

2019

LINEKONG

● FIRST 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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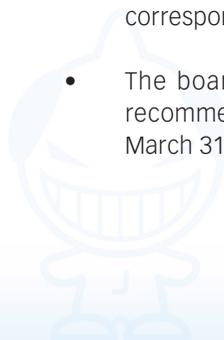
*This report, for which the directors (the “**Directors**”) of Linekong Interactive Group Co., Ltd. (“**Linekong Interactive**” or the “**Company**” or “**we**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 three months ended March 31,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	52,908	117,526
Loss for the period	(15,126)	(54,575)
Adjusted net loss	(12,403)	(49,882)

- Adjusted net 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 as stated in the consolidated statement of comprehensive loss which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.
- Revenue of the Group for the three months ended March 31, 2019 amounted to approximately RMB52.9 million, representing a decrease of approximately 55.0% as compared to approximately RMB117.5 million for the corresponding period of 2018.
- Loss for the period for the three months ended March 31, 2019 amounted to approximately RMB15.1 million, as compared to a loss of approximately RMB54.6 million for the corresponding period of 2018.
- Adjusted net loss for the three months ended March 31, 2019 amounted to approximately RMB12.4 million, as compared to an adjusted net loss of approximately RMB49.9 million for the corresponding period of 2018.
- The board of Directors (the “**Board**”) of the Company does not recommend any payment of dividends for the three months ended March 31, 2019.



First Quarterly Results (unaudited)

The Board announces the unaudited consolidated quarterly results and the unaudited condensed consolidated financial statements of the Group for the three months ended March 31, 2019 together with the comparative figures for the three months ended March 31, 2018. 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 LOSS

For the three months ended March 31, 2019

		Three months ended March 31,	
	Note	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	52,908	117,526
Cost of revenue		(30,165)	(75,722)
Gross profit		22,743	41,804
Selling and marketing expenses		(15,630)	(41,633)
Administrative expenses		(10,448)	(20,493)
Research and development expenses		(11,421)	(30,675)
Net impairment losses on financial assets		(47)	(511)
Other operating income — net		10	1,017
Operating loss		(14,793)	(50,491)
Other gains/(losses) — net		182	(663)
Finance income/(costs) — net		24	(1,160)
Share of loss of investments using equity accounting		(537)	(2,135)
Loss before income tax		(15,124)	(54,449)
Income tax expense	5	(2)	(126)
Loss for the period		(15,126)	(54,575)
Other comprehensive loss			
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		(1,242)	(2,372)
Items that will not be reclassified to profit or loss:			
— Currency translation differences		(9,030)	(18,522)
Other comprehensive loss for the period, net of tax		(10,272)	(20,894)
Total comprehensive loss for the period		(25,398)	(75,469)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (continued)

For the three months ended March 31, 2019

		Three months ended March 31,	
	Note	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Loss attributable to:			
Owners of the Company		(14,818)	(53,950)
Non-controlling interests		(308)	(625)
Loss for the period		(15,126)	(54,575)
Total comprehensive loss attributable to:			
Owners of the Company		(25,090)	(74,798)
Non-controlling interests		(308)	(671)
Total comprehensive loss for the period		(25,398)	(75,469)
Loss per share (expressed in RMB per share)			
— Basic	6(a)	(0.04)	(0.15)
— Diluted	6(b)	(0.04)	(0.15)



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2019

(Unaudited)	Attributable to owners of the Company							
	Share capital	Share premium	Shares held for		Accumulated losses	Total	Non-controlling interests	Total equity
			RSU Scheme	Reserves				
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 loss								
Loss for the period	-	-	-	-	(14,818)	(14,818)	(308)	(15,126)
Other comprehensive loss								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(1,242)	-	(1,242)	-	(1,242)
— Currency translation differences	-	-	-	(9,030)	-	(9,030)	-	(9,030)
Total comprehensive loss for the period	-	-	-	(10,272)	(14,818)	(25,090)	(308)	(25,398)
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)	-
Employee share option and RSU Scheme:								
— Shares repurchased for RSU Scheme	-	-	(65)	-	-	(65)	-	(65)
— Value of employee services	-	-	-	423	-	423	-	423
Total contributions by and distributions to owners of the Company for the period	-	-	(65)	1,146	-	1,081	(723)	358
Balance as of March 31, 2019	59	1,720,690	(5,887)	396,768	(1,596,599)	515,031	8,256	523,287



