*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

蓝港
Linekong

# Linekong Interactive Group Co., Ltd.
# 藍港互動集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8267)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

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

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement, 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 announcement 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 announcement misleading.*

## HIGHLIGHTS

— Our revenue for the six months ended June 30, 2018 amounted to approximately RMB291.1 million, representing a decrease approximately 0.3% as compared to approximately RMB292.1 million for the six months ended June 30, 2017.

— Our loss for the six months ended June 30, 2018 amounted to approximately RMB68.8 million, as compared to loss of approximately RMB50.4 million for the six months ended June 30, 2017.

— Our adjusted net loss for the six months ended June 30, 2018 amounted to approximately RMB54.1 million, as compared to an adjusted net loss of approximately RMB42.2 million for the six months ended June 30, 2017.

— The board of Directors (the "**Board**") did not recommend any payment of dividends for the six months ended June 30, 2018.

## INTERIM RESULTS (UNAUDITED)

The Board announces the unaudited interim condensed consolidated results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended June 30, 2018 together with the comparative figures for the six months ended June 30, 2017. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Director, and is chaired by an independent non-executive Director.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | **As of June 30, 2018** *RMB'000* **(Unaudited)** | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,690** | 6,850 |
| Intangible assets | | **32,438** | 34,310 |
| Films rights and films in progress | | **21,463** | 48,372 |
| Investments using equity accounting | *7* | **48,524** | 52,268 |
| An associate measured at fair value through profit or loss | | **45,530** | 44,330 |
| Available-for-sale financial assets | | **–** | 94,973 |
| Financial assets at fair value through profit or loss | | **111,721** | 16,602 |
| Deferred income tax assets — net | | **1,517** | 2,975 |
| Other receivables | | **3,964** | 6,539 |
| Other non-current assets | | **165** | 118 |
| | | **270,012** | 307,337 |
| **Current assets** | | | |
| Trade receivables | *8* | **60,765** | 52,340 |
| Other receivables | | **40,635** | 29,739 |
| Other current assets | | **64,041** | 77,455 |
| Available-for-sale financial assets | | **–** | 12,446 |
| Financial assets at fair value through profit or loss | | **23,551** | 17,447 |
| Restricted deposits | | **215,338** | 188,236 |
| Cash and cash equivalents | | **312,806** | 349,563 |
| | | **717,136** | 727,226 |
| **Total assets** | | **987,148** | 1,034,563 |

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(CONTINUED)*

| | Note | **As of June 30, 2018 *RMB'000* (Unaudited)** | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **59** | 59 |
| Share premium | | **1,720,690** | 1,720,690 |
| Shares held for RSU Scheme | | **(4,316)** | (3,578) |
| Reserves | *4* | **374,186** | 390,603 |
| Accumulated losses | | **(1,485,884)** | (1,435,377) |
| | | **604,735** | 672,397 |
| **Non-controlling interests** | | **9,367** | 3,760 |
| **Total equity** | | **614,102** | 676,157 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Contract liabilities | | **2,121** | 4,256 |
| | | **2,121** | 4,256 |
| **Current liabilities** | | | |
| Bank borrowings | | **199,100** | 136,719 |
| Trade and other payables | *9* | **107,865** | 121,007 |
| Current income tax liabilities | | **7,007** | 7,893 |
| Contract liabilities | | **56,953** | 88,531 |
| | | **370,925** | 354,150 |
| **Total liabilities** | | **373,046** | 358,406 |
| **Total equity and liabilities** | | **987,148** | 1,034,563 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

| | Note | Three months ended June 30, 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) | Six months ended June 30, 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
|---|---|---|---|---|---|
| Revenue | 5 | **173,586** | 124,149 | **291,112** | 292,129 |
| Cost of revenue | | **(102,948)** | (67,903) | **(178,670)** | (167,730) |
| **Gross profit** | | **70,638** | 56,246 | **112,442** | 124,399 |
| Selling and marketing expenses | | **(32,476)** | (47,756) | **(74,109)** | (92,517) |
| Administrative expenses | | **(22,663)** | (19,168) | **(43,156)** | (41,119) |
| Research and development expenses | | **(19,001)** | (32,606) | **(49,676)** | (65,459) |
| Net impairment losses on financial assets | | **–** | (1,477) | **(511)** | (1,617) |
| Other (losses)/gains — net | 6 | **(4,337)** | 5,421 | **(3,983)** | 31,651 |
| **Operating loss** | | **(7,839)** | (39,340) | **(58,993)** | (44,662) |
| Finance income/(costs) — net | | **84** | 1,363 | **(1,076)** | 1,448 |
| Share of loss of investments using equity accounting | 7 | **(2,353)** | (17,542) | **(4,488)** | (21,950) |
| **Loss before income tax** | | **(10,108)** | (55,519) | **(64,557)** | (65,164) |
| Income tax (expense)/credit | 10 | **(4,099)** | 17,758 | **(4,225)** | 14,799 |
| **Loss for the period** | | **(14,207)** | (37,761) | **(68,782)** | (50,365) |
| **Other comprehensive income/(loss)** | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| — Changes in fair value of available-for-sale financial assets, net of tax | | **–** | 6,475 | **–** | 22,060 |
| — Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax | | **–** | (375) | **–** | (17,913) |
| — Share of other comprehensive income of investments accounted for using the equity method, net of tax | | **3,116** | (1,880) | **744** | (2,407) |
| Items that will not be reclassified to profit or loss: | | | | | |
| — Currency translation differences | | **23,110** | (13,118) | **4,588** | (16,651) |
| **Other comprehensive income/(loss) for the period, net of tax** | | **26,226** | (8,898) | **5,332** | (14,911) |
| **Total comprehensive income/(loss) for the period** | | **12,019** | (46,659) | **(63,450)** | (65,276) |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) *(CONTINUED)*

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | *Note* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| **Loss attributable to:** | | | | | |
| Owners of the Company | | **(18,957)** | (37,483) | **(72,907)** | (51,407) |
| Non-controlling interests | | **4,750** | (278) | **4,125** | 1,042 |
| **Loss for the period** | | **(14,207)** | (37,761) | **(68,782)** | (50,365) |
| **Total comprehensive income/(loss) attributable to:** | | | | | |
| Owners of the Company | | **7,269** | (46,400) | **(67,529)** | (66,309) |
| Non-controlling interests | | **4,750** | (259) | **4,079** | 1,033 |
| **Total comprehensive income/(loss) for the period** | | **12,019** | (46,659) | **(63,450)** | (65,276) |
| **Loss per share (expressed in RMB per share)** | | | | | |
| — Basic | *11(a)* | **(0.05)** | (0.11) | **(0.21)** | (0.15) |
| — Diluted | *11(b)* | **(0.05)** | (0.11) | **(0.21)** | (0.15) |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (Unaudited) | Note | Attributable to owners of the Company<br>Share capital<br>*RMB'000* | Share premium<br>*RMB'000* | Shares held for RSU Scheme<br>*RMB'000* | Reserves<br>*RMB'000* | Accumulated losses<br>*RMB'000* | Total<br>*RMB'000* | Non-controlling interests<br>*RMB'000* | Total equity<br>*RMB'000* |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 2017** | | **59** | **1,720,690** | **(3,578)** | **390,603** | **(1,435,377)** | **672,397** | **3,760** | **676,157** |
| Adjustment on adoption of IFRS 9, net of tax | *3.1(a)* | – | – | – | (22,400) | 22,400 | – | – | – |
| **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)/income** | | | | | | | | | |
| Loss for the period | | – | – | – | – | (72,907) | (72,907) | 4,125 | (68,782) |
| Other comprehensive income/(loss) | | | | | | | | | |
| — Share of other comprehensive income of investments accounted for using the equity method, net of tax | | – | – | – | 744 | – | 744 | – | 744 |
| — Currency translation differences | | – | – | – | 4,634 | – | 4,634 | (46) | 4,588 |
| **Total comprehensive income/ (loss) for the period** | | – | – | – | 5,378 | (72,907) | (67,529) | 4,079 | (63,450) |
| **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 | | – | – | (738) | – | – | (738) | – | (738) |
| — Value of employee services | | – | – | – | 2,133 | – | 2,133 | – | 2,133 |
| **Total contributions by and distributions to owners of the Company for the period** | | – | – | (738) | 605 | – | (133) | 1,528 | 1,395 |
| **Balance as of June 30, 2018** | | **59** | **1,720,690** | **(4,316)** | **374,186** | **(1,485,884)** | **604,735** | **9,367** | **614,102** |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

| | | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **(Unaudited)** | *Note* | 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* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **Balance as of January 1, 2017** | | 59 | 1,720,691 | (2) | 426,480 | (1,135,029) | 1,012,199 | (1,909) | 1,010,290 |
| **Comprehensive (loss)/income** | | | | | | | | | |
| Loss for the period | | – | – | – | – | (51,407) | (51,407) | 1,042 | (50,365) |
| Other comprehensive income/(loss) | | | | | | | | | |
| — Changes in fair value of available-for-sale financial assets, net of tax | | – | – | – | 22,060 | – | 22,060 | – | 22,060 |
| — Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax | | – | – | – | (17,913) | – | (17,913) | – | (17,913) |
| — Share of other comprehensive income of investments accounted for using the equity method, net of tax | | – | – | – | (2,407) | – | (2,407) | – | (2,407) |
| — Currency translation differences | | – | – | – | (16,642) | – | (16,642) | (9) | (16,651) |
| **Total comprehensive (loss)/ income for the period** | | – | – | – | (14,902) | (51,407) | (66,309) | 1,033 | (65,276) |
| **Total contributions by and distributions to owners of the Company recognised directly in equity** | | | | | | | | | |
| Decrease in ownership interest in subsidiaries without change of control | | – | – | – | (1,438) | – | (1,438) | 1,438 | – |
| Employee share option and RSU Scheme: | | | | | | | | | |
| — Shares repurchased for RSU Scheme | | – | – | (2,035) | – | – | (2,035) | – | (2,035) |
| — Value of employee services | | – | – | – | 8,206 | – | 8,206 | – | 8,206 |
| **Total contributions by and distributions to owners of the Company for the period** | | – | – | (2,035) | 6,768 | – | 4,733 | 1,438 | 6,171 |
| **Balance as of June 30, 2017** | | 59 | 1,720,691 | (2,037) | 418,346 | (1,186,436) | 950,623 | 562 | 951,185 |

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Cash flows from operating activities** | | |
| Cash used in operations | **(53,241)** | (69,093) |
| Income tax paid | **(3,653)** | (1,284) |
| **Net cash used in operating activities** | **(56,894)** | (70,377) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(578)** | (1,575) |
| Purchase of intangible assets | **(2,962)** | (15,125) |
| Purchase of available-for-sale financial assets | **–** | (200,000) |
| Proceeds from disposal of available-for-sale financial assets | **–** | 234,576 |
| Capital injection in an associate measured at fair value through profit or loss | **–** | (15,000) |
| Purchase of financial assets at fair value through profit or loss | **(80,000)** | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | **81,116** | – |
| Loan granted to a related party | **–** | (1,200) |
| Payments for films in progress | **(4,715)** | (20,934) |
| Advances to film producers | **(10,000)** | – |
| Loan repayments received from third parties | **2,076** | – |
| Increase in restricted deposits | **(24,215)** | – |
| Decrease in short term bank deposits | **–** | 133,191 |
| **Net cash (used in)/generated from investing activities** | **(39,278)** | 113,933 |

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
*(CONTINUED)*

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Cash flows from financing activities** | | |
| Proceeds from bank borrowings | **62,681** | – |
| Repayments of bank borrowings | **(300)** | (300) |
| Interests paid | **(2,920)** | (1,340) |
| Repurchase of shares for RSU Scheme | **(738)** | (2,035) |
| **Net cash generated from/(used in) financing activities** | **58,723** | (3,675) |
| Net (decrease)/increase in cash and cash equivalents | **(37,449)** | 39,881 |
| Cash and cash equivalents at beginning of period | **349,563** | 338,655 |
| Exchange gain/(loss) on cash and cash equivalents | **692** | (5,578) |
| **Cash and cash equivalents at end of the period** | **312,806** | 372,958 |

# 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, the 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 "**Group's Game Business**") in the People's Republic of China (the "**PRC**") and other countries and regions.

The interim condensed consolidated balance sheet of the Group as of June 30, 2018 and the related interim condensed consolidated statements of comprehensive income/(loss) for the six-month period and the three-month period then ended, changes in equity and cash flows for the six-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 August 10, 2018.

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

The Interim Financial Information has not been audited.

## 2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim financial reporting". The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2017 as set out in the 2017 annual report of the Company (the "**2017 Financial Statements**") and any public announcements made by the Company during the interim reporting period, which have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**").

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2017, as described in those annual 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 new and amended standards as set out below. 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 following new and amended standards, and annual improvement are mandatory for the first time for the Group's financial year beginning on January 1, 2018 and are applicable for the Group:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- Annual Improvement to IFRSs 2014–2016 cycle*
- IFRIC-Int 22, "Foreign Currency Transactions and Advance Consideration"

* It includes amendment to IFRS12 "Disclosure of interests in other entities" which was effective in January 1, 2017 and does not have a material impact on the Group.

Amendments to IFRS effective for the financial year beginning on January 1, 2018 do not have a material impact on the Group's Interim Financial Information other than IFRS 9 and IFRS 15, details of which are set out in note 3.1(a) and 3.1(b), respectively.

3.1 Summary of significant accounting policies

*(a) IFRS 9 "Financial Instruments"*

*(I) Impact on the financial statements*

As explained in note 3.1(a)(II) below, IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as of December 31, 2017, but are recognised in the opening balance sheet on January 1, 2018.

*(II) IFRS 9 "Financial Instruments" — Impact of adoption*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 "Financial Instruments" from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 3.1(a)(III) below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact on the Group's accumulated losses as of January 1, 2018 is as follows:

| | **Accumulated losses** *RMB'000* |
|---|---|
| **Closing balance as of December 31, 2017 — IAS 39** | (1,435,377) |
| Reclassify investments from available-for-sale to fair value through profit or loss ("**FVPL**") *(Note (i))* | 22,400 |
| **Opening balance as of January 1, 2018 — IFRS 9** | (1,412,977) |

*Note:*

(i) Classification and measurement

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

| **Financial assets — January 1, 2018** | **FVPL**<br>*RMB'000* | **FVOCI (Available-for-sale 2017)**<br>*RMB'000* |
|---|---|---|
| **Closing balance as of December 31, 2017 — IAS 39*** | 34,049 | 107,419 |
| Reclassify investments from available-for-sale to FVPL *(Note (a))* | 107,419 | (107,419) |
| **Opening balance as of January 1, 2018 — IFRS 9** | 141,468 | – |

* The closing balances as of December 31, 2017 show available-for-sale financial assets under fair value through other comprehensive income ("**FVOCI**"). These reclassifications have no impact on the measurement categories.

The impact of these changes on the Group's equity is as follows:

| | **Effect on AFS reserves**<br>*RMB'000* | **Effect on accumulated losses**<br>*RMB'000* |
|---|---|---|
| **Opening balance — IAS 39** | 22,400 | (1,435,377) |
| Reclassify investments from available-for-sale to FVPL *(Note (a))* | (22,400) | 22,400 |
| **Opening balance — IFRS 9** | – | (1,412,977) |

*Note:*

(a) Reclassification from available-for-sale to FVPL

Certain equity investments were reclassified from available-for-sale to FVPL (RMB107,419,000 as of January 1, 2018).

Related fair value gains of RMB22,400,000 were transferred from the available-for-sale financial assets reserve to accumulated losses on January 1, 2018. In the six months to June 30, 2018, net fair value gains of RMB153,000 relating to these investments were recognised in profit or loss, along with deferred tax expense of RMB38,000.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables, and
- other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's accumulated losses and equity was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

*(III) IFRS 9 "Financial Instruments" — Accounting policies applied from January 1, 2018*

Investments and other financial assets

*Classification*

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

*Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(i) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(ii) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management elect to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

*Impairment*

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

*(b) IFRS 15 "Revenue from Contracts with Customers"*

The Group has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rule under the modified retrospective approach and the comparative figures have not been restated. Based on the Group's assessment, the accumulated losses as of January 1, 2018 were not adjusted upon the adoption of IFRS15.

