
<b>Total comprehensive income/(loss) for the period</b>		<b>21,354</b>	(71,637)	<b>(42,096)</b>	(136,913)

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

For the nine months ended September 30, 2018

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
<b>Loss attributable to:</b>					
Owners of the Company		(2,149)	(58,998)	(75,056)	(110,405)
Non-controlling interests		1,792	(445)	5,917	597
<b>Loss for the period</b>		<b>(357)</b>	<b>(59,443)</b>	<b>(69,139)</b>	<b>(109,808)</b>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company		19,562	(71,227)	(47,967)	(137,536)
Non-controlling interests		1,792	(410)	5,871	623
<b>Total comprehensive income/(loss) for the period</b>		<b>21,354</b>	<b>(71,637)</b>	<b>(42,096)</b>	<b>(136,913)</b>
<b>Loss per share (expressed in RMB per share)</b>					
— Basic	8(a)	(0.01)	(0.17)	(0.21)	(0.31)
— Diluted	8(b)	(0.01)	(0.17)	(0.21)	(0.31)



## Interim Condensed Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2018

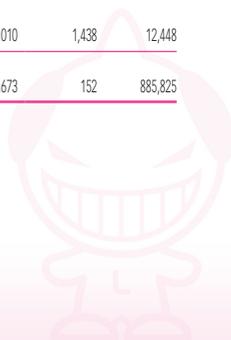
(Unaudited)	Attributable to owners of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000			
<b>Balance as of December 31, 2017</b>	59	1,720,690	(3,578)	390,603	(1,435,377)	672,397	3,760	676,157	
Adjustment on adoption of IFRS 9, net of tax	-	-	-	(22,400)	22,400	-	-	-	
<b>Balance as of January 1, 2018</b>	59	1,720,690	(3,578)	368,203	(1,412,977)	672,397	3,760	676,157	
<b>Comprehensive (loss)/income</b>									
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	
<b>Total comprehensive income/(loss) for the period</b>	-	-	-	27,089	(75,056)	(47,967)	5,871	(42,096)	
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
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)	
<b>Total contributions by and distributions to owners of the Company for the period</b>	-	-	(738)	7,461	-	6,723	1,528	8,251	
<b>Balance as of September 30, 2018</b>	59	1,720,690	(4,316)	402,753	(1,488,033)	631,153	11,159	642,312	



## Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the nine months ended September 30, 2018

(Unaudited)	Attributable to owners of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000			
<b>Balance as of January 1, 2017</b>	59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290	
<b>Comprehensive (loss)/income</b>									
Loss for the period	-	-	-	-	(110,405)	(110,405)	597	(109,808)	
Other comprehensive income/(loss)									
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	27,243	-	27,243	-	27,243	
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(17,945)	-	(17,945)	-	(17,945)	
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(4,567)	-	(4,567)	-	(4,567)	
— Currency translation differences	-	-	-	(31,862)	-	(31,862)	26	(31,836)	
<b>Total comprehensive (loss)/income for the period</b>	-	-	-	(27,131)	(110,405)	(137,536)	623	(136,913)	
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
Decrease in ownership interest in subsidiaries without change of control	-	-	-	(1,438)	-	(1,438)	1,438	-	
Employee share option and RSU Scheme:									
— Shares repurchased for RSU scheme	-	-	(2,540)	-	-	(2,540)	-	(2,540)	
— Value of employee services	-	-	-	14,988	-	14,988	-	14,988	
<b>Total contributions by and distributions to owners of the Company for the period</b>	-	-	(2,540)	13,550	-	11,010	1,438	12,448	
<b>Balance as of September 30, 2017</b>	59	1,720,691	(2,542)	412,899	(1,245,434)	885,673	152	885,825	



## Notes to Interim Condensed Consolidated Financial Information

### 1. General information

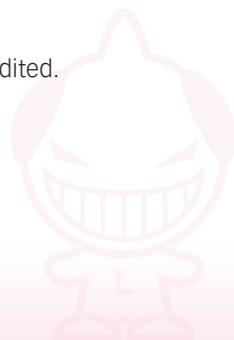
Linekong Interactive Group Co., Ltd. (the “**Company**”), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office 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 (the “**GEM**”) of the Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering (“**IPO**”).

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 “**Group’s Game Business**”) and online film business in the People’s Republic of China (the “**PRC**”) and other countries and regions.

The interim condensed consolidated balance sheet of the Group as of September 30, 2018 and the related interim condensed consolidated statements of comprehensive income/(loss) for the nine-month period and the three-month period then ended, 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 13, 2018.

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 has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”. 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, 2017 as set out in the 2017 annual report of the Company (the “**2017 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

The accounting policies applied in the preparation of the unaudited Interim Financial Information are consistent with those used in the 2017 Financial Statements, as described in the 2017 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 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” from January 1, 2018 as described in the 2017 Financial Statements and 2018 Interim Report.



### 3. Summary of significant accounting policies (Continued)

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, 2018. 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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Development and operations of online games (Note (a)):				
— Sales of in-game virtual items	64,243	60,610	258,816	291,065
— License fee and technical support fee	8,095	15,467	17,258	54,449
Production and licensing of film rights and others	39,563	—	126,939	22,692
	<b>111,901</b>	76,077	<b>403,013</b>	368,206

- (a) The Group offers its online games in different forms: client-based games, web-based games and mobile games. A breakdown of revenue derived from different forms of the Group's games in the respective period is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of in-game virtual items, license fee and technical support fee:				
— Mobile games	69,707	72,763	267,586	335,108
— Web-based games	335	714	1,489	2,164
— Client-based games	2,296	2,600	6,999	8,242
	<b>72,338</b>	76,077	<b>276,074</b>	345,514

#### 4. Revenue and segment information (Continued)

The chief operating decision maker of the Company considers that the Group's Game Business is operated and managed as a single segment, no segment information is presented accordingly.

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue for the nine months ended September 30, 2018 and 2017. Revenue from producing and licensing of films rights (including rights of internet drama) was derived from two and one different external customers for the nine months ended September 30, 2018 and 2017, respectively.

