



# LINEKONG

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• INTERIM REPORT •

**藍港互動集團有限公司**

Linekong Interactive Group Co.,Ltd.

(Incorporated in the Cayman Islands with limited liability)

**Stock Code : 8267**

**LINEKONG**  
蓝港互动

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



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## Corporate Information

### Board of Directors

#### Executive Directors

Mr. Wang Feng (*Chairman and chief executive officer*)  
 Ms. Liao Mingxiang (*President*)  
 Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017)  
 Mr. Zhao Jun  
 Mr. Mei Song (resigned with effect from June 16, 2017)

#### Non-executive Director

Mr. Pan Donghui (appointed with effect from February 3, 2017)

#### Independent Non-executive Directors

Mr. Ma Ji  
 Mr. Wang Xiaodong  
 Mr. Zhang Xiangdong  
 Ms. Zhao Yifang

### Board Committees

#### Audit Committee

Mr. Ma Ji (*Chairman*)  
 Mr. Qian Zhonghua (resigned with effect from February 3, 2017)  
 Mr. Pan Donghui (appointed with effect from February 3, 2017)  
 Mr. Wang Xiaodong  
 Mr. Zhang Xiangdong  
 Ms. Zhao Yifang

#### Remuneration Committee

Mr. Zhang Xiangdong (*Chairman*)  
 Mr. Wang Feng  
 Ms. Liao Mingxiang  
 Mr. Ma Ji  
 Mr. Wang Xiaodong  
 Mr. Zhao Jun  
 Ms. Zhao Yifang

#### Nomination Committee

Mr. Wang Feng (*Chairman*)  
 Ms. Liao Mingxiang  
 Mr. Mei Song (resigned with effect from June 16, 2017)  
 Mr. Qian Zhonghua (resigned with effect from February 3, 2017)  
 Mr. Pan Donghui (appointed with effect from February 3, 2017)  
 Mr. Ma Ji  
 Mr. Wang Xiaodong  
 Mr. Zhang Xiangdong  
 Ms. Zhao Yifang

### Company Secretary

Ms. Leung Wing Han Sharon (*FCS, FCIS*)

### Authorised Representatives

Mr. Wang Feng  
 Ms. Liao Mingxiang

### Compliance Officer

Ms. Liao Mingxiang



## Registered Office

Floor 4, Willow House  
Cricket Square  
P.O. Box 2804  
Grand Cayman KY1-1112  
Cayman Islands

## Headquarters and Principal Place of Business in the People's Republic of China (The "PRC")

8/F, Qiming International Mansion  
Wangjing North Road  
Chaoyang District  
Beijing  
the PRC

## Principal Place of Business in Hong Kong

18/F, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## Auditors

PricewaterhouseCoopers  
22/F, Prince's Building  
Central  
Hong Kong

## Legal Advisors as to Hong Kong Laws

King & Wood Mallesons  
13/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Central  
Hong Kong

## Cayman Islands Principal Share Registrar and Transfer Agent

Offshore Incorporations (Cayman)  
Limited  
Floor 4, Willow House  
Cricket Square  
P.O. Box 2804  
Grand Cayman KY1-1112  
Cayman Islands

## Hong Kong Share Registrar

Computershare Hong Kong Investor  
Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong



## Principal Banks

Pingan Bank Co., Ltd.,  
Offshore Banking Department  
CITIC Bank, Beijing,  
Wangjing Sub-branch  
China Merchants Bank,  
Beijing Datun Road Sub-branch  
Industrial and Commercial Bank of  
China, Tianjin Xiyuan Sub-branch  
Bank of Communications, Wangjing  
Sub-branch

## Compliance Advisor

REORIENT Financial Markets Limited  
Suites 3201–3204  
One Exchange Square  
8 Connaught Place  
Hong Kong

## GEM Stock Code

8267

## Company Website

[www.linekong.com](http://www.linekong.com)



## Highlights

	<b>For the six months ended June 30,</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue	<b>292,129</b>	330,025
Loss for the period	<b>(50,365)</b>	(50,555)
Adjusted net loss	<b>(42,159)</b>	(33,892)

Adjusted net loss refers to the loss for the period which excludes share-based compensation expenses. This item is deemed as a useful compensation as stated in the interim condensed consolidated statement of loss, which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.