*Revenue Recognition*

Revenue is measured at the transaction price which is the amount of consideration to which the Group entitled in exchange for transferring promised services or goods to the customer. The Group allocate the transaction price to each performance obligation based on the relative stand-alone selling prices. Revenue for each performance obligation is then recognised when the Group satisfies the performance obligation by transferring the promised goods or services to the customer.

(I) Revenue generated from sales of in-game virtual items

The Group engages in development and operation of online games and receives proceeds from sales of in-game virtual credits ("**Game Credits**") to the game players. The Group publishes its self-developed games as well as games licensed from third-party developers through game distribution channels.

The Group's games are free to play. Players can purchase Game Credits and then convert such Game Credits into various in-game virtual items for better in-game experience. The Group's paying players ("**Paying Players**") purchase the Game Credits either directly through the game distribution channels' own charging systems or third-party payment channels, or through purchasing prepaid game cards from third-party pre-paid game card distributors. Pursuant to agreements with the Group, game distribution channels, third party payment collection channels and third-party pre-paid game card distributors collect the payment from the Paying Players and remit the cash to the Group, net of channel service charges or distribution discounts.

*Principal agent consideration*

The Group operates both its self-developed games and licensed games and takes primary responsibilities in the delivery of game experiences to the Paying Players, including marketing and promotion, determining distribution and payment channels, hosting game servers and providing customer services. In addition, the Group also controls game and service specifications and pricing of the in-game virtual items. Therefore the Group considers itself the principal in the delivery of game experience to the Paying Players as the Group has the primary responsibility in the arrangement and latitude in establishing the selling prices and thus records revenues on a gross basis. Payment to third-party game developers and channel service charges by game distribution channels and third-party payment channels are recorded as cost of revenue. The discounts given to the Paying Players by the third-party game distribution channels and third-party prepaid game card distributors are estimated by the Group based on available information and recorded as a deduction of revenue.

*Recognition of revenue generated from sales of in game virtual items*

Upon the sales of Game Credits, the Group typically has an implied performance obligation to provide services which enable the in game virtual items exchanged from the Game Credits to be displayed or used in the games. Game Credits are consumed by Paying Players to exchange for in game virtual items, i.e. consumable items or permanent ownership items. Revenue is immediately recognised when the consumable items are consumed or expired, or ratably recognised during their life periods for the permanent ownership items. The Group considers player behaviour patterns in estimating the lives of permanent ownership items ("**Player Relationship Period**"), which is the average period between the first date the Paying Players charge their accounts and the last date these Paying Payers would play the game, and it represents the Group's best estimate for the lives of the in-game permanent ownership items purchased by the Paying Players.

The Group estimates the Player Relationship Period on a game-by-game basis and re-assesses such periods quarterly or semi-annually. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other games with similar characteristics developed by the Group or by third-party developers until the new game establishes its own patterns and history. The Group considers the games profile and target audience when estimating the Player Relationship Period.

If the Group does not have the ability to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items for a specific game, the Group recognises revenue from both permanent ownership and consumable virtual items for that game ratably over the game's Player Relationship Period.

(II) Revenue generated from licensing and technical support fees

The Group derives revenue from licensing of games to third-party publishers. Depending on the nature of the license, the revenue is recognised over licensing period or at a point of time. The Group also provides continuing technical support to the third-party publishers for the games licensed. Revenue is recognised when service is transferred to customers and such performance obligation is satisfied.

(III) Revenue generated from the licensing of film rights

The Group licenses self-developed film rights (including internet drama) to third-party publishers. Since the licensee can direct the use of, and get substantially all of the remaining benefits from the licence granted, revenue from the licensing of film rights is recognised upon the delivery of the master tapes to the licensee.

(IV) Revenue generated from the production of film rights

The Group is also engaged to produce films (including internet drama) for specific customers and retains no right to the film rights during the production process and after completion. The Group concludes that it does not create an asset with an alternative use to the Group and it has a right to payment for performance completed to date that includes compensation for a reasonable profit margin. Therefore, revenue is recognised over time by measuring the progress towards complete satisfaction of the performance obligation.

*Contract assets and contract liabilities*

The excess of the cumulative revenue recognised over the cumulative consideration received and due from the contracted customer is recognised as a contract asset on the consolidated balance sheet. On the contrary, the excess of the cumulative consideration received from the contracted customer over the cumulative revenue recognised is recognised as a contract liability recorded in deferred revenue. The contract asset and the contract liability are classified as current and non-current portions based on their respective recovery or settlement periods. As of June 30, 2018, the Group did not have contract assets.

Other receivables and other current/non-current assets were previously presented together in prepayments and other receivables but are now presented separately in the balance sheet, to reflect their different nature.

Advances disclosed in trade and other payables and deferred revenue were previously presented separately in the balance sheet, but are now presented together in contract liabilities to reflect their similar nature.

*(c) Impact of standards issued but not yet applied by the entity*

The Group has not early adopted any new standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial period beginning January 1, 2018. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in their initial applications.

*IFRS 16 "Leases"*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the end of the interim reporting period, the Group has non-cancellable operating lease commitments of RMB16,991,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Group does not intend to adopt the standard before its effective date.

3.2 Critical accounting estimates and judgments

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

When preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2017 Financial Statements.

## 4. RESERVES

| (Unaudited) | Capital reserve *RMB'000* | Currency translation differences *RMB'000* | Statutory surplus reserve fund *RMB'000* | Share-based compensation reserve *RMB'000* | Other reserves *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **Balance as of December 31, 2017** | **(14,119)** | **78,176** | **15,807** | **286,797** | **23,942** | **390,603** |
| Adjustment on adoption of IFRS 9, net of tax *(Note 3.1(a))* | **–** | **–** | **–** | **–** | **(22,400)** | **(22,400)** |
| **Balance as of January 1, 2018** | **(14,119)** | **78,176** | **15,807** | **286,797** | **1,542** | **368,203** |
| Share of other comprehensive income of investments using equity method, net of tax *(Note 7)* | **–** | **–** | **–** | **–** | **744** | **744** |
| Increase in ownership interest in subsidiaries without change of control | **(1,528)** | **–** | **–** | **–** | **–** | **(1,528)** |
| Employee share option and RSU scheme: | | | | | | |
| — Value of employee services | **–** | **–** | **–** | **2,133** | **–** | **2,133** |
| Currency translation differences | **–** | **4,634** | **–** | **–** | **–** | **4,634** |
| **Balance as of June 30, 2018** | **(15,647)** | **82,810** | **15,807** | **288,930** | **2,286** | **374,186** |
| **Balance as of January 1, 2017** | (7,831) | 118,899 | 9,557 | 273,990 | 31,865 | 426,480 |
| Changes in fair value of available-for-sale financial assets, net of tax | – | – | – | – | 22,060 | 22,060 |
| Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax *(Note 6)* | – | – | – | – | (17,913) | (17,913) |
| Share of other comprehensive income of investments using equity method, net of tax *(Note 7)* | – | – | – | – | (2,407) | (2,407) |
| Decrease in ownership interest in subsidiaries without change of control | (1,438) | – | – | – | – | (1,438) |
| Employee share option and RSU scheme: | | | | | | |
| — Value of employee services | – | – | – | 8,206 | – | 8,206 |
| Currency translation differences | – | (16,642) | – | – | – | (16,642) |
| **Balance as of June 30, 2017** | (9,269) | 102,257 | 9,557 | 282,196 | 33,605 | 418,346 |