A breakdown of revenue derived from Mainland China and overseas countries and regions in the respective period is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue from external customers:				
— Mainland China	63,748	49,879	235,912	269,318
— Korea	20,427	20,926	93,573	80,860
— Other overseas countries and regions	27,726	5,272	73,528	18,028
	<b>111,901</b>	76,077	<b>403,013</b>	368,206



#### 4. Revenue and segment information (Continued)

The Group's non-current assets other than financial instruments, investments using equity accounting and deferred tax assets were located as follows:

	<b>As of September 30, 2018 RMB'000 (Unaudited)</b>	As of December 31, 2017 RMB'000 (Audited)
— Mainland China	<b>46,296</b>	80,601
— Korea	<b>1,893</b>	2,685
— Other overseas countries and regions	<b>1,996</b>	6,364
	<b>50,185</b>	89,650



## 5. Reserves

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
<b>Balance as of December 31, 2017</b>	<b>(14,119)</b>	<b>78,176</b>	<b>15,807</b>	<b>286,797</b>	<b>23,942</b>	<b>390,603</b>
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(22,400)	(22,400)
<b>Balance as of January 1, 2018</b>	<b>(14,119)</b>	<b>78,176</b>	<b>15,807</b>	<b>286,797</b>	<b>1,542</b>	<b>368,203</b>
Contribution from shareholders	-	-	-	-	11,598	11,598
Share of other comprehensive income of investments using equity method, net of tax	-	-	-	-	3,238	3,238
Increase in ownership interest in subsidiaries without change of control	(1,528)	-	-	-	-	(1,528)
Employee share option and RSU scheme: — Value of employee services	-	-	-	(2,609)	-	(2,609)
Currency translation differences	-	23,851	-	-	-	23,851
<b>Balance as of September 30, 2018</b>	<b>(15,647)</b>	<b>102,027</b>	<b>15,807</b>	<b>284,188</b>	<b>16,378</b>	<b>402,753</b>
<b>Balance as of January 1, 2017</b>	<b>(7,831)</b>	<b>118,899</b>	<b>9,557</b>	<b>273,990</b>	<b>31,865</b>	<b>426,480</b>
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	27,243	27,243
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(17,945)	(17,945)
Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	-	(4,567)	(4,567)
Decrease in ownership interest in subsidiaries without change of control	(1,438)	-	-	-	-	(1,438)
Employee share option and RSU scheme: — Value of employee services	-	-	-	14,988	-	14,988
Currency translation differences	-	(31,862)	-	-	-	(31,862)
<b>Balance as of September 30, 2017</b>	<b>(9,269)</b>	<b>87,037</b>	<b>9,557</b>	<b>288,978</b>	<b>36,596</b>	<b>412,899</b>

## 6. Other gains/(losses) — net

	Three months ended September 30,		Nine months ended September 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Government subsidies (Note (a))	1	74	1,936	238
Foreign exchange gains/ (losses), net	258	2,091	(1,226)	(927)
Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	(1,080)	3,556	(6,056)	3,700
Fair value (losses)/gains from an associate measured at fair value through profit or loss	(576)	1,191	624	14,013
Impairment charges on available-for-sale financial assets	-	-	-	(1,773)
(Losses)/gains on disposal of available-for-sale financial assets	-	(192)	-	23,692
Losses on disposals of intangible assets	(1,535)	-	(1,535)	-
Penalties income from termination of contracts	5,660	-	5,660	-
Others	541	193	(117)	(379)
	<b>3,269</b>	<b>6,913</b>	<b>(714)</b>	<b>38,564</b>

Note:

- (a) Government subsidies primarily represented various industry-specific subsidies granted by the government authorities to subsidize the game research and development costs and capital expenditures incurred by the Group during the course of its business.



## 7. Income tax expense/(credit)

The income tax expense/(credit) of the Group for each of the three months and nine months ended September 30, 2018 and 2017 is analysed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current income tax				
— Current income tax of this period	194	(1,118)	2,961	3,652
— Exemption of tax provision (Note (c)(i))	-	-	-	(17,099)
Total current income tax	194	(1,118)	2,961	(13,447)
Deferred income tax	(22)	(2,263)	1,436	(4,733)
<b>Income tax expense/(credit)</b>	<b>172</b>	<b>(3,381)</b>	<b>4,397</b>	<b>(18,180)</b>

### (a) Cayman Islands income tax

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.

### (b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for each of the three months and nine months ended September 30, 2018 and 2017 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

## 7. Income tax expense/(credit) (Continued)

### (c) PRC Enterprise Income Tax (“EIT”)

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of three months and nine months ended September 30, 2018 and 2017, except for Tianjin Baba Liusi Network Technology Co., Ltd. (“**Tianjin 8864**”), Beijing Feng and Long Interactive Culture Co., Limited (“**Feng and Long**”) and Horgos Linekong Pictures Corporation (“**Horgos Pictures**”). Tianjin 8864 and Feng and Long were accredited as software enterprises. Horgos Pictures was accredited as a new company in economic development zone. The applicable preferential income tax rates for these subsidiaries are as follows:

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	2017
Tianjin 8864	<b>25%</b>	50% reduction
Feng and Long (Note (i))	<b>50% reduction</b>	EIT exemption
Horgos Pictures	<b>EIT exemption</b>	EIT exemption

Note:

- (i) As Feng and Long was accredited as software enterprise in 2017 before the 2016 annual EIT clearance, related tax provision arising in 2016 was exempted in May 2017.

### (d) PRC withholding Tax (“WHT”)

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

## 7. Income tax expense/(credit) (Continued)

### (d) PRC withholding Tax ("**WHT**") (Continued)

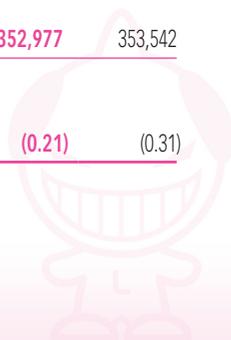
As of September 30, 2018, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of September 30, 2018 and December 31, 2017, the PRC operational entities did not have available undistributed profit to be remitted to the Company.

## 8. Loss per share

### (a) Basic

Basic loss per share for the three months and nine months ended September 30, 2018 and 2017 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		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company	<b>(2,149)</b>	(58,998)	<b>(75,056)</b>	(110,405)
Weighted average number of ordinary shares in issue (thousand shares)	<b>352,974</b>	353,755	<b>352,977</b>	353,542
Basic loss per share (expressed in RMB per share)	<b>(0.01)</b>	(0.17)	<b>(0.21)</b>	(0.31)



## 8. 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, 2018 and 2017, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the three months and nine months ended September 30, 2018 and 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months and nine months ended September 30, 2018 and 2017 are the same as basic loss per share of the period.

## 9. Dividends

No dividends have been paid or declared by the Company during each of the nine months ended September 30, 2018 and 2017.



## Management Discussion and Analysis

### Business Review for Third Quarter 2018 and Prospects

In the third quarter of 2018, the Group continued to focus on its mobile game business and online film business. Under the further advanced global development, we have promoted the Intellectual Property (“IP”) values of the best games in the world. Meanwhile, our films and video products have been distributed on schedule. Such business segment continuously contributes to the Group’s results with a further increased share in revenue.

