



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



HIGHLIGHTS

	For the three months ended March 31,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	58,489	52,908
Profit/(loss) for the period	1,523	(15,126)
Adjusted net profit/(loss) <i>(Note)</i>	3,318	(12,403)

Note:

Adjusted net profit/(loss) refers to the profit/(loss) for the period, excluding share-based compensation and one-off payment of compensation for loss of office. It is considered as a supplementary data for the consolidated statement of comprehensive income/(loss), reflecting the profitability and operation of the Company and its subsidiaries (collectively, the “**Group**”) during the financial periods indicated.

- For the three months ended March 31, 2020, the Group recorded revenue of approximately RMB58.5 million, representing an increase of approximately 10.6% from RMB52.9 million for the corresponding period in 2019.
- Profit for the three-month ended March 31, 2020 was approximately RMB1.5 million, while the loss for the corresponding period in 2019 was approximately RMB15.1 million.
- Adjusted net profit for the three months ended March 31, 2020 was approximately RMB3.3 million, while the adjusted net loss for the corresponding period in 2019 was approximately RMB12.4 million.
- The board of Directors (the “**Board**”) of the Company did not recommend the payment of any dividend for the three months ended March 31, 2020.



FIRST QUARTERLY RESULTS (UNAUDITED)

The Board announces the unaudited consolidated quarterly results of Group for the three months ended March 31, 2020 and the unaudited condensed consolidated financial statements, together with the unaudited comparative figures for the corresponding period in 2019. Such results were reviewed by the audit committee of the Company (the "**Audit Committee**"). The Audit Committee comprises all independent non-executive Directors and non-executive Directors of the Company and is chaired by an independent non-executive Director.



Interim Condensed Consolidated Statement of Comprehensive Income/(Loss)

For the three months ended March 31, 2020

	Note	Three months ended March 31,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	58,489	52,908
Cost of revenue		(39,997)	(30,165)
Gross profit		18,492	22,743
Selling and marketing expenses		(5,076)	(15,630)
Administrative expenses		(9,787)	(10,448)
Research and development expenses		(5,349)	(11,421)
Net impairment losses on receivables		(50)	(47)
Other operating income — net		4,626	10
Operating profit/(loss)	4	2,856	(14,793)
Other gains — net		50	182
Finance (costs)/income — net		(95)	24
Share of loss of investments using equity accounting		(615)	(537)
Income/(loss) before income tax		2,196	(15,124)
Income tax expense	5	(673)	(2)
Income/(loss) for the period		1,523	(15,126)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		1,012	(1,242)
Items that will not be reclassified to profit or loss:			
— Currency translation differences		7,853	(9,030)
Other comprehensive income for the period, net of tax		8,865	(10,272)
Total comprehensive income/(loss) for the period		10,388	(25,398)

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

For the three months ended March 31, 2020

		Three months ended March 31,	
	Note	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(Loss)/income attributable to:			
Owners of the Company		(320)	(14,818)
Non-controlling interests		1,843	(308)
Income/(loss) for the period		1,523	(15,126)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		8,545	(25,090)
Non-controlling interests		1,843	(308)
Total comprehensive income/(loss) for the period		10,388	(25,398)
Loss per share (expressed in RMB per share)			
— Basic	6(a)	(0.0009)	(0.0422)
— Diluted	6(b)	(0.0009)	(0.0422)

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



Interim Condensed Consolidated Statement of Changes in Equity

For the three months ended March 31, 2020

(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		
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, 2020

(Unaudited)	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for RSU Scheme	Reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2020	59	1,720,690	(10,019)	416,225	(1,690,739)	436,216	14,351	450,567
Comprehensive income/(loss)								
(Loss)/income for the period	—	—	—	—	(320)	(320)	1,843	1,523
Other comprehensive income								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	—	—	—	1,012	—	1,012	—	1,012
— Currency translation differences	—	—	—	7,853	—	7,853	—	7,853
Total comprehensive income/(loss) for the period	—	—	—	8,865	(320)	8,545	1,843	10,388
Total contributions by and distributions to owners of the Company recognised directly in equity								
Employee share option and RSU Scheme:								
— Shares repurchased for RSU Scheme	—	—	(98)	—	—	(98)	—	(98)
— Value of employee services	—	—	—	1,098	—	1,098	18	1,116
Total contributions by and distributions to owners of the Company for the period	—	—	(98)	1,098	—	1,000	18	1,018
Balance as of March 31, 2020	59	1,720,690	(10,117)	426,188	(1,691,059)	445,761	16,212	461,973

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



Notes to Interim Condensed Consolidated Financial Information

1. General information

Linekong Interactive Group Co., Ltd. (the “**Company**”), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Company’s shares have been listed on GEM of The Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering (“**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 statements of comprehensive income/(loss) for the three-month period ended March 31, 2020, changes in equity for the three-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 May 15, 2020.