## 5. REVENUE AND SEGMENT INFORMATION

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Development and operations of online games *(Note (a))*: | | | | |
| — Sales of in-game virtual items | **83,101** | 96,937 | **194,573** | 230,455 |
| — License fee and technical support fee | **5,268** | 27,212 | **9,163** | 38,982 |
| Production and licensing of film rights and others | **85,217** | – | **87,376** | 22,692 |
| | **173,586** | 124,149 | **291,112** | 292,129 |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Sales of in-game virtual items, license fee and technical support fee: | | | | |
| — Mobile games | **85,694** | 120,867 | **197,879** | 262,345 |
| — Web-based games | **496** | 716 | **1,154** | 1,450 |
| — Client-based games | **2,179** | 2,566 | **4,703** | 5,642 |
| | **88,369** | 124,149 | **203,736** | 269,437 |

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

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

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

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Revenue from external customers: | | | | |
| — Mainland China | **115,323** | 82,557 | **172,164** | 219,439 |
| — Korea | **29,187** | 34,095 | **73,146** | 59,934 |
| — Other overseas countries and regions | **29,076** | 7,497 | **45,802** | 12,756 |
| | **173,586** | 124,149 | **291,112** | 292,129 |

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

| | **As of June 30, 2018** | As of December 31, 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| — Mainland China | **54,457** | 80,601 |
| — Korea | **2,073** | 2,685 |
| — Other overseas countries and regions | **2,226** | 6,364 |
| | **58,756** | 89,650 |

## 6. OTHER (LOSSES)/GAINS — NET

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Government subsidies *(Note (a))* | **408** | 143 | **1,935** | 164 |
| Foreign exchange losses, net | **(972)** | (2,714) | **(1,484)** | (3,018) |
| Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss | **(4,313)** | (596) | **(4,976)** | 144 |
| Fair value gain from an associate measured at fair value through profit or loss | **1,200** | 8,231 | **1,200** | 12,822 |
| Impairment charges on available-for-sale financial assets | **–** | – | **–** | (1,773) |
| Gain on disposal of available-for-sale financial assets | **–** | 500 | **–** | 23,884 |
| Others | **(660)** | (143) | **(658)** | (572) |
| | **(4,337)** | 5,421 | **(3,983)** | 31,651 |

*Note:*

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

## 7. INVESTMENTS USING EQUITY ACCOUNTING

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Beginning of the period | **52,268** | 176,362 |
| Share of losses | **(4,488)** | (21,950) |
| Other comprehensive income | **744** | (2,407) |
| Currency translation difference | **–** | (1,607) |
| End of the period | **48,524** | 150,398 |

| **Name** | **Principal activities/ country of incorporation** | **% Interest held as of June 30, 2018** | % Interest held as of December 31, 2017 | **Nature of the relationship** |
|---|---|---|---|---|
| Fuze Entertainment Co., Ltd. ("**Fuze**") | Gaming hardware development and sale/ Cayman Islands | **36.82%** | 36.82% | *Note (a)* |
| Huaying Jiashi (Beijing) International Culture Media Co., Ltd. ("**Huaying**") | Film distribution/PRC | **21.05%** | 21.05% | *Note (b)* |

*Notes:*

(a) The Group has been entitled the right to appoint certain directors of the board of directors of Fuze thus the directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in its operational and financial decision-making processes, therefore the investment in Fuze was accounted for using equity accounting method consistently during the six months ended June 30, 2018 and 2017.

Fuze is a limited liability company incorporated in the Cayman Islands and is engaged in gaming hardware development and sale. There is no quoted market price available for its shares.

(b) In July 2016, a subsidiary of the Company entered into an investment agreement with shareholders of Huaying and pursuant to which the Group purchased 21.05% equity interests in Huaying with a consideration of RMB12,000,000. The Group has been entitled the right to appoint one director out of four of the board of directors of Huaying thus the directors of the Company consider that the Group has significant influence exercised on Huaying in its operational and financial decision-making processes, therefore the investment in Huaying was accounted for using equity accounting method.

Huaying is a limited liability company incorporated in Beijing, PRC and is primarily engaged in film distribution. There is no quoted market price available for its shares.

## 8. TRADE RECEIVABLES

| | As of June 30, 2018 *RMB'000* (Unaudited) | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|
| Trade receivables | **61,344** | 54,297 |
| Less: impairment provision | **(579)** | (1,957) |
| | **60,765** | 52,340 |

(a) The revenue of the Group from the game distribution channels, third-party payment vendors, international game publishers and film publishers are mainly made on credit term determined on individual basis with normal period up to 60 days. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

| | As of June 30, 2018 *RMB'000* (Unaudited) | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|
| 0–60 days | **56,111** | 46,696 |
| 61–90 days | **1,802** | 2,572 |
| 91–180 days | **1,230** | 2,293 |
| 181–365 days | **1,595** | 744 |
| over 1 year | **606** | 1,992 |
| | **61,344** | 54,297 |

(b) As at June 30, 2018 and December 31, 2017, trade receivables of past due but not impaired were RMB6,534,000 and RMB8,763,000, respectively. These related to a number of game distribution channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

| | As of June 30, 2018 *RMB'000* (Unaudited) | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|
| Outstanding after due dates: | | |
| 0–60 days | **3,682** | 5,692 |
| 61–90 days | **546** | 1,330 |
| 91–180 days | **1,996** | 1,454 |
| 181–365 days | **283** | 252 |
| over 1 year | **27** | 35 |
| | **6,534** | 8,763 |

## 9. TRADE AND OTHER PAYABLES

| | **As of June 30, 2018** *RMB'000* **(Unaudited)** | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|
| Trade payables *(Note (i))* | **46,370** | 50,532 |
| Other taxes payables | **3,602** | 3,589 |
| Interests payable | **191** | 117 |
| Salary and staff welfare payables | **20,829** | 29,165 |
| Accrued expenses and liabilities | **36,873** | 37,604 |
| | **107,865** | 121,007 |

*Note:*

(i) Trade payables are mainly arising from the leasing of Internet Data Center (IDC) and licensing games from game developers. The credit terms of trade payables granted by the vendors are usually up to 30 days. The ageing analysis of trade payables based on recognition date is as follows:

| | **As of June 30, 2018** *RMB'000* **(Unaudited)** | As of December 31, 2017 *RMB'000* (Audited) |
|---|---|---|
| 0–180 days | **38,663** | 44,708 |
| 181–365 days | **3,631** | 1,034 |
| 1–2 years | **930** | 1,515 |
| 2–3 years | **785** | 605 |
| over 3 years | **2,361** | 2,670 |
| | **46,370** | 50,532 |

## 10. INCOME TAX EXPENSE/(CREDIT)

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Current income tax | | | | |
| — Current income tax of this period | **1,241** | 2,919 | **2,767** | 4,770 |
| — Exemption of tax provision *(Note (c) (i))* | **–** | (17,099) | **–** | (17,099) |
| Total current income tax | **1,241** | (14,180) | **2,767** | (12,329) |
| Deferred income tax | **2,858** | (3,578) | **1,458** | (2,470) |
| **Income tax expense/(credit)** | **4,099** | (17,758) | **4,225** | (14,799) |

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) PRC Enterprise Income Tax ("**EIT**")

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

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | 2017 |
| Tianjin 8864 | **25%** | 50% reduction |
| Feng and Long *(Note (i))* | **50% reduction** | EIT exemption |
| Horgos Pictures | **EIT exemption** | EIT exemption |

*Note:*

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

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

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

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

## 11. LOSS PER SHARE

(a) Basic

Basic loss per share for the three months and the six months ended June 30, 2018 and 2017 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Loss attributable to owners of the Company | **(18,957)** | (37,483) | **(72,907)** | (51,407) |
| Weighted average number of ordinary shares in issue (thousand shares) | **352,502** | 354,123 | **352,979** | 353,100 |
| Basic loss per share (expressed in RMB per share) | **(0.05)** | (0.11) | **(0.21)** | (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 six months ended June 30, 2018 and 2017, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the three months and six months ended June 30, 2018 and 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months and six months ended June 30, 2018 and 2017 are the same as basic loss per share of the period.

## 12. DIVIDENDS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND PROSPECTS

In the first half of 2018, the Group continued to focus on its mobile game business and online film business. "Uproar in Heaven (鬧鬧天宮)", the Group's self-developed game, was exclusively licensed to Tencent and the Group has acquired a number of top-notch IP products. The drama series produced by Linekong Pictures have been launched online gradually, generating revenue accounting for 30% of its total revenue for the first time. Meanwhile, the Group's presence in the overseas gaming markets has also been further consolidated and expanded.