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the three months ended March 31, 2019

(Unaudited)	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for			Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			Scheme RMB'000	Reserves RMB'000	Accumulated losses 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 loss								
Loss for the period	-	-	-	-	(53,950)	(53,950)	(625)	(54,575)
Other comprehensive income								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(2,372)	-	(2,372)	-	(2,372)
— Currency translation differences	-	-	-	(18,476)	-	(18,476)	(46)	(18,522)
Total comprehensive loss for the period	-	-	-	(20,848)	(53,950)	(74,798)	(671)	(75,469)
Total contributions by and distributions to owners of the Company recognised directly in equity								
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	-	-	(315)	-	-	(315)	-	(315)
— Value of employee services	-	-	-	1,828	-	1,828	-	1,828
Total contributions by and distributions to owners of the Company for the period	-	-	(315)	300	-	(15)	1,528	1,513
Balance as of March 31, 2018	59	1,720,690	(3,893)	347,655	(1,466,927)	597,584	4,617	602,201



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 (“**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 “**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 financial information has been approved by the Board of Directors on May 15, 2019.

The interim condensed consolidated financial information is presented in Renminbi (“**RMB**”), unless otherwise stated.

The interim condensed consolidated financial information has not been audited.



2. Basis of preparation

The interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”. The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the interim condensed consolidated 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

The accounting policies applied in the preparation of the unaudited interim condensed consolidated financial information 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 condensed consolidated 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 three months ended March 31, 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) to third-party publishers and producing films (including internet drama) for specific customers in the PRC.

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 loss.



4. Revenue and segment information (Continued)

	Three months ended	
	March 31,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Segment revenue:		
Game Business		
— Sales of in-game virtual items	38,201	112,117
— License fee and technical support fee	12,465	3,895
	50,666	116,012
Film Business		
— Production and licensing of film rights and others	2,242	1,514
Total	52,908	117,526
Segments results — operating loss:		
— Game Business	(12,658)	(46,641)
— Film Business	(2,135)	(3,850)
Total	(14,793)	(50,491)

A breakdown of revenue derived from different countries and regions for the three months ended March 31, 2019 and 2018 is as follows:

	Three months ended	
	March 31,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from external customers:		
— PRC	25,697	58,992
— South Korea	21,172	43,959
— Other overseas countries and regions	6,039	14,575
	52,908	117,526

5. Income tax expense

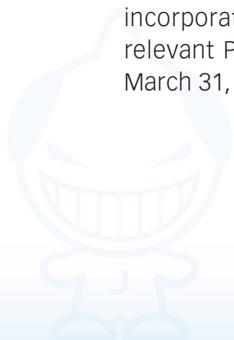
The income tax expense of the Group for the three months ended March 31, 2019 and 2018 is analysed as follows:

	Three months ended	
	March 31,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	129	1,526
Deferred income tax	(127)	(1,400)
Income tax expense	2	126

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.

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 ended March 31, 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 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 for the three months ended March 31, 2019 and 2018.



6. Loss per share

(a) Basic

Basic loss per share for the three months ended March 31, 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	
	March 31,	
	2019	2018
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (RMB'000)	(14,818)	(53,950)
Weighted average number of ordinary shares in issue (thousand shares)	350,770	352,985
Basic loss per share (expressed in RMB per share)	(0.04)	(0.15)

(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 ended March 31, 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 ended March 31, 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 ended March 31, 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 three months ended March 31, 2019 and 2018.