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

The Interim Financial Information has not been audited.



2. Basis of preparation

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

The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2019 as set out in the 2019 annual report of the Company (the “**2019 Financial Statements**”) and any public announcements made by the Company during the interim reporting period, which have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”).

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

The accounting policies applied are consistent with those used in the 2019 Financial Statements, as described in the 2019 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 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, 2020. 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, 2020, the Group is organised into two reportable operating segments.

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 profit/(loss) to income/(loss) before income tax is shown in the interim condensed consolidated statement of comprehensive income/(loss).



4. Revenue and segment information (Continued)

	Three months ended March 31,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Segment revenue:		
Game Business		
— Sales of in-game virtual items	25,689	38,201
— License fee and technical support fee	10,170	12,465
	35,859	50,666
Film Business		
— Production and licensing of film rights and others	22,630	2,242
Total	58,489	52,908
Segments results — operating (loss)/profit:		
— Game Business	(2,015)	(12,658)
— Film Business	4,871	(2,135)
Total	2,856	(14,793)



4. Revenue and segment information (Continued)

A breakdown of revenue derived from different countries and regions for the three months ended March 31, 2020 and 2019 is as follows:

	Three months ended March 31, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue from external customers:		
— PRC	42,280	25,697
— South Korea	14,588	21,172
— Other overseas countries and regions	1,621	6,039
	58,489	52,908

5. Income tax expense

The income tax expense of the Group for the three months ended March 31, 2020 and 2019 is analysed as follows:

	Three months ended March 31, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current income tax	809	129
Deferred income tax	(136)	(127)
Income tax expense	673	2

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, 2020 and 2019.

5. Income tax expense (Continued)

The income tax provision of the Group in respect of operations in the PRC has been calculated based on the statutory tax rate of 25% on the estimated assessable profits for the three months ended March 31, 2020 and 2019 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, 2020 and 2019.

6. Loss per share

(a) Basic

Basic loss per share for the three months ended March 31, 2020 and 2019 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, 2020 (Unaudited)	2019 (Unaudited)
Loss attributable to owners of the Company (RMB'000)	(320)	(14,818)
Weighted average number of ordinary shares in issue (thousand shares)	347,072	350,770
Basic loss per share (expressed in RMB per share)	(0.0009)	(0.0422)

6. Loss per share (Continued)

(b) Diluted

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

For the three months ended March 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019 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, 2020 and 2019.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

In 2020, Linekong Interactive Group maintained its prudent business strategy. A revenue of approximately RMB58.489 million was recorded for the three months ended March 31, 2020, representing an increase of 10.6% as compared with the corresponding period last year. The Group achieved a turnaround and the adjusted profit was approximately RMB3.318 million. Our game business focused on the expansion of major overseas game markets in Korea and Japan. We also focused on the development of female-oriented mobile games and casual games and the generation of IP values of games. In respect of our filming business, we have further strengthened our talent teams through recruitment and internal training, and enriched IP reserve. Our filming business has entered into a stage of matrix promotion.

PROMOTING RESEARCH AND DEVELOPMENT OF NEW PRODUCTS AND ACCELERATING EXPANSION OF OVERSEAS GAME MARKETS BY LINEKONG ENTERTAINMENT

In order to further expand its product lines and enhance the competitiveness of the Group in the casual game market, the Group has established a casual game development team for the development of products such as hyper-casual games, moderate casual games, strategy games and female-oriented games. “金幣大冒險”, a self-developed game, is scheduled to be launched in July 2020. The game is about the cultural and technology development of a world with players participating in competition as casual social activities. “蠻荒紀元”, a new general of MMORPG fairy tale mobile game, is scheduled to be launched in the third quarter of 2020, the game features beautiful vivid graphics to provide realistic player experience. “新後宮甄嬛傳”, a female-oriented AVG+RPG royal family game distributed under the publishing business, will also be launched this year. Graphics are in 2D style and the game focuses on contents including clothes changing, relationship development and business operation.