### 1. Linekong's self-developed exciting game "Uproar in Heaven (鬧鬧天宮)" was all the rage during its trial period and was awarded a contract by Tencent

The Group's self-developed game "Uproar in Heaven (鬧鬧天宮)", combines the Chinese traditional mythological figures with .io element. The game succeeds in attracting a large number of players with its fascinating artistic and casual battling style, topping the TapTap Chart for Android games just the next day after the kick-off of the game's technical test on Tap Tap and being all the rage during the trial period. A total of 162,375 players signed up for the trial, generating positive feedback with an official server rating as high as 9.7. During the second quarter of 2018, the game was awarded a contract by Tencent. Currently, the overall research and development of the game is making steady progress, and the game's technical test is expected to be launched in the second half of the year.

### 2. Striving for the global distribution of top-notch IPs and ongoing launch of exciting games

The Group has been licensed to globally distribute "Xuanyuan Sword: Millennium Fate (軒轅劍 • 蒼之曜)", which is the official sequel of "Xuanyuan Sword (軒轅劍)", a classic Chinese RPG game series with a history of 28 years. The Group will cooperate with Softstar Entertainment Inc. (臺灣大宇) and Softstar Technology (Shanghai) to vigorously develop such mobile game. To further the legend of this 28-year old classic, Cai Minghong (蔡明宏), the "Father of Xuanyuan Sword (軒轅劍之父)", was appointed the Chief Consultant to oversee the production. In addition, the Group has been licensed the exclusive adaptation and global distribution of "Ys VIII (伊蘇VIII)", the supreme ARPG game in Japan. The Group will launch the official authorised mobile version of "Ys VIII (伊蘇VIII)", which is the Group's self-developed mobile game based on the new Saturn 2.0 engine and under the supervision and maintenance from the original production team of Falcom Ys in the whole process, prompting this 30-year classic game series to turn over a new leaf. The Group strives to endow "Ancient Music Records (古樂風華錄)", the first nostalgic animated IP rich in historical background, with exciting features in terms of novel, animation, music, game, etc.

3. **Embarking on the H5 game segment**

The Group will continue to explore the segment of diversified games and accurately meet user demand. In addition to the advantageous products of MMORPG genre, the Group also embarks on the H5 game segment to cater to the younger generation who tend to spend fragmented time through the day. "Code Name: Abyssal (代號: Abyssal)" is a roleplaying H5 mobile game with a stylistic comics style of dark beauty and the Roguelike element, promising its players an experience of randomness and emphasizing a guild model with the aim of catering to social needs of different player groups. "Code Name: Dungeon (代號: Dungeon)", a set-aside H5 mobile game adopting a comics style widely-received in the West with easy-control and fragmented experience features, will commence its first trial in the third quarter of 2018. These two self-developed casual games are the extension of the Group's philosophy of producing exciting games to provide excellent product experience to their users.

4. **Continuous endeavours in the overseas game markets leading to rapid progress**

In the first half of the year, the Group's game business experienced sustained growth in the overseas markets, generating revenue accounting for 58.4% of its total game revenue and representing a year-on-year increase of 63.5%. As at the end of the second quarter, "Daybreak Legends" has gone online in 152 countries or regions outside the China Mainland, currently being the Top 1 best-selling game in 6 countries or regions, the Top 5 best-selling game in 17 countries or regions, the Top 10 best-selling game in 29 countries or regions and the Top 50 best-selling game in 42 countries or regions. At the same time, the Group's branch company in Korea negotiates for product cooperation with a number of companies closely in a frequent manner leveraging on its advantages in distributing games, and intends to continuously enter into contracts for various game products with high quality during the year.

5. **Being distributed on schedule, Linekong Pictures' products have been awarded contracts by Tencent Video and Mango TV, and generating revenue accounting for 30.0% of its total revenue during the first half of 2018**

"Unexpected (來到你的世界)", an online romantic fantasy drama of Linekong Pictures being exclusively broadcast by Tencent Video on June 13, 2018, recorded an accumulated views of over 700 million and won a rating as high as 7.7 on Douban.com. "Long For You 2 (我與你的光年距離2)", a much-anticipated online drama co-produced by Linekong Pictures and Mango TV, commenced shooting in Shenzhen on May 26, 2018 and is expected to be broadcast on Mango TV at the end of this year. This drama is the creation of Raymond Chiang (江金霖), the most valued young director from Taiwan renowned for his "You're The Apple Of My Eye (那些年，我們一起追的女孩)", and his own film production crew. In addition, the group also has expanded its customized video business on the basis of our production and licensing parts. This customized business faces little risk relatively as its payment can be realized in according with the project progress, which can bring stable revenue to the group, therefore, it will be regarded as the main business part of Linekong Pictures. "Apocalypse, the Tomb Guardian (鎮墓獸 • 天啟)", the first co-production of Tian Xia Ba Chang (天下霸唱) and Cai Jun (蔡駿) as well as China's first motion pictures with the theme against tomb-raiding, was scheduled to commence shooting in the second half of the year. "Ancient Music Records (古樂風華錄)" was included in the 2017 List of National Items for Reforms and Development (國家二零一七年改革發展項目庫). It is a highlight of the ritual and musical culture collectively created by 500 comics artists mastering traditional drawing skills. In the future, the Group will adhere to its planned annual output of two to three high-quality videos of diversified subjects, establishing itself as a first-class domestic video production company.

### International markets

As at June 30, 2018, our games have gone online in 152 countries or regions outside the China Mainland. During the six months ended June 30, 2018, the revenue from overseas markets was approximately RMB118.9 million, representing a significant increase of approximately 63.5% compared with the corresponding period of 2017 and accounting for approximately 40.8% of our total revenue.

### Our players

The total number of registered players of our games increased from approximately 227.5 million as at June 30, 2017 to over approximately 239.2 million as at June 30, 2018. As at June 30, 2018, the number of average monthly active users (MAU) reached approximately 1.6 million and the number of average daily active users (DAU) reached approximately 0.3 million.

## FINANCIAL REVIEW

The following table is our interim condensed consolidated statement of loss for the six months ended June 30, 2018 and 2017 together with changes (expressed in approximate percentages) from the first half of 2017 to the first half of 2018 respectively:

| | **For the six months ended June 30,** | | | | |
|---|---|---|---|---|---|
| | **2018** | | 2017 | | Change |
| | | ***approximate*** | | *approximate* | *approximate* |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *%* |
| **Revenue** | **291,112** | **100.0** | 292,129 | 100.0 | (0.3) |
| Cost of revenue | **(178,670)** | **(61.4)** | (167,730) | (57.4) | 6.5 |
| **Gross profit** | **112,442** | **38.6** | 124,399 | 42.6 | (9.6) |
| Selling and marketing expenses | **(74,109)** | **(25.5)** | (92,517) | (31.7) | (19.9) |
| Administrative expenses | **(43,156)** | **(14.8)** | (41,119) | (14.1) | 5.0 |
| Research and development expenses | **(49,676)** | **(17.1)** | (65,459) | (22.4) | (24.1) |
| Net impairment losses on financial assets | **(511)** | **(0.2)** | (1,617) | (0.6) | (68.4) |
| Other (losses)/gains — net | **(3,983)** | **(1.4)** | 31,651 | 10.8 | (112.6) |
| **Operating loss** | **(58,993)** | **(20.3)** | (44,662) | (15.3) | 32.1 |
| Finance (cost)/income — net | **(1,076)** | **(0.4)** | 1,448 | 0.5 | (174.3) |
| Share of loss of an investment using equity accounting | **(4,488)** | **(1.5)** | (21,950) | (7.5) | (79.6) |
| **Loss before income tax** | **(64,557)** | **(22.2)** | (65,164) | (22.3) | (0.9) |
| Income tax (expense)/credit | **(4,225)** | **(1.5)** | 14,799 | 5.1 | (128.5) |
| **Loss for the period** | **(68,782)** | **(23.6)** | (50,365) | (17.2) | 36.6 |
| Non-IFRS Measure: Adjusted net loss (unaudited) | **(54,089)** | **(18.6)** | (42,159) | (14.4) | 28.3 |

**Revenue**

The Group's revenue decreased by approximately 0.3% from approximately RMB292.1 million for the six months ended June 30, 2017 to approximately RMB291.1 million for the six months ended June 30, 2018.