- Our revenue for the six months ended June 30, 2017 amounted to approximately RMB292.1 million, representing a decrease approximately 11.5% as compared to approximately RMB330.0 million for the six months ended June 30, 2016.
- Our loss for the six months ended June 30, 2017 amounted to approximately RMB50.4 million, as compared to loss of approximately RMB50.6 million for the six months ended June 30, 2016.
- Our adjusted net loss for the six months ended June 30, 2017 amounted to approximately RMB42.2 million, as compared to an adjusted net loss of approximately RMB33.9 million for the six months ended June 30, 2016.
- The board of Directors (the “**Board**”) did not recommend any payment of dividends for the six months ended June 30, 2017.



## 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, 2017 together with the comparative figures for the six months ended June 30, 2016. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Director, of which one independent non-executive Director as the chairman of the audit committee.



## Management Discussion and Analysis

### Business Review and Prospects

#### Review

During the reporting period, the Group continued to implement its strategy of “pan-entertainment, globalization and platformization” with a focus on its core game business and strive to bring more interesting games to the global players by maintaining its advantages of game development and distribution. Meanwhile, future orientated preparations for various areas such as internet content and intelligent hardware were made to establish diversified business sectors, aiming to achieve sustainable growth.

During the first half of 2017, the Group vigorously developed overseas markets for its game business and achieved remarkable results in Korean and American markets. The Korean version of our mobile game **Daybreak** (黎明之光) reaped fruitful results, ranking 1st on the Free Downloads Chart and 3rd on the Grossing Chart of App Store, 1st in popularity rankings and 5th on the Grossing Chart of Google Play, 1st in popularity rankings of Kakao, and 2nd in the Korean local mall ONE store. Meanwhile, we released **The Fighter Storm** (戰機風暴), a 3D flight simulation game adopting active time battle system, in Korea. The successful commercialized performance in Korea tremendously enhanced the brand value of Linekong Games. In the United States of America, **Supercharged**, a casual and battling game self-developed by Linekong US Inc., has accumulated a lot of popularity during testing stage with its smooth player experience and diverse gameplay, and will soon be commercialized for the global market.



The Group continued to maintain its advantage of R&D and operation of games in the PRC. **Daybreak (黎明之光)**, a 3D mobile game featuring action adventure, added King Kong mount and the officially licensed outfits from Assassin's Creed by UBISOFT, pushing it to rank Top 10 on the Grossing Chart of App Store soon after the release of its new version and making it maintain Top 15 and once rank up to Top 3 on the same list. Ultimate Sea Battle (終極海戰), the new downloadable content of **Daybreak (黎明之光)**, ranked up to 11th on the Grossing Chart of App Store soon after release. **Twilight World (暮光世界)** has been ranking Top 30 on the Grossing Chart of App Store since its release in Taiwan and once ranked up to Top 5 on the Grossing Chart and 2nd on the Free Downloads Chart.

Linekong Pictures focuses on internet movie contents. In early 2017, Linekong Pictures came to prominence by launching its first internet drama, **Long For You (我與你的光年距離)**, which is adapted from the popular comic work **Snow Girl (雪姬)**. The drama recorded over 100 million views shortly after 58 hours of broadcasting and surpassed 1 billion within 30 days, putting it in the third place among all categories of internet dramas in terms of views in the first quarter of 2017.

## Prospects

During the second half of 2017, the Group will remain focusing on its core game business by making a constant effort in its R&D and global distribution of games. In particular, the Group will strive to develop the three major IP games, namely **Sword of Heaven 2 (蒼穹之劍2)**, **Monster Hunt (捉妖記)** and **The Legend of Jade Sword (莽荒紀)**, and launch the two games with combined features of recreation and competition, namely **Supercharged** and **Uproar In Heaven (鬧鬧天宮)**, following the three major strategies of "IP Driven, New Category, International Market" for game business. The Group will commercialize 8–10 games.

**Sword of Heaven (蒼穹之劍)** is the first integration IP invented by the Group based on the concept of "Movie-Comic-Game". Bai Yicong acted as the chief screenwriter of movie of the same name. **Sword of Heaven 2 (蒼穹之劍2)**, a self-developed MMORPG mobile game in oriental fantasy and epic style, is expected to be launched officially this year.