On March 18, 2020, our game business in South Korea officially distributed “—夢江湖” (formerly known as “楚留香”) (“검은달” in Korean), a game developed by NetEase.

Based on our research and analysis of overseas markets, the Group has focused on the expansion of Japan market, following our overseas expansion in South Korea. Our Japan publishing team was established in 2019, the members of which have experience in publishing the top 30 best-selling games in Japan. The Company is going to launch the mobile version of “Ys VIII”, a classic Japanese ARPG game, in Japan. The Group has been licensed to exclusively adapt and globally distribute the mobile version of “Ys VIII” and has engaged well-known Japanese writers to refine and upgrade the plot of the game and a number of famous Japanese painters to create modern artworks. In the Tokyo Game Show held in September 2019, the Group offered a demo of the mobile version of “Ys VIII” on site, attracted a long queue of players and reported by Japanese media of the game industry, such as 4Gamer and Famitsu (Fami 通). The adaption of the mobile version of “Ys VIII” is fully supervised by Falcom and the game is expected to be officially launched in 2020.

In addition, as of the end of the reporting period, games such as “Uproar in Heaven (鬧鬧天宮)” (distributed under the Tencent A.C.E Program), “Nueva Salida (大航海之路)” (Korean Server) and “Daybreak Legends (黎明之光)” have continued to contribute profit to the Group. The Group will continue to promote and operate “Uproar in Heaven (鬧鬧天宮)”, “Nueva Salida (大航海之路)” (Korean Server) and “Daybreak Legends (黎明之光)”.

LINEKONG PICTURES HAS ENTERED INTO A PHASE OF MATRIX PRODUCT DEVELOPMENT IN 2020, ENSURING THAT PRIME DRAMAS AND SECONDARY DRAMAS WILL CONTINUE TO BE WELL-RECEIVED

In the first quarter of 2020, Linekong Pictures, our film business, has entered into a phase of matrix product development focusing on target audience and ensuring that its prime dramas and secondary dramas will continue to be well-received.



After four years of experience and accumulation of brands, Linekong Pictures has maintained a series of outstanding drama reserves, including prime drama (頭部劇), secondary drama (腰部劇) and micro drama (微劇). “Ancient Music Records (古樂風華錄)” and “Tales of Sea of Clouds (雲海藏山傳)”, formerly known as “the Tomb Guardian (鎮墓獸)”, which are scheduled to start filming in November and August 2020, respectively, are the prime IPs (頭部 IP) of Linekong Pictures. A nostalgic animated IP, “Ancient Music Records (古樂風華錄)”, was included and ranked first in the 2017 List of National Items for Reforms and Development (改革發展項目庫2017年入庫名額) as it promotes Chinese traditional music with nostalgic painting style. The comic on which the drama was based was included in the 2016 Mobility Supporting Plan for Chinese Original Comic and Animation (2016年原動力中國原創動漫出版扶持計劃) by the State Administration of Press, Publication, Radio, Film and Television (國家廣播電視總局).

After the completion of three selected dramas including “Long For You (我與你的光年距離)”, “Unexpected (來到你的世界)” and “Long For You 2 (我與你的光年距離2)”, the Group further cooperated with Mango TV and produced a romantic drama, “Love The Way You Are (身為一個胖子)”. “Love The Way You Are (身為一個胖子)” was broadcast from December 2019 to January 2020 and received overwhelming responses from the audience during the broadcast. The drama was spontaneously shared among the audience on major internet platforms such as TikTok, Weibo, Kuaishou and bilibili. In addition, filming of “原來你是這樣的顧先生”, a new drama jointly produced with Tencent Penguin Pictures, has officially finished final editing in Chengdu on April 7, 2020, and will be broadcast on Tencent Video. The ancient romantic drama “花好月又圓”, an original IP jointly developed by the Group and Youku, is in the process of production and will be launched in 2020. It is about a smart and kind travelling showgirl named “小丸子” (casted by Li Gengxi), who pretends to be a princess and mistakenly get married with “梅三少” (casted by Huang Junjie), a young general who is arrogant, snarky and yet righteous-minded. The sweet and perfect couple is destined to get married and write their love story against all odds.