For the six months ended June 30, 2018, the revenue contributed by game business decreased by approximately 24.4% or RMB65.7 million, compared with the corresponding period of 2017, which was due to fewer new games released during the first half year of 2018 than that of 2017, which was mainly due to the strategy implemented by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of movie business, the Group recognised revenue of RMB87.4 million from production and licensing of film rights and others during the six months ended June 30, 2018.

**Revenue by game forms and sources**

The following table sets forth the breakdown of our revenue by game business and movie business respectively. As regards the game business, the other tables below set forth the breakdown of revenue by (i) game forms; and (ii) self-developed games and licensed games for the six months ended June 30, 2018 and 2017 respectively:

| | **For the six months ended June 30,** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***RMB'000*** | ***approximate %*** | *RMB'000* | *approximate %* |
| Development and operations of online games | **203,736** | **70.0** | 269,437 | 92.2 |
| Production and Licensing of film rights and others | **87,376** | **30.0** | 22,692 | 7.8 |
| Total | **291,112** | **100.0** | 292,129 | 100.0 |

| | **For the six months ended June 30,** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***RMB'000*** | ***approximate %*** | *RMB'000* | *approximate %* |
| Mobile games | **197,879** | **97.1** | 262,345 | 97.4 |
| Web-based games | **1,154** | **0.6** | 1,450 | 0.5 |
| Client-based games | **4,703** | **2.3** | 5,642 | 2.1 |
| Total | **203,736** | **100.0** | 269,437 | 100.0 |

| | For the six months ended June 30, | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | | ***approximate*** | | *approximate* |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Self-developed games | **53,686** | **26.4** | 82,803 | 30.7 |
| Licensed games | **150,050** | **73.6** | 186,634 | 69.3 |
| Total | **203,736** | **100.0** | 269,437 | 100.0 |

**Cost**

The Group's cost of revenue for the six months ended June 30, 2018 was approximately RMB178.7 million, representing an increase of approximately 6.5% from approximately RMB167.7 million for the six months ended June 30, 2017. Excluding the share-based compensation expense, the Group's cost of revenue for the six months ended June 30, 2018 was approximately RMB178.3 million, representing an increase of approximately 6.9% from approximately RMB166.8 million the six months ended June 30, 2017.

For the six months ended June 30, 2018, the cost incurred by game business was approximately RMB128.3 million, representing a decrease of approximately 13.4% or RMB19.9 million, compared with the corresponding period of 2017, which was in line with the decrease of our game revenue.

For the six months ended June 30, 2018, the cost incurred by movie business was approximately RMB50.4 million.

**Gross profit and gross profit margin**

The Group's gross profit for the six months ended June 30, 2018 was approximately RMB112.4 million, representing a decrease of approximately 9.6% from approximately RMB124.4 million for the six months ended June 30, 2017. Excluding the share-based compensation expense, the Group's gross profit for the six months ended June 30, 2018 was approximately RMB112.8 million, representing a decrease of approximately 10.0% as compared to approximately RMB125.4 million for the six months ended June 30, 2017. The decrease in the Group's gross profit was primarily due to the decrease in proportion of revenue from self-developed mobile games to the overall revenue for the six months ended June 30, 2018.

The Group's gross profit margin for the six months ended June 30, 2018 was approximately 38.6%, representing a decrease of approximately 4.0 percentage points as compared to approximately 42.6% for the six months ended June 30, 2017. Excluding the share-based compensation expense, the Group's gross profit margin for the six months ended June 30, 2018 was approximately 38.7%, representing a decrease of approximately 4.2 percentage points as compared to approximately 42.9% for the six months ended June 30, 2017.

For the six months ended June 30, 2018, the gross profit margin of game business was approximately 37%, representing a decrease of approximately 8 percentage points compared with the corresponding period of 2017, which was mainly due to the increase in proportion of revenue from licensed mobile game to the overall revenue. The gross profit margin of movie business was approximately 42.3%, which was higher than that of game business.

**Selling and marketing expenses**

The Group's selling and marketing expenses for the six months ended June 30, 2018 were approximately RMB74.1 million, representing a decrease of approximately 19.9% from approximately RMB92.5 million for the six months ended June 30, 2017. Excluding the share-based compensation expense, the Group's selling and marketing expenses for the six months ended June 30, 2018 were approximately RMB73.8 million, representing a decrease of approximately 19.8% from approximately RMB92.0 million for the six months ended June 30, 2017. The decrease in selling and marketing expenses was primarily due to reduction of advertising and promotion expenses incurred by publishing new games.

**Administrative expenses**

The Group's administrative expenses for the six months ended June 30, 2018 were approximately RMB43.2 million, representing an increase of 5.0% from approximately RMB41.1 million for the six months ended June 30, 2017. Excluding the share-based compensation expense, the Group's administrative expenses for the six months ended June 30, 2018 were approximately RMB42.5 million, representing an increase of approximately 16.4% from approximately RMB36.5 million for the six months ended June 30, 2017. The increase in administrative expenses was primarily due to the increase in compensation paid for loss of office as the result of streamlining manpower to meet the needs of the business and development strategy of the Company.

**Research and development expenses**

The Group's research and development expenses for the six months ended June 30, 2018 were approximately RMB49.7 million, representing a decrease of approximately 24.1% from approximately RMB65.5 million for the six months ended June 30, 2017. Excluding the share-based compensation expense, the Group's research and development expenses for the six months ended June 30, 2018 were approximately RMB48.9 million, representing a decrease of approximately 22.7% from approximately RMB63.3 million for the six months ended June 30, 2017. The decrease in research and development expenses was primarily due to reduction in salary expenses as the result of redundancy to meet the needs of the business and development strategy of the Company.

**Net impairment losses on financial assets**

The Group's net impairment losses on financial assets for the six months ended June 30, 2018 were approximately RMB0.5 million, representing a decrease of approximately 68.8% from approximately RMB1.6 million for the six months ended June 30, 2017, which was primarily due to the enhanced efficiency towards management of financial assets during the current year.

**Other (losses)/gains — net**

The Group's other net losses for the six months ended June 30, 2018 was approximately RMB4.0 million, compared to other net gains of approximately RMB31.7 million for the six months ended June 30, 2017. The Group's other net loss during the six months ended June 30, 2018 was mainly due to the changes in fair value of the securities assets (including listed and unlisted securities) held by the Company.

**Finance (costs)/income — net**

We recorded net finance costs of approximately RMB1.1 million for the six months ended June 30, 2018, and we recorded net finance income of approximately RMB1.4 million for the six months ended June 30, 2017, mainly due to increase in interest cost on borrowings for the period and the decrease in interest income generated from wealth management products. No interest was capitalised for the six months ended June 30, 2018 (six months ended June 30, 2017: Nil).

**Share of loss of an investment using equity accounting**

The Group's share of loss of an investment using equity accounting for the six months ended June 30, 2018 was approximately RMB4.5 million, decreasing by 79.6% over RMB22.0 million for the six months ended June 30, 2017, mainly due to the narrowing of operating loss incurred by Fuze Entertainment Co., Ltd ("**Fuze**"), the investee.

**Income tax (expense)/credit**

The Group's income tax expense for the six months ended June 30, 2018 was approximately RMB4.2 million, while the Group's income tax credit for the six months ended June 30, 2017 was approximately RMB14.8 million. The Group's income tax credit for the six months ended June 30, 2018 was primarily due to: (i) certain subsidiaries of the Group were accredited as software enterprise in 2017 before the 2016 annual EIT clearance related tax provision arising in 2016 was exempted in May 2017; and (ii) the decrease in recognised deferred income tax assets in respect of the temporary differences of deferred revenue of certain subsidiaries.