Management Discussion and Analysis

Business Review for First Quarter 2019 and Prospects

Business Review and Prospects

*An open-beta testing of “**Uproar in Heaven (鬧鬧天宮)**” was launched on all major platforms on March 28, 2019*

“**Uproar in Heaven (鬧鬧天宮)**”, the Group’s self-developed product, was distributed through the Tencent A.C.E Program and has its paid non-deletion testing launched on January 15, 2019. The game is highly recognized by a large number of players with its fascinating Chinese-painting-style artistic and casual battling system, which makes it topping several platform ranking lists, such as iOS free download chart, the best seller list of TapTap, etc. right after the kick-off of its test. The game also gained recommendation from Apple App Store’s home page, as well as a number of industry media reports with good reputation. On March 28, 2019, following the non-deletion testing, “**Uproar in Heaven (鬧鬧天宮)**” was officially launched and its beta testing was rolled out on all major platforms. As a MOBA game, “**Uproar in Heaven (鬧鬧天宮)**” will enter a stable long-term operation stage in the future. The Group will continue to work together with the Tencent A.C.E Program to offer more exciting gaming experiences to players through high-quality update versions.



Rapid development in overseas market — South Korea region

The South Korea market is an important market for the Group to distribute its games overseas. Through five years of operating endeavors and in-depth development in South Korea mobile game market, our South Korea subsidiary has gained advanced distribution experience and has continually distributed certain superior mobile game products, including “**蜀山戰紀**”, “**雷霆艦隊**”, “**Daybreak (黎明之光)**” and “**Nueva Salida (大航海之路)**”, ranking the forefront on download chart and the best seller list of the mobile game market in South Korea which established a good reputation and brand in the South Korean market. Meanwhile, by virtue of mature distribution strategy, refined operation and localised services, our South Korea subsidiary has successfully cooperated with various outstanding mobile game developers. In the first quarter of 2019, the Group has officially entered into a contract with NetEase for obtaining the license to distribute the mobile game of “**楚留香**” in South Korea. It is expected to be officially launched in 2019. The reservation volume of “**楚留香**” has been reached 2 million in China Mainland, which is the first prime mobile game obtaining Apple reservation and release recommendation in China Mainland. “**楚留香**”, a MMO2.0 mobile game containing higher degree of freedom, has raided the domestic game market and raised strong attention from both insiders and outsiders of the industry, which in turn became the undisputed star of MMO game in the domestic martial arts mobile game market.



In addition to Korea, the Group will strive to open up a new overseas market — Japan

A Japanese team of the Group was officially established in the first quarter of 2019, the members of which are experienced in publishing Top 30 best-selling games in Japan. At present, as the Card RPG and ARPG games are well-received by the local players in Japan, the team has laid out two products of such game types. The first product, characterized by an innovative gameplay and the nijigen (二次元) painting style under the theme of imperial rivalries in a fictional world, will provide Japanese players with refreshing experience of card RPG games. The testing of this product is scheduled to be rolled out in Japan in the fourth quarter of 2019. The second product is the mobile game version of “**Ys VIII (伊蘇VIII)**”, a supreme ARPG game in Japan. The Group has obtained the license for the exclusive adaptation and global distribution of the game. The mobile version of “**Ys VIII (伊蘇VIII)**” is currently in the stage of research and development. A well-known Japanese writer is invited to optimize and enhance the game script while a number of famous Japanese painters were gathered to strive for a topnotch artistic performance. At the same time, Falcom will supervise the whole process to ensure the perfect reproduction of the game on the mobile platform. The “**Ys VIII (伊蘇VIII)**” on mobile is scheduled to be launched in Japan in the second quarter of 2020.

Promoting the IP values of the best games

The Group continued to promote the IP value of the best games during the Reporting Period. “**Xuanyuan Sword: Millennium Fate (軒轅劍•蒼之曜)**” is the official sequel of “**Xuanyuan Sword (軒轅劍)**”, a classic Chinese RPG game series with a history of 29 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.