In 2020, the Group will continue to enrich its IP reserve. “喂兒” is a new style drama filled with traditional cultural treasures, such as crosstalk, Peking Opera, Ping Opera and drama. Urban inspirational idol drama “少女甜”, adapted from a well-known IP, is scheduled to start filming in November 2020. Targeting female audience who struggle between marriage and love, the drama tells a sweet and real-life story about a made-up Utopia where a couple falling in love after marriage. An original teenage comedy IP of the Group, “2028 都市生活”, will also start filming in 2020. It is about a hilarious battle of wits and courage between several teenagers and an unknown and mysterious “中二” boy in an old mansion. In addition, the Group follows the current hottest trend of short videos and plans to produce a real-life micro drama adapting “和女兒的日常”, an animation with a high score of 8.7 on Douban.com.

In the film sector, the filming of “與君相戀100次”, a movie adapted by the Group based on a top Japanese romance film released in 2016, will start in September 2020.

The artist agency business of the Group also had relatively sound development. A contracted artist of Linekong Pictures, Zhang Ge, who is a potential actress born after 2000, was included in the hot searches on Weibo Hot Searches twice due to the role of Xiao Ai in “Go Go Squid (親愛的·熱愛的)”. Moreover, Linekong Pictures has signed contracts with various actors of the new generation, such as Ding Jiawen. Ding Jiawen played the role of Cao Ping in a recent popular TV drama “Serenade of Peaceful Joy (清平樂)” and also appeared in the new TV drama “原來你是這樣的顧先生”.

In 2020, the Group will focus on major works including self-development business of games, deployment of causal games, expansion in the Japan market and matrix product development of various film and television projects. The Group will adhere to its practical and customer-oriented principle to create high quality products and offer fascinating entertainment.



Financial Review

Revenue

The Group's revenue increased by approximately 10.6% from approximately RMB52.9 million for the three months ended March 31, 2019 to approximately RMB58.5 million for the three months ended March 31, 2020.

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

	For the three months ended		Change (approximate %)
	2020 RMB'000 (Unaudited)	March 31, 2019 RMB'000 (Unaudited)	
Segment revenue:			
Game Business			
— Sales of in-game virtual items	25,689	38,201	(32.8)
— License fee and technical support fee	10,170	12,465	(18.4)
	35,859	50,666	(29.2)
Film Business			
— Production and licensing of film rights and others	22,630	2,242	909.4
Total	58,489	52,908	10.6
Segment result — operating profit/(loss)			
— Game Business	(2,015)	(12,658)	(84.1)
— Film Business	4,871	(2,135)	
Total	2,856	(14,793)	



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

	For the three months ended March 31,			
	2020		2019	
	RMB'000 (Unaudited)	approximate %	RMB'000 (Unaudited)	approximate %
China (including Hong Kong, Macau and Taiwan regions)	42,280	72.3	25,697	48.6
South Korea	14,588	24.9	21,172	40.0
Other overseas countries and regions	1,621	2.8	6,039	11.4
Total	58,489	100.0	52,908	100.0

For the three months ended March 31, 2020, the revenue contributed by game business decreased by approximately 29.2% or RMB14.8 million as compared with the corresponding period of 2019, which was attributable to the decrease in the number of games released during the three months ended March 31, 2020 as compared with the corresponding period in 2019 and decrease in revenue from existing games. The Group has implemented strategies to put more efforts in strengthening the quality of game development and roll out more competitive games.

In respect of the Group's film business, the Group recognised revenue of approximately RMB22.6 million from production and licensing of film rights and others for the three months ended March 31, 2020, representing an increase of approximately 909.4% from approximately RMB2.2 million as compared with the three months ended March 31, 2019, which was mainly due to the income recognised from the drama "原來你是這樣的顧先生".



Cost

The Group's cost for the three months ended March 31, 2020 was approximately RMB40.0 million, representing an increase of approximately 32.5% as compared to approximately RMB30.2 million for the three months ended March 31, 2019.

For the three months ended March 31, 2020, the cost incurred for our game business was approximately RMB19.1 million, representing a decrease of 33.7% from approximately RMB28.8 million for the corresponding period in 2019, which was due to the decrease in the number of new games released in the three months ended March 31, 2020.

For the three months ended March 31, 2020, the cost incurred for film business was approximately RMB20.9 million, representing an increase of approximately 1,392.9% from approximately RMB1.4 million for the corresponding period in 2019, which was mainly due to recognition of costs of the drama “原來你是這樣的顧先生”.