During the reporting period, by virtue of “dual-wheel drive” strategy of simultaneously developing mobile game business and online film business, the Group realized revenue of approximately RMB403.0 million, representing an increase of approximately 9.5%. In addition, our operating efficiency was further improved together with lower expenses, which in turn minimized our loss by approximately 37.0% as compared with the corresponding period of last year.

#### 1. **“Uproar in Heaven (鬧鬧天宮)” has finished testing on two platforms, Tencent and Taptap, and it is scheduled to be launched in 2019**

In the second quarter of 2018, “Uproar in Heaven (鬧鬧天宮)”, the Group’s self-developed product, was shortlisted for the Tencent A.C.E Program. The game is highly recognized by a large number of players with its fascinating Chinese-painting-style artistic and casual battling system. During the first half of 2018, its second technical test on TapTap attracted 160,000 players and scored a high mark of 9.7. On September 13, 2018, a new round of deletion testing of “Uproar in Heaven (鬧鬧天宮)” was launched on Tencent and Taptap, which further attracted a larger number of players of more than 300,000. We have updated “Uproar in Heaven (鬧鬧天宮)” in response to the feedback of the testing users. It is scheduled to be launched in 2019. As a game under the Tencent A.C.E Program, “Uproar in Heaven (鬧鬧天宮)” will be assigned with dedicated traffic resources to secure a stable gaming environment for more users expanded by multiple channels of Tencent.

## 2. Continuous endeavors in overseas markets, further intensifying our international deployment

The Group continuously endeavored to advance our games' operation and promotion in overseas market in order to increase user engagement, improve gross billings and realize a rapid growth for overseas business. Meanwhile, the Group will focus on our strategy to expand MMORPG and "nijigen"(二次元) games. The Group's IP value and portfolio are maximized and enriched by new games and new game modes with an aim at driving rapid growth of the Group's game business in overseas market. During the third quarter of 2018, the Group's game business in overseas market generated a revenue of approximately RMB167.1 million, representing an increase of approximately 69.0% as compared to the corresponding period of last year.

Korea is an important market for Chinese mobile game developer to expand to the world. The major development objective of the Group's Korea-based subsidiary is to rapidly capture market share in Korea. By virtue of mature distribution strategy, refined operation and localized services, our Korea-based subsidiary has successfully cooperated with various worldwide outstanding mobile game developers and produced certain products, including "Datangwushuang (大唐無雙)" produced with NetEase and "Senran Kagura (閃亂神樂)" produced with Marvelous, both of which are scheduled to be distributed by our Korea agent in 2019.

The Group further intensified our international deployment. "Daybreak (黎明之光)", a 3D adventure game has won popularity in overseas market. It has been launched in 154 countries or regions outside Mainland China, covering all overseas regions on Google Play. The game continues to contribute revenue and profit to the Group with monthly gross billing of more than RMB10 million. Since 2017, "Daybreak (黎明之光)" has been launched in different foreign languages and well received by overseas players which can be evidenced by its nearly 5 million downloads, ranking Top 1 on the best seller list of IOS and Google Play in more than 20 countries or regions. "Daybreak (黎明之光)" has become the Group's hottest game in overseas market.



### **3. To capture the new opportunity coming with gaming social network, the Group finished the research and development of its first HTML5 game, which has been contracted to be launched**

In the second half of 2018, numerous internet leading companies developed HTML5 gaming platform by introducing “mini programs”. With the features of millions of users, accurate system notification, forwarding by one click and community chatting, “mini programs” can enhance user engagement and loyalty and satisfy their social needs. Given the extensive connectivity of platform gateways, HTML5 mini games are well positioned in which download is not required and users can start playing with one click. To capture such market opportunity, the Group targets on the younger generation segment which has more fragmented time and focuses on the planning of HTML5 mini games. “Code Name: Dungeon (代號: Dungeon)”, our first self-developed set-aside HTML5 mobile game, has been contracted to be distributed by Guangzhou Deepsea Software Development Co., Ltd. (廣州深海軟件發展有限公司), and its online testing will start in the fourth quarter of 2018.

After gaining experience in HTML5 sector, the Group has started the development of two HTML5 games: “Survival Rules in School (學園生存法則)” is a “nijigen”(二次元) tower defense game. The story background is based on cthulhu mythos, and it is about middle-school students fighting against evil; “Code: S (代號 : S)” is a “nijigen”(二次元) set-aside mobile game. The story background is based on the war among gods in ancient India myth.



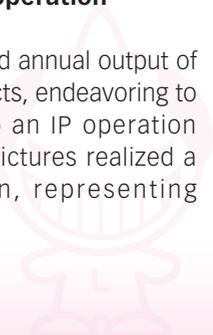
#### **4. Implementing prime IP strategy and promoting the IP values of the best games in the world**

Based on our prime IP strategy, the Group comprehensively converts our IP value in gaming, video, anime and music sectors to create a strategic system of culture and creativity for the purpose of satisfying customers' diversified needs in entertainment. During the reporting period, the Group continued to promote the IP value of two of the best games in the world. The Group has obtained the license to globally distribute "Xuanyuan Sword: Millennium Fate (軒轅劍•蒼之曜)", which is the official sequel of "Xuanyuan Sword (軒轅劍)", a classic Chinese RPG game series with a history of 28 years. The Group will cooperate with Softstar Entertainment Inc. (臺灣大宇) and Softstar Technology (Shanghai) Co., Ltd. (上海軟星) for the development of such mobile game. It is anticipated that the first external testing will be carried out in the fourth quarter of 2018. Prior to the launch of such game, its anime has been exclusively broadcasted on Youku since October 2, 2018 to refresh players' memory and to motivate their expectation for "Xuanyuan Sword: Millennium Fate (軒轅劍•蒼之曜)".

The Group has obtained the licence for the exclusive adaptation and global distribution of "Ys VIII (伊蘇VIII)", a supreme ARPG game in Japan. The Group will self-develop and launch the official authorized mobile game of "Ys VIII (伊蘇VIII)", it is expected that such game will be developed with the new Saturn 2.0 engine and under the supervision and maintenance from the original production team of "Ys VIII (伊蘇VIII)" from Falcom for the whole process, and will continue to promote this 30-year classic game series.

#### **5. Linekong Pictures' products distributed on schedule and more resources are placed on IP development and operation**

Linekong Pictures continues to adhere to its planned annual output of two to three high-quality videos of diversified subjects, endeavoring to upgrade from content-based video provider to an IP operation platform. During the reporting period, Linekong Pictures realized a revenue of approximately RMB121.9 million, representing approximately 30.2% of our total income.