The Group’s brand new “nijigen (二次元)” set-aside mobile game is kicking off its online testing

“**Code: S (代號: S)**” is the Group’s self-developed “nijigen (二次元)” set-aside mobile game created with a theme of war among gods based on an imaginary world view, and its online testing is scheduled to be launched in the second quarter of 2019.

Being operated practically, Linekong Pictures steadily enhanced its IP development and operation

Linekong Pictures, the film business of the Group, adheres to its planned annual output of two to three high-quality videos, endeavoring to upgrade from contented based video provider to an IP operation platform. In the first quarter of 2019, Linekong Pictures realized revenue of RMB2.2 million, representing a growth of 48.1% as compared to that of the first quarter of 2018.

In 2019, Linekong Pictures will allocate more resources to develop its production team, screenwriter team and planning team for enhancing IP development and operation., **“Long For You 2 (我與你的光年距離2)”**, which have been off the screen in January 2019, was well received by the internet drama market and won a rating as high as 6.2 on Duoban.com. Linekong Pictures will enter into a contract with a well-known platform for disturbing an internet drama adapting **“As a Fat Girl (身為一個胖子)”**, a short novel in Mr. Zhang Haochen’s (張皓宸) book, **“I’m with the world, just one of you (我與世界只差一個你)”** which will soon begin shooting. The filming of **“花好月半圓”**, another original IP of Linekong Pictures, will also begin shooting in 2019. Meanwhile, Linekong Pictures has been active in developing two head dramas. One of them is **“Ancient Music Records (古樂風華錄)”**, an IP which can be promoted for movie and gaming jointly, such product is created with unique charm of nationalism from the oriental perspective, aiming to arouse the vitality of our traditional culture, so as to produce a great and popular phenomenal drama of youth fantasy. Another is **“Apocalypse, the Tomb Guardian (鎮墓獸•天啓)”**, which is an enthusiastic ancient-setting youth adventure drama co-produced by the famous composer, Tian Xia Ba Chang (天下霸唱) and the great writer of mystery stories, Mr. Cai Jun (蔡駿). Such product is a warm-hearted story of two young men, growing together hand-in-hand, who are going to embark upon their journey of treasure hunt.



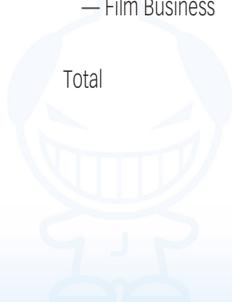
Financial Review

Revenue

The Group's revenue decreased by approximately 55.0% from approximately RMB117.5 million for the three months ended March 31, 2018 to approximately RMB52.9 million for the three months ended March 31, 2019.

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

	For the three months ended		
	March 31,		
	2019	2018	Change
	RMB'000	RMB'000	approximate %
Segment revenue:			
Game Business			
— Sales of in-game virtual items	38,201	112,117	(65.9)
— License fee and technical support fee	12,465	3,895	220.0
	50,666	116,012	(56.3)
Film Business			
— Production and licensing of film rights and others	2,242	1,514	48.1
Total	52,908	117,526	(55.0)
Segment results — operating loss:			
— Game Business	(12,658)	(46,641)	(72.9)
— Film Business	(2,135)	(3,850)	(44.5)
Total	(14,793)	(50,491)	(70.7)



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

	For the three months ended March 31,			
	2019 approximate		2018 approximate	
	RMB'000	%	RMB'000	%
China (including Hong Kong, Macau and Taiwan)	25,697	48.6	58,992	50.2
South Korea	21,172	40.0	43,959	37.4
Other overseas countries and regions	6,039	11.4	14,575	12.4
Total	52,908	100.0	117,526	100.0

For the three months ended March 31, 2019, the revenue contributed by game business decreased by approximately 56.3% or RMB65.3 million as compared with the corresponding period of 2018, which was attributable to fewer new games released for the three months ended March 31, 2019 as compared with the corresponding period of 2018 and 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 roll out competitive games.