Gross profit and gross profit margin

The Group's gross profit for the three months ended March 31, 2020 was approximately RMB18.5 million, representing a decrease of approximately 18.5% from approximately RMB22.7 million for the three months ended March 31, 2019. The decrease in gross profit was mainly due to the decrease in the number of new games released and less revenue from existing games of declining popularity.

The Group's gross profit margin for the three months ended March 31, 2020 was approximately 31.6%, representing a decrease of approximately 11.3 percentage points as compared to approximately 42.9% for the three months ended March 31, 2019. The decrease in the Group's gross profit margin was mainly due to lower gross profit margin of customized dramas in the film business.



Selling and marketing expenses

The Group's selling and marketing expenses for the three months ended March 31, 2020 were approximately RMB5.1 million, representing a decrease of approximately 67.3% from approximately RMB15.6 million for the three months ended March 31, 2019. The decrease in selling and marketing expenses was primarily due to the decrease in advertising and marketing expenses for new games distribution.

Administrative expenses

The Group's administrative expenses for the three months ended March 31, 2020 were approximately RMB9.8 million, representing a decrease of approximately 5.8% from approximately RMB10.4 million for the three months ended March 31, 2019. The decrease in the Group's administrative expenses was primarily due to the decrease in expenses so as to meet the needs of the business stage and development strategies of the Company.

Research and development expenses

The Group's research and development expenses for the three months ended March 31, 2020 were approximately RMB5.3 million, representing a decrease of approximately 53.5% from approximately RMB11.4 million for the three months ended March 31, 2019. The decrease in the Group's research and development expenses was primarily due to the reduction in headcounts for improving efficiency and meeting the requirement of the business stage and development strategies of the Group.

Share of loss of investments using equity accounting

The Group's share of loss of investments using equity accounting for the three months ended March 31, 2020 was approximately RMB0.6 million, increased by approximately 20.0% as compared to a loss of approximately RMB0.5 million for the three months ended March 31, 2019, mainly due to the operating loss of our investee, Fuze Entertainment Co., Ltd..



Profit/(loss) for the period

As a result of the foregoing, the profit for the three months ended March 31, 2020 was approximately RMB1.5 million as compared to a loss of approximately RMB15.1 million for the three months ended March 31, 2019.

Non-IFRSs measure — adjusted net profit/(loss)

To supplement our combined and consolidated financial statements presented in accordance with the IFRSs, 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 profit/(loss) was derived from our net profit/(loss) for the period deducting share-based compensation expenses and one-off compensation for loss of office paid. The adjusted net profit/(loss) measured at non-IFRSs is an unaudited figure.

The following table respectively sets out the reconciliation from profit/(loss) for the period under IFRSs to the adjusted net profit/(loss) for the three months ended March 31, 2020 and 2019:

	For the three months ended		
	March 31,		
	2020	2019	Change
	RMB'000	RMB'000	(approximate
	(Unaudited)	(Unaudited)	%)
Profit/(loss) for the period			
Add:	1,523	(15,126)	
Share-based compensation expenses	1,116	423	163.8
One-off compensation for loss of office paid	679	2,300	(70.5)
Adjusted net profit/(loss)	3,318	(12,403)	

The Group's adjusted net profit for the three months ended March 31, 2020 was approximately RMB3.3 million, as compared to the adjusted net loss of approximately RMB12.4 million for the three months ended March 31, 2019. The improvement from adjusted net loss to adjusted net profit for the current period was mainly due to the combined effects of the following factors: (i) increase in revenue; (ii) decrease in advertising and marketing expenses for games distribution; and (iii) reduction in headcounts for improving efficiency.

Liquidity and Financial Resources

During the three months ended March 31, 2020, we financed our businesses primarily through cash generated from our existing operating activities. The Group has been maintaining a solid cash position since the listing of the Company's shares (the "Shares") on GEM of the Stock Exchange and obtaining the net proceeds 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, 2020, 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. In order to meet the domestic working capital requirement, we will seek for stable and long-term funding from banks at market lending rate for the corresponding period.

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

As of March 31, 2020, we had cash and cash equivalents of approximately RMB103.5 million (as of December 31, 2019: approximately RMB96.5 million), which primarily consisted of cash at bank, other financial institutions and cash in hand and were mainly denominated in RMB (as to approximately 47.4%), HKD (as to approximately 38.2%), U.S. dollars (as to approximately 13.4%) and other currencies (as to approximately 1.0%).