“Long For You 2 (我與你的光年距離2)”, a much-anticipated online drama co-produced by Linekong Pictures and Mango TV, finished shooting during the reporting period. It is a sequel of the classic IP, “Long For You (我與你的光年)”. The production and content of “Long For You 2 (我與你的光年距離2)” have been fully upgraded. The production crew is composed of members with film-making experience. “Long For You 2 (我與你的光年距離2)”, a drama delivering an amazing love story in hyperspace to the audience, is expected to be broadcasted on Mango TV at the end of 2018. Meanwhile, “Mental Hospital (瘋人院)”, an online drama jointly invested by Linekong Pictures, has been exclusively broadcasted on Youku since August 9, 2018. The stories in “Mental Hospital (瘋人院)” reflect many socially debatable topics and cover all ethics, mystery and fantasy in one body. It has gained good reputation for its extremely mysterious storyline and scored 7.8 points on Douban.

In the second half of 2018, Linekong Pictures will allocate more resources to establish its production team, screenwriter team and administration team for enhancing IP development and operation. Currently, Linekong Pictures is working intensively on the filming of “Apocalypse, the Tomb Guardian (鎮墓獸•天啟)”, a science fiction and mystery IP, the first co-production of Tian Xia Ba Chang (天下霸唱) and Mr. Cai Jun (蔡駿). Also, Linekong Pictures is adapting the IP of “As a Fatty (身為一個胖子)”, a short article in Mr. Zhang Haochen’s (張皓宸) novel, “I’m with the world, just one of you (我與世界只差一個你)”, and developing the IP of “Ancient Music Records (古樂風華錄)”, an IP which can be promoted for movie and gaming jointly, such product is adapted from original comic and novel, it has vivid role setting and several-thousand-year story timeline, showing a great potential for gaming.

## Our players

The total number of registered players of our games increased from approximately 230.0 million as at September 30, 2017 to approximately 241.0 million as at September 30, 2018. As at September 30, 2018, the number of average monthly active users (MAU) reached approximately 1.4 million and the number of average daily active users (DAU) reached approximately 0.2 million, with an average monthly revenue per paying users (ARPPU) of approximately RMB465.7.

## Financial Review

### Revenue

The Group's revenue amounted to approximately RMB403.0 million for the nine months ended September 30, 2018 as compared with approximately RMB368.2 million for the nine months ended September 30, 2017, representing an increase of approximately 9.5%.

For the nine months ended September 30, 2018, the Group's revenue contributed by game business was RMB276.1 million, representing a decrease of approximately 20.1% or RMB69.4 million as compared with the corresponding period of 2017, which was due to fewer new games released during the first nine months of 2018 than in the corresponding period of 2017 as a result of the strategy implemented by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of the Group's movie and other business, the Group recognised a revenue of approximately RMB126.9 million from production and licensing of film rights and others during the nine months ended September 30, 2018.

### Revenue by game forms and sources

The following table sets forth the breakdown of our revenue by game business and movie business respectively. As regards the game business, the other tables below set forth the breakdown of revenue by (i) game forms; (ii) self-developed games and licensed games; and (iii) sales of in-game virtual items and license fee and technical support fee for the nine months ended September 30, 2018 and 2017 respectively:

	For the nine months ended September 30,			
	2018		2017	
	RMB'000	approximate %	RMB'000	approximate %
Development and operations of online games	276,074	68.5	345,514	93.8
Production and licensing of film rights and others	126,939	31.5	22,692	6.2
<b>Total</b>	<b>403,013</b>	<b>100.0</b>	<b>368,206</b>	<b>100.0</b>

	For the nine months ended September 30,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Mobile games	267,586	97.0	335,108	97.0
Web-based games	1,489	0.5	2,164	0.6
Client-based games	6,999	2.5	8,242	2.4
<b>Total</b>	<b>276,074</b>	<b>100.0</b>	<b>345,514</b>	<b>100.0</b>

	For the nine months ended September 30,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Self-developed games	68,148	24.7	111,721	32.3
Licensed games	207,926	75.3	233,793	67.7
<b>Total</b>	<b>276,074</b>	<b>100.0</b>	<b>345,514</b>	<b>100.0</b>

	For the nine months ended September 30,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Sales of in-game virtual items	258,816	93.7	291,065	84.2
License fee and technical support fee	17,258	6.3	54,449	15.8
<b>Total</b>	<b>276,074</b>	<b>100.0</b>	<b>345,514</b>	<b>100.0</b>



## International markets

As at September 30, 2018, our games have been distributed in 154 countries or regions outside China. During the nine months ended September 30, 2018, the revenue from overseas markets was approximately RMB167.1 million, representing an increase of approximately 69.0% as compared with the corresponding period of 2017 and accounting for approximately 41.5% of our total revenue.

Revenue from overseas countries and regions was mainly generated from South Korea.

	For the nine months ended September 30,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
China (excluding Hong Kong)	235,912	58.5	269,318	73.1
Overseas countries and regions	167,101	41.5	98,888	26.9
<b>Total</b>	<b>403,013</b>	<b>100.0</b>	<b>368,206</b>	<b>100.0</b>

## Cost

The Group's cost for the nine months ended September 30, 2018 was approximately RMB257.3 million, representing an increase of approximately 17.6% from approximately RMB218.8 million for the nine months ended September 30, 2017. Excluding the share-based compensation expense, the Group's cost for the nine months ended September 30, 2018 was approximately RMB257.4 million, representing an increase of approximately 18.6% from approximately RMB217.1 million for the nine months ended September 30, 2017.

For the nine months ended September 30, 2018, the cost incurred by game business was approximately RMB176.0 million, representing a decrease of approximately 10.3% or RMB20.2 million, as compared with the corresponding period of 2017, which was due to the decrease in our revenue from game business.

For the nine months ended September 30, 2018, the cost incurred by movie business was approximately RMB81.3 million.

## Gross profit and gross profit margin

The Group's gross profit for the nine months ended September 30, 2018 was approximately RMB145.7 million, representing a decrease of approximately 2.5% from approximately RMB149.4 million for the nine months ended September 30, 2017. Excluding the share-based compensation expense, the Group's gross profit for the nine months ended September 30, 2018 was approximately RMB145.6 million, representing a decrease of approximately 3.6% as compared to approximately RMB151.1 million for the nine months ended September 30, 2017. The decrease in the Group's gross profit was primarily due to the decrease in proportion of revenue from self-developed mobile games to the overall revenue for the nine months ended September 30, 2018.