**Loss for the period**

As a result of the foregoing, the loss for the six months ended June 30, 2018 was approximately RMB68.8 million as compared to a loss of approximately RMB50.4 million for the six months ended June 30, 2017.

**Non-IFRSs measure — adjusted net loss**

To supplement our consolidated financial statements presented in accordance with the International Financial Reporting Standards ("**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 loss was derived from our net loss for the period deducted share-based compensation expenses and impacts from one-off compensation for loss of office. The adjusted net loss is an unaudited figure.

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

| | **For the six months ended June 30,** | | |
|---|---|---|---|
| | **2018** | 2017 | Change |
| | ***RMB'000*** | *RMB'000* | *approximate* |
| | **(Unaudited)** | (Unaudited) | % |
| **Loss for the period** | **(68,782)** | (50,365) | 36.6 |
| **Add:** | | | |
| Share-based compensation expenses | **2,133** | 8,206 | (74.0) |
| One-off compensation for loss of office paid | **12,560** | – | 100.0 |
| **Adjusted net loss** | **(54,089)** | (42,159) | 28.3 |

The Group's adjusted net loss for the six months ended June 30, 2018 was approximately RMB54.1 million, representing an increase of approximately 28.3% as compared to the adjusted net loss of approximately RMB42.2 million for the six months ended June 30, 2017. The increase in adjusted net loss for the period was mainly due to the combined effect of: (1) decrease in gross profit for the six months ended June 30, 2018 and (2) the fact that no gain on disposal of available-for-sale financial assets was generated for the for the six months ended June 30, 2018. We have presented adjusted net loss in this announcement as we believe that the adjusted net loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration share-based compensation expenses and impacts from one-off compensation for loss of office. However, adjusted net loss should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss presented in this announcement may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

## LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended June 30, 2018, we financed our operations primarily through cash generated from our operating activities. The Group has been maintaining a solid cash position since we received the net proceeds from the listing of the Company's shares (the "**Shares**") on the Stock Exchange (the "**Listing**") 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 six months ended June 30, 2018, 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 return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives.

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

As at June 30, 2018, we had cash and cash equivalents of approximately RMB312.8 million (December 31, 2017: approximately RMB349.6 million), which primarily consisted of cash at bank, other financial institutions and cash in hand and which were mainly denominated in Renminbi (as to approximately 18.9%), Hong Kong dollars ("**HKD**") (as to approximately 43.9%), U.S. dollars ("**USD**") (as to approximately 35.7%) and other currencies (as to approximately 1.5%).

As at June 30, 2018, approximately RMB215.3 million (December 31, 2017: approximately RMB188.2 million) are restricted deposits held at bank as reserve for serving a loan facility with a total credit line of approximately RMB200.0 million provided by the bank. Such facility will expire within one year.

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

### Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the six months ended June 30, 2018, our total capital expenditure amounted to approximately RMB8.9 million (for the six months ended June 30, 2017: approximately RMB3.6 million), including the purchase of trademarks and licenses amounting to approximately RMB8.2 million (for the six months ended June 30, 2017: approximately RMB2.3 million).

## 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 June 30, 2018, bank loans borrowed by the Group amounted to approximately RMB199.1 million (December 31, 2017: RMB136.7 million). As at June 30, 2018, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 37.8% (December 31, 2017: approximately 34.6%).

## CHARGE ON GROUP ASSETS

As at June 30, 2018, restricted deposits of approximately RMB215.3 million of the Group were pledged to secure bank borrowings (as at December 31, 2017: approximately RMB188.2 million).

## INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2018, the Group had 426 employees (June 30, 2017: 652), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at June 30, 2018 and June 30, 2017 respectively:

| | **As at June 30,** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| Function | ***Number of Employees*** | ***approximate % of total employees*** | *Number of Employees* | *approximate % of total employees* |
| Research and development | **200** | **46.9** | 378 | 58.0 |
| Game publishing | **139** | **32.7** | 148 | 22.7 |
| — Game licensing | **65** | **15.3** | 58 | 8.9 |
| — Customer service | **17** | **4.0** | 26 | 4.0 |
| — Sales and marketing | **57** | **13.4** | 64 | 9.8 |
| General and administrative | **61** | **14.3** | 88 | 13.5 |
| Movie business | **26** | **6.1** | 38 | 5.8 |
| Total | **426** | **100.0** | 652 | 100.0 |

The total remuneration of the employees of the Group was approximately RMB103.3 million for the six months ended June 30, 2018 (for the six months ended June 30, 2017: approximately RMB100.8 million).

The Company has established the remuneration committee on April 21, 2014 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules.

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

The Group offers competitive remuneration package commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus.

In determining staff remuneration, the Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The staff remuneration is reviewed regularly.

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

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

Share-based compensation expenses in connection with the RSU Scheme and share option scheme for the six months ended June 30, 2018 were approximately RMB2.1 million, representing a decrease of approximately 74.0% from approximately RMB8.2 million for corresponding period in 2017.

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group's business. As a fast growing company, the Company is able to provide its employees with ample career development choices and opportunities of advancement. The Company organises various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building. The Company also provides various incentives to motivate its employees. In addition to providing performance-based bonuses and share-based awards, the Company offers unsecured, interest-free housing loans to employees with good performance.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In preparation for the Listing, the Company underwent corporate reorganisation, the details of which are set out in the section headed "History, Reorganization and Corporate Structure" of the Company's prospectus dated December 9, 2014 (the "**Prospectus**").

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended June 30, 2018.

## CONTINGENT LIABILITIES

As at June 30, 2018, the Group did not have any significant contingent liabilities (December 31, 2017: Nil).

## FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. The Company's net assets are exposed to foreign currency translation risk from the translation of the USD denominated net assets into the Group's presentation currency RMB.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognized assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from overseas cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency.

## DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended June 30, 2018.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of June 30, 2018, 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 Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

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

*Notes:*

(1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 4,207,072 Shares and is interested in 8,433,308 restricted share units ("**RSUs**") granted to him under the RSU Scheme entitling him to receive 8,433,308 Shares subject to vesting. As of June 30, 2018, 100% of the RSUs granted to him have been vested.

(2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 Shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 Shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 174,000 Shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares subject to vesting. As of June 30, 2018, 100% of the RSUs granted to her have been vested.

(3) Mr. Chen Hao is interested in 1,575,841 Shares including 475,841 RSUs granted to him under the RSU Scheme entitling him to receive 475,841 Shares subject to vesting. As of June 30, 2018, approximately 36.43% of the RSUs granted to him have been vested. Mr. Chen Hao is also interested in 1,100,000 share options granted to him under the share option scheme of the Company entitling him to receive 1,100,000 Shares upon exercise of the share options. 100,000 of the share options were granted to him on October 9, 2015 and 1,000,000 of the share options were granted to him on January 18, 2017. As of June 30, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this announcement.

(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 June 30, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this announcement.

(5) As of June 30, 2018, the Company issued 368,730,964 shares.

Save as disclosed above, on June 30, 2018, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as of June 30, 2018, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members 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 June 30, 2018, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long and short positions in the shares

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

| Name of shareholder | Nature of interest | Number of Shares or securities held | Approximate percentage of interest in the Company *(Note 7)* |
|---|---|---|---|
| Fosun Holdings Limited *(Note 3)* | Interest of controlled corporation | 52,318,760 (L) | 14.19% |
| Fosun International Holdings Limited *(Note 3)* | Interest of controlled corporation | 52,318,760 (L) | 14.19% |
| Fosun International Limited *(Note 3)* | Interest of controlled corporation | 52,318,760 (L) | 14.19% |
| Fosun Momentum Holdings Limited *(Note 3)* | Interest of controlled corporation | 52,318,760 (L) | 14.19% |
| Guo Guangchang *(Note 3)* | Interest of controlled corporation | 52,318,760 (L) | 14.19% |
| Starwish Global Limited *(Note 3)* | Beneficial owner | 52,318,760 (L) | 14.19% |
| The Core Trust Company Limited *(Note 4)* | Trustee of a trust | 37,555,586 (L) | 10.19% |
| TCT (BVI) Limited *(Note 4)* | Trustee of a trust | 37,555,586 (L) | 10.19% |
| Premier Selection Limited *(Note 4)* | Nominee for another person | 37,555,586 (L) | 10.19% |
| Chi Sing Ho *(Note 5)* | Interest of controlled corporation | 29,922,996 (L) | 8.12% |
| IDG-Accel China Growth Fund GP Associates Ltd. *(Note 5)* | Interest of controlled corporation | 27,774,323 (L) | 7.53% |
| IDG-Accel China Growth Fund Associates, L.P. *(Note 5)* | Interest of controlled corporation | 27,774,323 (L) | 7.53% |
| IDG-Accel China Growth Fund L. P. *(Note 5)* | Beneficial owner | 23,061,443 (L) | 6.25% |
| Quan Zhou *(Note 5)* | Interest of controlled corporation | 27,774,323 (L) | 7.53% |
| Fubon Financial Holding Co., Ltd. *(Note 6)* | Interest of controlled corporation | 23,739,000 (L) | 6.44% |
| Fubon Life Insurance Co., Ltd. *(Note 6)* | Beneficial owner | 23,739,000 (L) | 6.44% |

(L) Long position (S) short position

*Notes:*

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 interested 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" in this announcement.