As of March 31, 2020, we had short-term bank deposits of approximately RMB99.2 million (as of December 31, 2019: RMB128.0 million).

As of March 31, 2020, approximately RMB234.5 million (as of December 31, 2019: approximately RMB230.9 million) is restricted deposit held at a bank as its reserve for the provision of a loan facility of RMB199.1 million (as of December 31, 2019: RMB199.1 million) provided by the bank which will expire in 2020.

Capital Structure

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

Borrowing and Gearing Ratio

As at March 31, 2020, bank loans borrowed by the Group amounted to approximately RMB199.1 million (as at December 31, 2019: approximately RMB199.1 million). As at March 31, 2020, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 40.5% (as at December 31, 2019: approximately 41.1%).

Charge on Group Assets

As at March 31, 2020, a restricted deposit of approximately RMB234.5 million of the Group was pledged to secure bank borrowings (as at December 31, 2019: approximately RMB230.9 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 regularly reviews and recommends 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 which is commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus.

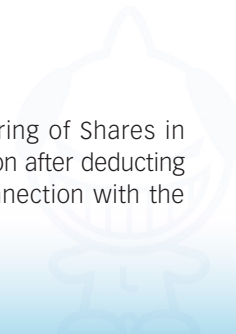
As at March 31, 2020, the Group had 179 employees.

DIVIDEND

The Board did not recommend the payment of a dividend for the three months ended March 31, 2020.

USE OF IPO PROCEEDS

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



As of March 31, 2020, the IPO Proceeds have been utilised as follows:

	Net proceeds million HKD	Amounts utilised as of December 31, 2019 million HKD	Amounts utilised during the three months ended March 31, 2020 million HKD	Amounts unutilised million HKD
Overseas expansions (expanding our business in overseas markets)	137.2	137.2	0	0
Potential strategic acquisition or investment in companies in online game or related businesses	68.6	52.2	1.1	15.3
Creating pan-entertainment environment	157.8	157.8	0	0
Licensing more high quality games with different genres and themes from Chinese and overseas game developers and the operation of such games	68.6	68.6	0	0
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	137.2	0	0
Providing funding for our working capital and other general corporate purposes	34.3	19.9	9.2	5.2
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	26.2	2.2	5.9
Mastering user usage flow entry point via developing intellectual hardware and mobile phone software	48.2	9.4	0	38.8
Total	686.2	608.5	12.5	65.2

As of March 31, 2020, approximately HKD65.2 million of the IPO Proceeds remained unutilised. The unutilised IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

Among the unutilised proceeds, funding reserved for acquisition will be utilised in accordance with the progress of our potential acquisition projects. We will utilise the funding reserved for working capital in the Company's operations; funding for investing in our technology platform will be used in 2020 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 2020.

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



CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As of March 31, 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interest in Shares and underlying Shares

Director/Chief executive	Capacity/Nature of interest	Number of Shares <i>(Note 1)</i>	Approximate percentage of interest <i>(Note 2)</i>
Mr. Wang Feng <i>(Note 3)</i>	Interest of controlled corporation	66,576,160 (L)	21.48%
	Beneficial owner	12,640,380 (L)	
Ms. Liao Mingxiang <i>(Note 4)</i>	Interest of controlled corporation	12,168,720 (L)	5.11%
	Beneficial owner	6,665,769 (L)	
Mr. Wang Jin <i>(Note 5)</i>	Beneficial owner	2,300,000 (L)	0.62%
Mr. Chen Hao <i>(Note 6)</i>	Beneficial owner	1,575,841 (L)	0.43%

Notes:

1. (L) denotes long position.
2. Based on the number of issued Shares as of March 31, 2020, being 368,730,964 Shares.
3. Mr. Wang Feng held the entire issued share capital of Wangfeng Management Limited, which in turn directly held 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in all the 66,576,160 Shares held by Wangfeng Management Limited.

In addition, Mr. Wang Feng held 4,207,072 Shares and was 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 March 31, 2020, 100% of the RSUs have been vested.

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

In addition, Ms. Liao Mingxiang held 174,000 Shares and was interested in 6,491,769 RSUs granted to her under the RSU Scheme entitling her to receive 6,491,769 Shares subject to vesting, among which, 4,964,569 RSUs have been vested as of March 31, 2020.