In respect of the Group's film business, the Group recognised revenue of approximately RMB2.2 million from production and licensing of film rights and others during the three months ended March 31, 2019, representing an increase of approximately 48.1% as compared to approximately RMB1.5 million for the three months ended March 31, 2018, mainly due to the respective revenue recognised for "**Long For You 2 (我與你的光年距離2)**".

Cost

The Group's cost for the three months ended March 31, 2019 was approximately RMB30.2 million, representing a decrease of approximately 60.1% as compared to approximately RMB75.7 million for the three months ended March 31, 2018.



For the three months ended March 31, 2019, the cost incurred by game business was approximately RMB28.8 million, representing a decrease of approximately 60.6% as compared to approximately RMB73.1 million for the corresponding period of 2018. The decrease in cost was in line with the decrease in revenue from games.

For the three months ended March 31, 2019, the cost incurred by production and licensing of film rights and others was approximately RMB1.4 million, representing a decrease of approximately 46.2% as compared to approximately RMB2.6 million for the corresponding period of 2018. The decrease in cost was in line with the decrease in revenue from agent business.

Gross profit and gross profit margin

The Group's gross profit for the three months ended March 31, 2019 was approximately RMB22.7 million, representing a decrease of approximately 45.7% as compared to approximately RMB41.8 million for the three months ended March 31, 2018. The decrease in the Group's gross profit was primarily due to the decrease in our game business for the three months ended March 31, 2019 as compared with the corresponding period of 2018.

The Group's gross profit margin for the three months ended March 31, 2019 was approximately 42.9%, representing an increase of approximately 7.3 percentage points as compared to approximately 35.6% for the three months ended March 31, 2018.

For the three months ended March 31, 2019, the gross profit margin of game business was approximately 43.2%, representing an increase of approximately 6.2 percentage points as compared with the corresponding period of 2018, which was mainly due to the increase in proportion of revenue from self-developed games and the relatively higher gross profit margin of the self-developed games. The gross profit margin of film business was 36.4%.



Selling and marketing expenses

The Group's selling and marketing expenses for the three months ended March 31, 2019 were approximately RMB15.6 million, representing a decrease of approximately 62.5% as compared to approximately RMB41.6 million for the three months ended March 31, 2018, which was primarily due to the reduction of advertising and promotion expenses incurred by distributing new games.

Administrative expenses

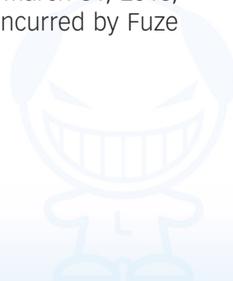
The Group's administrative expenses for the three months ended March 31, 2019 were approximately RMB10.4 million, representing a decrease of approximately 49.3% as compared to approximately RMB20.5 million for the three months ended March 31, 2018. The decrease in the Group's administrative expenses was primarily attributable to the reduction in expenses so as to meet the needs of the business stage and development strategy of the Group.

Research and development expenses

The Group's research and development expenses for the three months ended March 31, 2019 were approximately RMB11.4 million, representing a decrease of approximately 62.9% as compared to approximately RMB30.7 million for the three months ended March 31, 2018. The decrease in the Group's research and development expenses was primarily due to the reduction in headcounts for improving efficiency so as to meet the needs of the business stage and development strategy of the Group.

Share of loss of an investment using equity accounting

The Group's share of loss of an investment using equity accounting for the three months ended March 31, 2019 was approximately RMB0.5 million, representing a decrease of approximately 76.2% as compared to approximately RMB2.1 million for the three months ended March 31, 2018, which was mainly due to the narrowing of operating loss incurred by Fuze Entertainment Co., Ltd., our investee.



Loss for the period

As a result of the foregoing, the Group's loss for the period for the three months ended March 31, 2019 was approximately RMB15.1 million, representing a decrease of approximately 72.3% as compared to loss for the period of approximately RMB54.6 million for the three months ended March 31, 2018.