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 June 30, 2018, Fosun International Limited is 71.70% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of June 30, 2018, Mr. Guo Guangchang owns 64.45% equity interest in Fosun International Holdings Limited.

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 June 30, 2018, 7,803,955 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 37,555,586 underlying Shares, including a total of 11,720,918 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 475,841 RSUs granted to Mr. Chen Hao. On March 29, 2018, April 3, 2018 and April 4, 2018, the Company had directed The Core Trust Company Limited to purchase and hold on-market 415,000 Shares, 320,000 Shares and 250,000 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.

5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund Associates, L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 shares) and IDG- Accel China Growth Fund-A L.P. (directly holds 4,712,880 shares) are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Quan Zhou and Mr. Chi Sing Ho; and (ii) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Chi Sing Ho. Hence, IDG-Accel China Growth Fund Associates L.P., IDG- Accel China Growth Fund GP Associates Ltd. and Mr. Quan Zhou are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing Ho is deemed to be interested in 29,922,996 Shares by virtue of SFO.

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

7. As of June 30, 2018, the Company issued 368,730,964 Shares.

## 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.

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

| Category | Date of Grant | Option Period | Share options granted | Exercise price per share *HKD* | The weighted average closing price of the shares *HKD* | Outstanding balance as at January 1, 2018 | During the reporting period | | | | Outstanding balance as at June 30, 2018 | Number of new shares issued during the reporting period | Number of new shares which may be issued during the reporting period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Granted | Exercised | Cancelled | Lapsed | | | |
| Employees | August 12, 2015 | August 12, 2015 to August 11, 2025 | 1,849,192 (Note 2) | 8.10 | 8.028 | 462,298 | 0 | 0 | 0 | 0 | 462,298 | 0 | 0 |
| Employees | October 9, 2015 | October 9, 2015 to October 8, 2025 | 5,910,000 (Note 3) | 7.18 | 6.896 | 3,765,625 | 0 | 0 | 0 | 736,875 | 3,028,750 | 0 | 345,625 |
| Mr. Chen Hao (Director since May 11, 2018) | October 9, 2015 | October 9, 2015 to October 8, 2025 | 100,000 (Note 3) | 7.18 | 6.896 | 100,000 | 0 | 0 | 0 | 0 | 100,000 | 0 | 12,500 |
| Employees | June 15, 2016 | June 15, 2016 to June 14, 2026 | 1,450,000 (Note 4) | 4.366 | 4.366 | 1,112,500 | 0 | 0 | 0 | 62,500 | 1,050,000 | 0 | 125,000 |
| Mr. Wang Jin (Director since May 11, 2018) | June 15, 2016 | June 15, 2016 to June 14, 2026 | 300,000 (Note 4) | 4.366 | 4.366 | 300,000 | 0 | 0 | 0 | 0 | 300,000 | 0 | 37,500 |
| Employees | January 18, 2017 | January 18, 2017 to January 17, 2027 | 8,225,000 (Note 5) | 3.10 | 3.084 | 6,700,000 | 0 | 0 | 0 | 3,333,750 | 3,366,250 | 0 | 1,675,000 |
| Mr. Chen Hao (Director since May 11, 2018) | January 18, 2017 | January 18, 2017 to January 17, 2027 | 1,000,000 (Note 5) | 3.10 | 3.084 | 1,000,000 | 0 | 0 | 0 | 0 | 1,000,000 | 0 | 250,000 |

*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.

(7) For details of the values of the share options granted, please refer to note 19(b) to the financial statements.

## 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.

On June 30, 2018, RSUs in respect of 35,471,879 underlying Shares have been granted to 461 grantees (3 of which are our Directors). Total RSUs in respect of 1,225,270 underlying Shares granted to 11 grantees had been lapsed during the six months ended June 30, 2018. On June 30, 2018, 29,562,544 RSUs have been vested unconditionally and there were 335,000 RSUs granted and outstanding. For further details of the movement of the RSUs, please refer to note 19(a) of the interim condensed consolidated financial statements of the Group.

## EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

### Share Purchase by RSU Trustee

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

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

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

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

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

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

**Resignation and Retirement of Directors**

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

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

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

## USE OF IPO PROCEEDS

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

As of June 30, 2018, a total amount of approximately HKD433.0 million from the IPO Proceeds had been utilized for the purposes and approximately in the amount set out below:

(a) approximately HKD95.4 million was used for overseas expansions, expanding our business in overseas markets;

(b) approximately HKD46.0 million was used for potential strategic acquisition or investment in companies in online game and related businesses;

(c) approximately HKD92.0 million was used for creating pan-entertainment environment;

(d) approximately HKD64.1 million was used for licensing more high-quality games with different genres and themes from Chinese and overseas game developers and the operation of such games; and

(e) approximately HKD135.5 million was used for the research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content.

As of June 30, 2018, approximately HKD253.2 million, being the residual part of the IPO Proceeds, remains unutilized.

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

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

## INTERESTS IN COMPETING BUSINESS

None of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group for the six months ended June 30, 2018.

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

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended June 30, 2018.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## AUDIT COMMITTEE

The audit committee was established on April 24, 2014. The chairman of the audit committee is Ms. Wu Yueqin, an independent non-executive Director (appointed with effect from May 29, 2018). Previously, the ex-chairman of the audit committee was Mr. Ma Ji, a former independent non-executive Director (resigned with effect from May 29, 2018). Other members included Mr. Pan Donghui, a non-executive Director, Ms. Zhao Yifang, an independent non-executive Director, Mr. Zhang Xiangdong, an independent non-executive Director and Mr. Wang Xiaodong, an independent non-executive Director (retired with effect from June 15, 2018). The written terms of reference of the audit committee are posted on the GEM website and on the Company's website.

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

The Company has complied with Rule 5.28 of the GEM Listing Rules in that at least one of the members of the audit committee (which must comprise a minimum of three members and must be chaired by an independent non- executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The Group's unaudited financial statements for the six months ended June 30, 2018 have been reviewed by the audit committee. The audit committee is of the opinion that the unaudited financial statements of the Group for the six months ended June 30, 2018 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## CORPORATE GOVERNANCE

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

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

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

## DIRECTORS' SECURITIES TRANSACTIONS

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

After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings for the six months ended June 30, 2018.

By order of the Board
**Linekong Interactive Group Co., Ltd.**
**WANG Feng**
*Chairman*

Beijing, PRC, August 10, 2018

*As at the date of this announcement, the executive Directors are Mr. WANG Feng, Ms. LIAO Mingxiang, Mr. CHEN Hao and Mr. WANG Jin (also known as Yan Yusong); the non-executive Director is Mr. PAN Donghui; and the independent non-executive Directors are Ms. ZHAO Yifang, Mr. ZHANG Xiangdong and Ms. WU Yueqin.*

*This announcement will remain on the ''Latest Company Announcements'' page of the Stock Exchange's website at www.hkgem.com for at least 7 days from the date of its posting and be posted on the website of the Company at www.linekong.com.*