The Group's gross profit margin for the nine months ended September 30, 2018 was approximately 36.2%, representing a decrease of approximately 4.4 percentage points as compared to approximately 40.6% for the nine months ended September 30, 2017. Excluding the share-based compensation expense, the Group's gross profit margin for the nine months ended September 30, 2018 was approximately 36.1%, representing a decrease of approximately 4.9 percentage points as compared to approximately 41.0% for the nine months ended September 30, 2017.

For the nine months ended September 30, 2018, the gross profit margin of game business was approximately 36.3%, representing a decrease of approximately 6.9 percentage points as compared with the corresponding period of 2017, which was mainly due to the increase in proportion of revenue from licensed mobile game to the overall revenue. The gross profit margin of movie business and other business was approximately 36.0%, which was slightly lower than that of game business.

## Selling and marketing expenses

The Group's selling and marketing expenses for the nine months ended September 30, 2018 were approximately RMB85.6 million, representing a decrease of approximately 32.4% from approximately RMB126.7 million for the nine months ended September 30, 2017. Excluding the share-based compensation expense, the Group's selling and marketing expenses for the nine months ended September 30, 2018 were approximately RMB85.9 million, representing a decrease of approximately 31.7% from approximately RMB125.8 million for the nine months ended September 30, 2017. The decrease in selling and marketing expenses was primarily due to reduction of advertising and promotion expenses incurred by publishing new games.

## **Administrative expenses**

The Group's administrative expenses for the nine months ended September 30, 2018 were approximately RMB57.4 million, representing a decrease of 9.9% from approximately RMB63.7 million for the nine months ended September 30, 2017. Excluding the share-based compensation expense, the Group's administrative expenses for the nine months ended September 30, 2018 were approximately RMB57.7 million, representing an increase of approximately 0.9% from approximately RMB57.2 million for the nine months ended September 30, 2017. The decrease in administrative expenses was primarily due to 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, 2018 were approximately RMB57.0 million, representing a decrease of approximately 42.0% from approximately RMB98.3 million for the nine months ended September 30, 2017. Excluding the share-based compensation expense, the Group's research and development expenses for the nine months ended September 30, 2018 were approximately RMB58.9 million, representing a decrease of approximately 37.5% from approximately RMB94.3 million for the nine months ended September 30, 2017. The decrease in research and development expenses was primarily due to 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.

## **Net impairment losses on financial assets**

The Group's net impairment losses on financial assets for the nine months ended September 30, 2018 were approximately RMB0.7 million, representing a decrease of approximately 65.0% from approximately RMB2.0 million for the nine months ended September 30, 2017, which was primarily due to the enhanced efficiency towards management of financial assets during the current year.

## **Other (losses)/gains — net**

The Group's other net losses for the nine months ended September 30, 2018 were approximately RMB0.7 million, as compared to other net gains of approximately RMB38.6 million for the nine months ended September 30, 2017. The other net losses for the nine months ended September 30, 2018 was mainly due to the changes in fair value of the financial assets held by the Group.

## **Finance (costs)/income — net**

The Group's net finance costs for the nine months ended September 30, 2018 were RMB2.0 million. Our net finance income was approximately RMB0.4 million for the nine months ended September 30, 2017. It was mainly due to the increase in interest cost on borrowings. No interest was capitalised for the nine months ended September 30, 2018 (for the nine months ended September 30, 2017: Nil).

## **Share of loss of investments using equity accounting**

The Group's share of loss of investments using equity accounting for the nine months ended September 30, 2018 was approximately RMB7.1 million, decreased by 72.3% from RMB25.6 million for the nine months ended September 30, 2017, mainly due to the narrowing of operating loss incurred by Fuze Entertainment Co., Ltd., our investee.

## **Income tax (expense)/credit**

The Group's income tax expense for the nine months ended September 30, 2018 was approximately RMB4.4 million, while the Group's income tax credit for the nine months ended September 30, 2017 was approximately RMB18.2 million, which was primarily due to: (i) certain subsidiaries of the Group were accredited as software enterprise in 2017 before the 2016 annual EIT clearance and related tax provision arising in 2016 was exempted in May 2017; and (ii) the decrease in recognised deferred income tax assets in respect of the temporary differences of deferred revenue of certain subsidiaries.

## **Loss for the period**

As a result of the foregoing, the loss for the nine months ended September 30, 2018 was approximately RMB69.1 million as compared to a loss of approximately RMB109.8 million for the nine months ended September 30, 2017, representing a decrease in loss of approximately 37.0%.



## Non-IFRSs measure — adjusted net loss

To supplement our consolidated financial statements presented in accordance with the International Financial Reporting Standards, 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 impacts from one-off compensation for loss of office. The adjusted net loss is an unaudited figure.

The following table reconciles our adjusted net loss for the nine months ended September 30, 2018 and 2017 respectively, in accordance with IFRSs:

	For the nine months ended September 30,		Change
	2018	2017	approximate
	RMB'000	RMB'000	%
	(Unaudited)	(Unaudited)	
<b>Loss for the period</b>	<b>(69,139)</b>	(109,808)	(37.0)
<b>Add:</b>			
Share-based compensation expenses	(2,609)	14,988	(117.4)
One-off compensation for loss of office paid	<b>16,515</b>	3,647	352.8
<b>Adjusted net loss</b>	<b>(55,233)</b>	(91,173)	(39.4)

The Group's adjusted net loss for the nine months ended September 30, 2018 was approximately RMB55.2 million, representing a decrease of approximately 39.4% as compared to the adjusted net loss of approximately RMB91.2 million for the nine months ended September 30, 2017. The decrease in our adjusted net loss was due to the decrease in advertising and marketing expenses for new games as well as the decrease in salary expenses as a result of reduction in headcounts for improving efficiency for the nine months ended September 30, 2018. We have presented adjusted net loss for the period in this quarterly report as we believe that the adjusted net loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration share-based compensation expenses. However, adjusted net loss for the period should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss presented in this quarterly report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

## Liquidity and Financial Resources

During the nine months ended September 30, 2018, 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

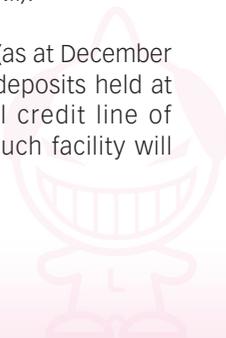
During the nine months ended September 30, 2018, most of the Group's idle capital was invested in short-term wealth management products issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term 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 at September 30, 2018, we had cash and cash equivalents of approximately RMB219.2 million (as at December 31, 2017: approximately RMB349.6 million), which primarily consisted of cash at bank and other financial institutions and cash in hand and which were mainly denominated in Renminbi (as to approximately 17.6%), Hong Kong dollars ("**HKD**") (as to approximately 20.5%), U.S. dollars ("**USD**") (as to approximately 60.9%) and other currencies (as to approximately 1.0%).