To supplement our combined 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 before share-based compensation expenses and one-off compensation for loss of office paid. The non-IFRSs measured adjusted net loss 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 three months ended March 31, 2019 and 2018:

	For the three months ended		
	March 31,		
	2019	2018	Change
	RMB'000	RMB'000	approximate %
	(unaudited)	(unaudited)	
Loss for the period	(15,126)	(54,575)	(72.3)
Share-based compensation expenses	423	1,828	(76.9)
One-off compensation for loss of office paid	2,300	2,865	(19.7)
Adjusted net loss	(12,403)	(49,882)	(75.1)

The Group's adjusted net loss for the three months ended March 31, 2019 was approximately RMB12.4 million, as compared to adjusted net loss of approximately RMB49.9 million for the three months ended March 31, 2018. The decrease in our adjusted net loss was mainly due to the combination of the followings: (1) the decrease in advertising and marketing expenses for games distribution; (2) the decrease in salary expenses as a result of reduction in headcounts for improving efficiency.

Liquidity and Financial Resources

During the three months ended March 31, 2019, we financed our operations primarily through cash generated from our past operating activities. We have maintained a solid cash position since we received the net proceeds from the listing of the Company's shares (the "**Shares**") on GEM of the Stock Exchange 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 three months ended March 31, 2019, the majority 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 returns 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. In order to meet the domestic working capital requirements, we will seek for stable financial supports from banks in long-run at market lending rate for the corresponding period.

Cash and cash equivalents and restricted deposits

As at March 31, 2019, we had cash and cash equivalents of approximately RMB262.8 million (as of December 31, 2018: approximately RMB176.6 million), primarily consisting of cash at banks and other financial institutions and cash in hand and mainly denominated in U.S. dollars (as to approximately 72.1%), Hong Kong dollars (as to approximately 18.6%), Renminbi (as to approximately 4.5%), and other currencies (as to approximately 4.8%)

As at March 31, 2019, we had short-term bank deposits of RMB nil (as at December 31, 2018: approximately RMB102.9 million).

As at March 31, 2019, approximately RMB227.7 million (as of December 31, 2018: approximately RMB233.8 million) are restricted deposits held at a bank as a reserve for the provision of a loan facility with a total credit line of RMB199.1 million (as of December 31, 2018: RMB199.1 million) provided by the bank, and which will expire in 2019.



Capital Structure

The Shares of the Company have been listed on GEM of the Stock Exchange since December 30, 2014. The capital structure of the Group is made up of ordinary shares.

Borrowing and Gearing Ratios

As at March 31, 2019, bank loans borrowed by the Group amounted to approximately RMB199.1 million (as at December 31, 2018: approximately RMB199.1 million). As at March 31, 2019, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 40.5% (as at December 31, 2018: approximately 38.8 %).

Charge on Group Assets

As at March 31, 2019, a restricted deposit of approximately RMB227.7 million of the Group was pledged to secure bank borrowings (as at December 31, 2018: 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 March 31, 2019, the Group had 250 employees.

Dividend

The Board did not recommend the payment of a dividend for the three months ended March 31, 2019.

Corporate Governance and Other Information

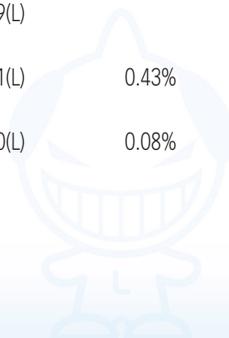
Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of March 31, 2019, 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 <small>(Note 5)</small>
Mr. Wang Feng <small>(Note 1)</small>	Interest of controlled corporation	66,576,160(L)	21.48%
	Beneficial owner	12,640,380(L)	
Ms. Liao Mingxiang <small>(Note 2)</small>	Interest of controlled corporation	12,168,720(L)	4.11%
	Beneficial owner	2,985,769(L)	
Mr. Chen Hao <small>(Note 3)</small>	Beneficial owner	1,575,841(L)	0.43%
Mr. Wang Jin <small>(Note 4)</small>	Beneficial owner	300,000(L)	0.08%