5. The 2,300,000 Shares that Mr. Wang Jin was interested in consisted of (a) 300,000 share options and 1,000,000 share options granted to him on June 15, 2016 and April 1, 2019, respectively, under the Share Option Scheme entitling him to receive an aggregate of 1,300,000 Shares upon exercise; and (b) 1,000,000 RSUs granted to him under the RSU Scheme entitling him to receive 1,000,000 Shares subject to vesting, among which, 585,000 RSUs have been vested as of March 31, 2020.

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

6. The 1,575,841 Shares that Mr. Chen Hao was interested in consisted of (a) 100,000 share options and 1,000,000 share options granted to him on October 9, 2015 and January 18, 2017, respectively, under the Share Option Scheme entitling him to receive an aggregate of 1,100,000 Shares upon exercise; and (b) 475,841 RSUs granted to him under the RSU Scheme entitling him to receive 475,841 Shares subject to vesting, among which 375,841 RSUs have been vested as of March 31, 2020.

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



Save as disclosed above, as of March 31, 2020, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As of March 31, 2020, the following Directors or the chief executive of the Company are directly or indirectly (other than indirectly by virtue of their interest in the Company) interested in the shares or underlying shares of other member(s) of the Group as follows:

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

Note:

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

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

So far as is known to the Directors, as of March 31, 2020, the following persons (other than Directors and chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO:

(i) Substantial Shareholders

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

Shareholder	Nature of interest	Number of Shares <small>(Note 1)</small>	Approximate percentage of interest <small>(Note 2)</small>
Fosun International Holdings Limited <small>(Note 5)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang <small>(Note 5)</small>	Interest of controlled corporation	52,318,760 (L)	14.19%
The Core Trust Company Limited <small>(Note 6)</small>	Trustee of a trust	41,744,086 (L)	11.32%
TCT (BVI) Limited <small>(Note 6)</small>	Trustee of a trust	41,744,086 (L)	11.32%
Premier Selection Limited <small>(Note 6)</small>	Nominee for another person	41,744,086 (L)	11.32%

Notes:

- (L) denotes long position.
- Based on the number of issued Shares as of March 31, 2020, being 368,730,964 Shares.
- Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in the Shares in which Mr. Wang Feng is interested under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report.
- Mr. Wang Feng, the chairman of the Company and Director, holds the entire issued share capital of Wangfeng Management Limited.
- Starwish Global Limited is wholly-owned by China Momentum Fund, L.P. ("**China Momentum**"), an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. ("**Fosun China Momentum**") is the general partner of China Momentum and is in turn wholly-owned by Fosun Momentum Holdings Limited ("**Fosun Momentum Holdings**"). Fosun Momentum Holdings is wholly-owned by Fosun Financial Holdings Limited ("**Fosun Financial Holdings**") which is in turn wholly-owned by Fosun International Limited ("**Fosun International**"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00656).

As of March 31, 2020, based on information available on the Stock Exchange, Fosun International is 71.01% owned by Fosun Holdings Limited (“**Fosun Holdings**”) which is in turn wholly-owned by Fosun International Holdings Ltd. (“**Fosun International Holdings**”), a company controlled as to approximately 85.29% by Mr. Guo Guangchang.

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

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

(ii) Other Shareholders

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

Notes:

1. (L) denotes long position.
2. Based on the number of issued Shares as of March 31, 2020, being 368,730,964 Shares.
3. Each of IDG-Accel China Growth Fund L.P. ("**IDG Fund**", holding 23,061,443 Shares) and IDG-Accel China Growth Fund-A LP. ("**IDG Fund-A**", holding 4,712,880 Shares) is controlled by its sole general partner, IDG-Accel China Growth Fund Associates, L.P. ("**IDG Fund Associates**"), which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. ("**IDG GP Associates**"). IDG GP Associates is held as to 35.00% by each of Mr. Zhou Quan and Mr. Ho Chi Sing.