As at September 30, 2018, we had short-term bank deposits of approximately RMB103.2 million (as at December 31, 2017: Nil).

As at September 30, 2018, approximately RMB234.4 million (as at December 31, 2017: approximately RMB188.2 million) are restricted deposits held at bank as reserve for serving a loan facility with a total credit line of approximately RMB200.0 million provided by the bank. Such facility will expire within one year.



Net proceeds from the Listing, after deducting the underwriting commission and other expenses in connection with the Listing, received by the Company amounted to approximately HKD686.2 million. As at the date of this quarterly report, some of the net proceeds (see the section headed “Use of IPO Proceeds”) from the Listing had been utilised and the rest has been deposited into bank accounts maintained by the Group as short-term demand deposits. We will continue to utilise the net proceeds from the Listing in accordance with the proposed use of proceeds as set out in the “Change in Use of Proceeds” announcement of the Group dated March 29, 2016.

### **Capital expenditures**

The Group’s capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the nine months ended September 30, 2018, the Group’s total capital expenditure amounted to approximately RMB9.7 million (for the nine months ended September 30, 2017: approximately RMB11.4 million), including the purchase of trademarks and licenses amounting to approximately RMB8.3 million (for the nine months ended September 30, 2017: approximately RMB9.1 million).

### **Capital Structure**

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

### **Borrowing and Gearing Ratio**

As at September 30, 2018, bank loans borrowed by the Group amounted to approximately RMB199.1 million (as at December 31, 2017: approximately RMB136.7 million). As at September 30, 2018, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 35.7% (as at December 31, 2017: approximately 34.6%).



## Charge on Group Assets

As at September 30, 2018, restricted deposits of approximately RMB234.4 million of the Group were pledged to secure bank borrowings (as at December 31, 2017: approximately RMB188.2 million).

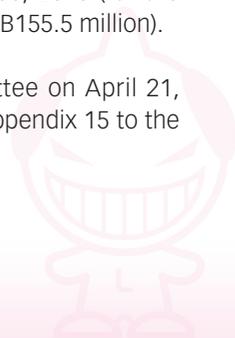
## Information on Employees and Remuneration Policy

As of September 30, 2018, the Group had 340 employees (as at September 30, 2017: 733), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at September 30, 2018 and 2017 respectively:

Function	As at September 30, 2018		2017	
	Number of Employees	approximate % of total employees	Number of Employees	approximate % of total employees
Research and development	164	48.2	407	55.5
Game publishing	105	30.9	187	25.5
— Game licensing	52	15.3	74	10.1
— Customer service	15	4.4	28	3.8
— Sales and marketing	38	11.2	85	11.6
General and administrative	49	14.4	97	13.2
Movie business	22	6.5	42	5.7
<b>Total</b>	<b>340</b>	<b>100</b>	<b>733</b>	<b>100</b>

The total remuneration of the employees of the Group was approximately RMB126.9 million for the nine months ended September 30, 2018 (for the nine months ended September 30, 2017: approximately RMB155.5 million).

The Company 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 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 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.

Share-based compensation expenses in connection with the RSU Scheme and share option scheme for the nine months ended September 30, 2018 were approximately RMB-2.6 million, representing a decrease compared with approximately RMB15.0 million for corresponding period in 2017.

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. In addition to providing performance-based bonuses and share-based awards, the Company offers unsecured, interest-free housing loans to employees with good performance.

## Dividend

The Board did not recommend the payment of a dividend for the nine months ended September 30, 2018.

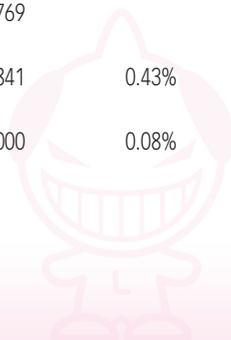
## Corporate Governance and Other Information

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

As of September 30, 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares of the Company, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "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 Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (i) Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Total number of Shares	Approximate percentage of shareholding (Note 5)
Mr. Wang Feng <sup>(Note 1)</sup>	Interest of controlled Corporation	66,576,160	21.48%
	Beneficial owner	12,640,380	
Ms. Liao Mingxiang <sup>(Note 2)</sup>	Interest of controlled Corporation	12,168,720	4.11%
	Beneficial owner	2,985,769	
Mr. Chen Hao <sup>(Note 3)</sup>	Beneficial owner	1,575,841	0.43%
Mr. Wang Jin <sup>(Note 4)</sup>	Beneficial owner	300,000	0.08%



*Notes:*

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 4,207,072 Shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 Shares subject to vesting. As of September 30, 2018, 100% of the RSUs have been vested.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 Shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 Shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 174,000 Shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares subject to vesting. As of September 30, 2018, 100% of the RSUs have been vested.
- (3) Mr. Chen Hao is interested in 1,575,841 Shares including 475,841 RSUs granted to him under the RSU Scheme entitling him to receive 475,841 Shares subject to vesting. As of September 30, 2018, approximately 47.46% of the RSUs granted to him have been vested. Mr. Chen Hao is also interested in 1,100,000 share options granted to him under the share option scheme of the Company entitling him to receive 1,100,000 Shares upon exercise of the share options. 100,000 of the share options were granted to him on October 9, 2015 and 1,000,000 of the share options were granted to him on January 18, 2017. As of September 30, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this report.
- (4) Mr. Wang Jin is interested in 300,000 share options granted to him on June 15, 2016 under the share option scheme of the Company entitling him to receive 300,000 Shares upon exercise of the share options. As of September 30, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this report.
- (5) As of September 30, 2018, the Company issued 368,730,964 Shares.