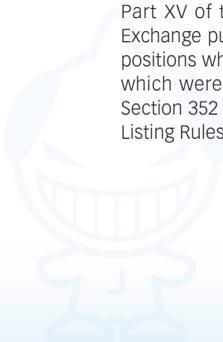
(L) Long position (S) Short position



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 after the vesting of the relevant RSUs. As of March 31, 2019, 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 after the vesting of the relevant RSUs. As of March 31, 2019, 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 after the vesting of the relevant RSUs. As of March 31, 2019, approximately 57.97% 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, of which 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 March 31, 2019, none of the above 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 March 31, 2019, none of the above share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this report.
- (5) The calculation is based on 368,730,964 Shares issued by the Company as of March 31, 2019.

Save as disclosed above, on March 31, 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 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 March 31, 2019, 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:

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
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 March 31, 2019, 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

Substantial Shareholder(s)

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 5)
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%

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company <small>(Note 5)</small>
China Momentum Fund, L.P. <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun China Momentum Fund GP, Ltd. <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Financial Holdings Limited <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Holdings Limited <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Holdings Limited <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Limited <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Momentum Holdings Limited <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang <small>(Note 3)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Starwish Global Limited <small>(Note 3)</small>	Beneficial owner	52,318,760 (L)	14.19%
The Core Trust Company Limited <small>(Note 4)</small>	Trustee of a trust	36,921,086 (L)	10.01%
TCT (BVI) Limited <small>(Note 4)</small>	Trustee of a trust	36,921,086 (L)	10.01%
Premier Selection Limited <small>(Note 4)</small>	Nominee for another person	36,921,086 (L)	10.01%

(L) Long position (S) Short position

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.
2. Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in all of the Shares which are held 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.
3. 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 March 31, 2019, Fosun International Limited is 70.72% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of March 31, 2019, Mr. Guo Guangchang owns approximately 85.29% in the issued share capital of Fosun International Holdings Ltd..
4. 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 March 31, 2019, 10,723,955 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 36,921,086 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 January 3, 2019, the Company had directed The Core Trust Company Limited to purchase and hold on-market 85,500 ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.
5. The calculation is based on 368,730,964 Shares issued by the Company as of March 31, 2019.



Other Shareholder(s)

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

(L) Long position (S) Short position

Notes:

- The shareholding 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.
- Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
- The calculation is based on 368,730,964 Shares issued by the Company as of March 31, 2019.

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 March 31, 2019, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of grant	Option period	Options granted	Share price per Share	Closing Price of the Shares immediately before the date of grant	Outstanding balance as at January 1, 2019	During the reporting period				Outstanding balance as at March 31, 2019	Number of 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 (Note 2)	1,849,192	8.10	8.10	462,298	-	-	-	-	462,298	-	-
Employees	October 9, 2015	October 9, 2015 to October 8, 2025 (Note 3)	5,910,000	7.18	7.18	2,856,250	-	-	-	37,500	2,818,750	-	-
Mr. Chen Hao	October 9, 2015	October 9, 2015 to October 8, 2025 (Note 3)	100,000	7.18	7.18	100,000	-	-	-	-	100,000	-	-
Employees	June 15, 2016	June 15, 2016 to June 14, 2026 (Note 4)	1,450,000	4.366	4.18	675,000	-	-	-	-	675,000	-	-
Mr. Wang Jin	June 15, 2016	June 15, 2016 to June 14, 2026 (Note 4)	300,000	4.366	4.18	300,000	-	-	-	-	300,000	-	-
Employees	January 18, 2017	January 18, 2017 to January 17, 2027 (Note 5)	8,225,000	3.10	3.10	2,487,500	-	-	-	45,000	2,442,500	-	111,875
Mr. Chen Hao	January 18, 2017	January 18, 2017 to January 17, 2027 (Note 5)	1,000,000	3.10	3.10	1,000,000	-	-	-	-	1,000,000	-	125,000