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

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

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

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

Share Option Scheme

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

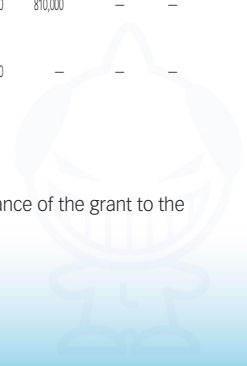
The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee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

Details of the granted and outstanding share options of the Company as of March 31, 2020 and movement during the three months ended March 31, 2020 are as follows:

Category	Date of grant	Option period (year/s)	Share Options granted	Exercise price HKD	Closing Price of the Shares immediately before the date of grant HKD	Outstanding balance as at January 1, 2020	During the Reporting Period				Outstanding balance as at March 31, 2020	Number of new shares issued during the Reporting Period	Number of new shares which may be issued during the Reporting Period
							Granted	Exercised	Cancelled	Lapsed			
Ms. Liao Mingxiang	September 12, 2019	September 12, 2019 to September 11, 2029	3,500,000 (note 5)	0.72	0.72	3,500,000	—	—	2,000,000	1,500,000	—	—	—
Mr. Chen Hao	October 9, 2015	October 9, 2015 to October 8, 2025	100,000 (note 3)	7.18	7.18	100,000	—	—	—	—	100,000	—	—
	January 18, 2017	January 18, 2017 to January 17, 2027	1,000,000 (note 3)	3.10	3.10	1,000,000	—	—	—	—	1,000,000	—	125,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,000,000 (note 5)	0.72	0.72	1,000,000	—	—	—	1,000,000	—	—	—
Mr. Wang Jin	June 15, 2016	June 15, 2016 to June 14, 2026	300,000 (note 3)	4.366	4.18	300,000	—	—	—	—	300,000	—	—
	April 1, 2019	April 1, 2019 to March 31, 2029	1,000,000 (note 4)	0.88	0.88	1,000,000	—	—	—	—	1,000,000	—	—
	September 12, 2019	September 12, 2019 to September 11, 2029	1,600,000 (note 5)	0.72	0.72	1,600,000	—	—	—	1,600,000	—	—	—
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 (note 3)	8.10	8.10	462,298	—	—	—	—	462,298	—	—
	October 9, 2015	October 9, 2015 to October 8, 2025	5,910,000 (note 3)	7.18	7.18	2,778,750	—	—	—	—	2,778,750	—	—
	June 15, 2016	June 15, 2016 to June 14, 2026	1,450,000 (note 3)	4.366	4.18	675,000	—	—	—	—	675,000	—	—
	January 18, 2017	January 18, 2017 to January 17, 2027	8,225,000 (note 3)	3.10	3.10	2,315,000	—	—	—	21,250	2,293,750	—	63,125
	April 1, 2019	April 1, 2019 to March 31, 2029	300,000 (note 4)	0.88	0.88	300,000	—	—	—	—	300,000	—	—
	August 16, 2019	August 16, 2019 to August 15, 2029	860,000 (note 3)	0.65	0.64	860,000	—	—	—	50,000	810,000	—	—
	September 12, 2019	September 12, 2019 to September 11, 2029	800,000 (note 5)	0.72	0.72	800,000	—	—	—	800,000	—	—	—

Notes:

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



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

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

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

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

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

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

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

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

As at March 31, 2020, among the 6,900,000 share options granted on September 12, 2019, 4,900,000 share options had lapsed according to their vesting conditions and 2,000,000 share options had been cancelled. Please refer to the announcements of the Company dated January 21, 2020 and February 7, 2020 for details.

Share Incentive Scheme

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

As of March 31, 2020, there were 35,581,294 RSUs granted and outstanding, among which 32,704,594 RSUs have been vested.

During the three months ended March 31, 2020, no RSUs was granted; no RSUs was exercised; no RSUs had been cancelled and 8,270,000 RSUs lapsed. In addition, The Core Trust Company Limited, the RSU trustee assisting with the administration and vesting of RSUs granted, purchased 200,000 Shares on the Stock Exchange during the three months ended March 31, 2020, which will be used to satisfy the RSUs upon exercise.



Interests in Competing Business

None of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group during the three months ended March 31, 2020.

Purchase, Sale or Redemption of Listed Securities of the Company

During the three months ended March 31, 2020, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance Code

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

In the opinion of the Board, the Company has complied with the CG Code throughout the three months ended March 31, 2020.



Audit Committee

The Audit Committee was established on April 24, 2014. The chairman of the Audit Committee is Ms. Wu Yueqin, an independent non-executive Director. Other members included Mr. Pan Donghui (resigned on March 27, 2020) and Mr. Ji Xuefeng (appointed on March 27, 2020), both are non-executive Directors, Ms. Zhao Yifang and Mr. Zhang Xiangdong, both are independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM website and on the Company's website.

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

The Company complied with the requirements under Rule 5.28 of the GEM Listing Rules in relation to the composition of the Audit Committee.

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings throughout the three months ended March 31, 2020.