Save as disclosed above, on September 30, 2018, 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 Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## (ii) Long position in the shares in other members of the Group

So far as the Directors are aware, as of September 30, 2018, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

<b>Name of Subsidiary</b>	<b>Name of Shareholder</b>	<b>Registered Capital</b>	<b>Approximate % of Interest</b>
Linekong Online (Beijing) Technology Co., Ltd. ("Linekong Online")	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Online	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Online	Mr. Zhang Yuyu	RMB1,091,000	10.91%

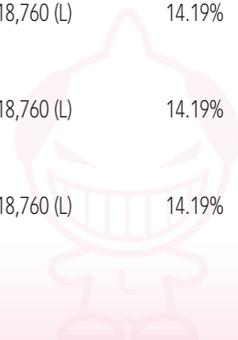


## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

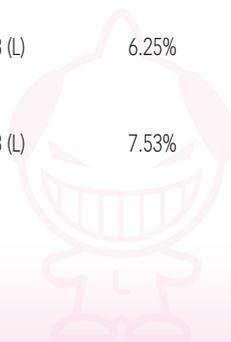
So far as is known to the Directors or chief executive of the Company, as of September 30, 2018, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long and short positions in the Shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 7)
Wangfeng Management Limited (Note 1)	Beneficial owner	66,576,160 (L)	18.06%
Zhu Li (Note 2)	Interest of spouse	79,216,540 (L)	21.48%
China Momentum Fund, L.P. (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun China Momentum Fund GP, Ltd. (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Financial Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%



<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares or securities held</b>	<b>Approximate percentage of interest in the Company</b> (Note 7)
Fosun International Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Momentum Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Starwish Global Limited (Note 3)	Beneficial owner	52,318,760 (L)	14.19%
The Core Trust Company Limited (Note 4)	Trustee of a trust	37,176,086 (L)	10.08%
TCT (BVI) Limited (Note 4)	Trustee of a trust	37,176,086 (L)	10.08%
Premier Selection Limited (Note 4)	Nominee for another person	37,176,086 (L)	10.08%
Chi Sing Ho (Note 5)	Interest of controlled corporation	29,922,996 (L)	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. (Note 5)	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund Associates, L.P. (Note 5)	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund L.P. (Note 5)	Beneficial owner	23,061,443 (L)	6.25%
Quan Zhou (Note 5)	Interest of controlled corporation	27,774,323 (L)	7.53%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 7)
Fubon Financial Holding Co., Ltd. (Note 6)	Interest of controlled corporation	23,739,000 (L)	6.44%
Fubon Life Insurance Co., Ltd. (Note 6)	Beneficial owner	23,739,000 (L)	6.44%

(L) Long position (S) Short position

Notes:

- Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited.
- Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in all of the Shares which are interested in by Mr. Wang Feng 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" of this report.
- Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P.. Fosun China Momentum Fund GP, Ltd. is in turn wholly-owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). As of September 30, 2018, Fosun International Limited is 71.88% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of September 30, 2018, Mr. Guo Guangchang owns approximately 64.45% in the issued share capital of Fosun International Holdings Ltd..
- The Core Trust Company Limited, being the RSU trustee, directly holds the entire issued share capital of TCT (BVI) Limited, which in turn directly holds the entire issued share capital of Premier Selection Limited (the RSU nominee), which originally held 42,161,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of September 30, 2018, 8,183,455 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 37,176,086 underlying Shares, including a total of 11,720,918 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 475,841 RSUs granted to Mr. Chen Hao. On March 29, 2018, April 3, 2018 and April 4, 2018, the Company had directed The Core Trust Company Limited to purchase and hold on-market 415,000 Shares, 320,000 Shares and 250,000 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.

5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund Associates, L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 Shares) and IDG-Accel China Growth Fund-A L.P. (directly holds 4,712,880 Shares) are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Quan Zhou and Mr. Chi Sing Ho; and (ii) IDG-Accel China Investors L.P. (directly holds 2,148,673 Shares) is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Chi Sing Ho. Hence, IDG-Accel China Growth Fund Associates L.P., IDG-Accel China Growth Fund GP Associates Ltd. and Mr. Quan Zhou are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing Ho is deemed to be interested in 29,922,996 Shares by virtue of SFO.
6. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
7. As of September 30, 2018, the Company issued 368,730,964 Shares.



## Share Option Scheme

The Company adopted the share option scheme (the “**Share Option Scheme**”) on November 20, 2014. 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 of the Company dated December 9, 2014.

As of September 30, 2018, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of Grant	Option Period	Share options granted	Exercise price per share HKD	The weighted average closing price of the shares HKD	Outstanding balance as at January 1, 2018	During the reporting period				Outstanding balance as at September 30, 2018	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			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 <sup>(a)</sup>	8.10	8.028	462,298	0	0	0	0	462,298	0	0
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	5,910,000 <sup>(a)</sup>	7.18	6.896	3,765,625	0	0	0	901,875	2,863,750	0	345,625
Mr. Chen Hao (Director since May 11, 2018)	October 9, 2015	October 9, 2015 to October 8, 2025	100,000 <sup>(a)</sup>	7.18	6.896	100,000	0	0	0	0	100,000	0	12,500
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,450,000 <sup>(a)</sup>	4.366	4.366	1,112,500	0	0	0	62,500	1,050,000	0	125,000
Mr. Wang Jin (Director since May 11, 2018)	June 15, 2016	June 15, 2016 to June 14, 2026	300,000 <sup>(a)</sup>	4.366	4.366	300,000	0	0	0	0	300,000	0	37,500
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	8,225,000 <sup>(a)</sup>	3.10	3.084	6,700,000	0	0	0	3,768,750	2,931,250	0	1,928,125
Mr. Chen Hao (Director since May 11, 2018)	January 18, 2017	January 18, 2017 to January 17, 2027	1,000,000 <sup>(a)</sup>	3.10	3.084	1,000,000	0	0	0	0	1,000,000	0	375,000

*Notes:*

- (1) The vesting period of the share options is starting from the date of acceptance of the grant to the commencement of the exercise period.
- (2) The options granted on August 12, 2015 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 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
ii. 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
iii. 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
iv. 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
v. 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
vi. 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
vii. 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

The closing price of the Shares immediately before the date on which the share options were granted was HKD8.10 per Share.



- (3) The options granted on October 9, 2015 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 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
ii. 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
iii. 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
iv. 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
v. 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
vi. 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
vii. 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

The closing price of the Shares immediately before the date on which the share options were granted was HKD7.18 per Share.



- (4) The options granted on June 15, 2016 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 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
ii. 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
iii. 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
iv. 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
v. 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
vi. 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
vii. 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

The closing price of the Shares immediately before the date on which the share options were granted was HKD4.366 per Share.



- (5) The options granted on January 18, 2017 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 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
ii. 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
iii. 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
iv. 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
v. 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
vi. 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
vii. 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

The closing price of the Shares immediately before the date on which the share options were granted was HKD3.10 per Share.

- (6) Please refer to the announcements of the Company dated August 12, 2015, October 9, 2015, June 15, 2016 and January 18, 2017 for details.