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:

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
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:

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
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:

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
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:

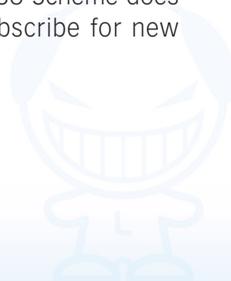
Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
i. 12 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. 18 months upon the acceptance of the offer for grant of share options	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 at March 31, 2019, staff and Directors (three of which are the Directors) were granted 35,471,879 restricted shares by the Company under the RSU Scheme. Total RSUs in respect of 0 underlying Shares granted to 0 grantees had been lapsed during the Reporting Period. As of March 31, 2019, 29,691,294 RSUs have been vested unconditionally and there were 200,000 RSUs granted and outstanding.

Events during the Reporting Period and Subsequent Events

Share Purchase by RSU Trustee

On January 3, 2019, 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 85,500 ordinary Shares of the Company (the "**Share Purchases**"), which will be used to satisfy the exercise of RSUs.

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 announcement of the Company dated January 3, 2019.

Grant of share options and grant of the RSUs

As at April 1, 2019, the Company offered to grant an aggregate of 1,300,000 share options to two members of staff of the Company (among others, Mr. Wang Jin (also known as Yan Yusong), an Executive Director) to subscribe for an aggregate of 1,300,000 Shares of the Company under the Share Option Scheme. On the same day, the Company granted a total of 1,300,000 RSUs pursuant to the RSU Scheme to the above parties. For the details, please refer to the announcement of the Company dated April 1, 2019 in respect of the grant of share options and grant of the RSUs.

Use of IPO Proceeds

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

As of March 31, 2019, the Group's IPO Proceeds have been utilised as follows:

	Net proceeds in HKD million	Amounts utilised as of December 31, 2018 in HKD million	Amounts utilised for the three months ended March 31, 2019 in HKD million	Amounts unutilised in HKD million
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	–	32.0
Creating pan entertainment environment	157.8	122.2	1.3	34.3
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	–	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	–	1.7
Providing funding for our working capital and other general corporate purposes	34.3	6.4	0.8	27.1
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	–	33.4
Mastering user usage flow entry point via developing intellectual hardware and mobile phone software	48.2	9.4	–	38.8
	686.2	496.1	12.0	178.1

As of March 31, 2019, approximately HKD178.1 million, being the residual part of the IPO Proceeds, remains unutilised. The unutilised IPO Proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group. Among the unutilised proceeds, those reserved for overseas expansions 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; all the proceeds for pan-entertainment development purpose will be utilised in 2019 and 2020 according to the progress of shooting of TV dramas; we will utilise the funding reserved for working capital purpose 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 utilize 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.

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 three months ended March 31, 2019.

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

There was no significant investment, material acquisition and disposal of subsidiaries and affiliated companies by the Company during the three months ended March 31, 2019.



Purchase, Sale or Redemption of Listed Securities of the Company

During the three months ended March 31, 2019, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

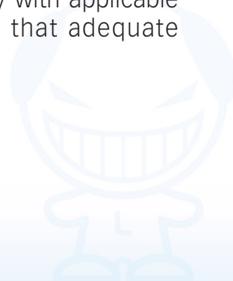
Audit Committee

The audit committee was established on April 24, 2014. The chairman of the audit committee is Ms. Wu Yueqin, an independent non-executive Director, and other members include Mr. Pan Donghui, a non-executive Director, and Mr. Zhang Xiangdong and Ms. Zhao Yifang, the independent non-executive Directors.

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 three months ended March 31, 2019 have been reviewed by the audit committee. The audit committee is of the opinion that the unaudited financial statements of the Group for the three months ended March 31, 2019 comply with applicable accounting standards and the 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 three months ended March 31, 2019.

Directors’ Securities Transactions

The Company has adopted the required standard of dealings regarding directors’ securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them 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 three months ended March 31, 2019.