## Share Incentive Scheme

The Company approved and adopted the RSU Scheme on March 21, 2014 and as amended on August 22, 2014. 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, 2018, RSUs in respect of 35,471,879 underlying Shares have been granted to 461 grantees (3 of which are our Directors). Total RSUs in respect of 1,231,520 underlying Shares granted to 13 grantees had been lapsed during the nine months ended September 30, 2018. On September 30, 2018, 29,641,294 RSUs have been vested unconditionally and there were 250,000 RSUs granted and outstanding.

## Events during the Reporting Period and Subsequent Events

### Share Purchase by RSU Trustee

On March 29, 2018, April 3, 2018 and April 4, 2018, the Company had directed The Core Trust Company Limited, being the RSU Trustee assisting with the administration and vesting of RSUs granted pursuant to the RSU Scheme adopted by the Company, to purchase and hold on-market 415,000 Shares, 320,000 Shares and 250,000 Shares, respectively, of the ordinary Shares of the Company (collectively, the **"Share Purchases"**), which will be used to satisfy the RSUs upon exercise.

The Board believes that the current financial resources of the Company would enable it to proceed with the Share Purchases while maintaining a solid financial position for the continuation of the Company's business. In the opinion of the Board, it's an opportune time to replenish the underlying Shares in respect of the RSUs for the purpose of showing confidence of the Board to the Company's future prospect as the value of the Shares of the Company is consistently undervalued.

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated March 29, 2018, April 3, 2018 and April 4, 2018, respectively.



## **Appointment of Directors and Changes in the Composition of the Board Committees**

On May 11, 2018, Mr. Chen Hao and Mr. Wang Jin (also known as Yan Yusong) were appointed as executive Directors with effect from May 11, 2018. Both Mr. Chen Hao and Mr. Wang Jin entered into a director's service agreement with the Company for their appointments as executive Directors of the Company for a term of three years commencing from May 11, 2018.

On May 29, 2018, Ms. Wu Yueqin was appointed as an independent non-executive Director, chairman of the audit committee and as a member of the remuneration committee and the nomination committee with effect from May 29, 2018. Ms. Wu Yueqin entered into a letter of appointment with the Company for her appointment as an independent non-executive Director for a term of three years commencing from May 29, 2018.

## **Resignation and Retirement of Directors**

On February 15, 2018, Mr. Qian Zhonghua resigned as an executive Director with effect from February 15, 2018 due to personal development. On the same day, Mr. Zhao Jun also resigned as an executive Director and a member of the remuneration committee with effect from February 15, 2018 due to physical considerations.

On May 29, 2018, Mr. Ma Ji resigned as an independent non-executive Director with effect from May 29, 2018 as he was busy and his other business activities were increasing by the day, and he also ceased to be the chairman of the audit committee and a member of the remuneration committee and the nomination committee.

On June 15, 2018, Mr. Wang Xiaodong retired as an independent non-executive director of the Company with effect from June 15, 2018 due to his busy schedule and increasing commitments in other business, Mr. Wang Xiaodong also ceased to act as a member of the audit committee, the remuneration committee and the nomination committee of the Company accordingly. On the same day, Ms. Liao Mingxiang also ceased to be a member of the nomination committee of the Company with effect from June 15, 2018.



## Use of IPO Proceeds

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

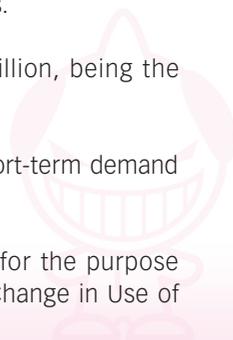
As of September 30, 2018, a total amount of approximately HKD460.2 million from the IPO Proceeds had been utilized for the purposes and approximately in the amount set out below:

- (a) approximately HKD100.6 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD46.0 million was used for potential strategic acquisition or investment in companies in online game and related businesses;
- (c) approximately HKD106.4 million was used for creating pan entertainment environment;
- (d) approximately HKD65.3 million was used for licensing more high quality games with different genres and themes from Chinese and overseas game developers and the operation of such games;
- (e) approximately HKD135.5 million was used for the 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; and
- (f) approximately HKD6.4 million was used for providing funding for our working capital and other general corporate purposes.

As of September 30, 2018, approximately HKD226.0 million, being the residual part of the IPO Proceeds, remains unutilized.

The unutilized IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

The Company will continue to utilize the IPO Proceeds for the purpose consistent with those set out in the announcement of “Change in Use of Proceeds” of the Company dated March 29, 2016.



## 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 for the nine months ended September 30, 2018.

## Significant Investments, Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

Save as disclosed in this report, there was no significant investment, material acquisition and disposal of subsidiaries and affiliated companies by the Company during the nine months ended September 30, 2018.

## Purchase, Sale or Redemption of Listed Securities of the Company

During the nine months ended September 30, 2018, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.



## 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 (appointed with effect from May 29, 2018). Previously, the ex-chairman of the audit committee was Mr. Ma Ji, a former independent non-executive Director (resigned with effect from May 29, 2018). Other members included Mr. Pan Donghui, a non-executive Director, Ms. Zhao Yifang, an independent non-executive Director, Mr. Zhang Xiangdong, an independent non-executive Director and Mr. Wang Xiaodong, an independent non-executive Director (retired with effect from June 15, 2018). 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 has complied with Rule 5.28 of the GEM 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 nine months ended September 30, 2018 have been reviewed by the audit committee. The audit committee is of the opinion that the unaudited financial statements of the Group for the nine months ended September 30, 2018 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.



## Corporate Governance

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

In the opinion of the Board, the Company has complied with the Code for the nine months ended September 30, 2018, except for the deviation of code provision A.2.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. From the date of listing to June 15, 2018, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considered that vesting the roles of chairman and chief executive officer in the same person was beneficial to the management of the Group. The balance of power and authority was ensured by the operation of the senior management and the Board, which was comprised of experienced and high-calibre individuals. With effect from June 15, 2018, Mr. Wang Feng ceased to be the chief executive officer of the Company, but remained as the chairman of the Board and Ms. Liao Mingxiang was appointed as the chief executive officer of the Company. The change was made to improve the corporate governance of the Company and ensure that the roles of the chairman of the Board and the chief executive officer would be separated in accordance with the spirit of the GEM Listing Rules. Since June 15, 2018, the Company has complied with the code provision A.2.1 of the Code.

## Directors’ Securities Transactions

The Company has adopted the required standard of dealings regarding directors’ securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them the general prohibition on dealing in the Company’s listed securities during the blackout periods before the publication of announcements of financial results of the Group.

Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standards of dealings for the nine months ended September 30, 2018.