As the officially authorized mobile game for the movie of the same name, **Monster Hunt (捉妖記)** creates an oriental fantasy world for monster hunting and has gained much attention and expectation from players with its highly reproduced story, character design for monsters such as Wuba (胡巴) and Blood Demon (血妖) as well as spectacular and fascinating worldview.

Meanwhile, the Group has constantly promoted its strategic plan of “Movie-Comic-Game” through the cooperation with iQIYI to jointly release a movie-and-game integration mobile game, **The Legend of Jade Sword (莽荒紀)**. It is expected to be launched simultaneously with its TV drama. With special battle system and original voiceover artists from the TV drama, classic scenes can be presented once again in the game.

The games and their types mainly include the followings:

1. *Self-developed Games*

Name of Game	Type of Game	Region	Features
Sword of Heaven 2 (蒼穹之劍2)	MMORPG	PRC	Oriental epic fantasy Gameplay with three routes covering the sea, the land and the sky, constellation, warfare in camping style, scenes designed for immersive interaction, and multi-dimensional socialising experience
Monster Hunt (捉妖記)	MMORPG	PRC	Highly reproduced movie scenes, plots and main characters, creating an oriental fantasy world for monster hunting
The Legend of Jade Sword (莽荒紀)	MMORPG	PRC	Epic and large 3D mobile game with a fantasy world, intelligent fairies and pets with featured combats, remaking classic plots and scenes

Name of Game	Type of Game	Region	Features
Uproar In Heaven (鬧鬧天宮)	MOBA	PRC	3D cartoon characters from Journey to the West in novel ways of battles with smooth experience
Supercharged	MOBA	Global	A combination of recreation, competition and socialising activities with highly enjoyable and rich experience

## 2. Games Released

Name of Game	Type of Game	Developer	Region	Features
Nueva Salida (大航海之路)	MMORPG	NetEase	Korea	3D nautical game with grand and realistic scenes and rich experience of adventures, trades and wars
Legend of MiYue (半月傳之宮心計)	3D cards	UTGAME	PRC	Culture of imperial palace and 3D customisation Revisiting classic plots and scenes
One Hundred Thousand Bad Jokes (十萬個冷笑話) (drama version)	3D cards	MQGame	PRC	Playable domestic ironic drama featuring original plots, scenes and characters from the original animation and comics

While continuing to commercialize quality games, the Group will further accelerate its global distribution of games and commence the development of its game business in Southeast Asian market while remaining its advantages in Korean and American markets where the Group developed its game business first, so as to complete the establishment of a new team focusing on the emerging markets and enrich the types of commercialized games.

## International markets

As of June 30, 2017, our games have been released in forty-seven countries and regions outside China. For the six months ended June 30, 2017, the revenue from overseas markets was approximately RMB72.7 million, representing a significant increase of approximately 65.2% as compared to the revenue from overseas markets for the same period of 2016. The revenue from overseas markets accounted for approximately 24.9% of our total revenue.

## Our players

The total number of registered players of our games increased from approximately 211.8 million as at June 30, 2016 to over approximately 239.5 million as at June 30, 2017. As at June 30, 2017, the number of average monthly active users (MAU) reached approximately 1.75 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, 2017 and 2016 together with changes (expressed in approximate percentages) from first half year of 2016 to first half year of 2017 respectively:

	For the six months ended June 30,				
	2017		2016		Change approximate %
	RMB'000	approximate %	RMB'000	approximate %	
<b>Revenue</b>	<b>292,129</b>	<b>100.0</b>	330,025	100.0	(11.5)
Cost of revenue	(167,730)	(57.4)	(168,215)	(51.0)	(0.3)
<b>Gross profit</b>	<b>124,399</b>	<b>42.6</b>	161,810	49.0	(3.1)
Selling and marketing expenses	(92,517)	(31.7)	(98,992)	(30.0)	(6.5)
Administrative expenses	(42,736)	(14.6)	(48,358)	(14.7)	(11.6)
Research and development expenses	(65,459)	(22.4)	(70,596)	(21.4)	(7.3)
Other gains — net	31,651	10.8	26,034	7.9	21.6
<b>Operating loss</b>	<b>(44,662)</b>	<b>(15.3)</b>	(30,032)	(9.1)	48.7
Finance income — net	1,448	0.5	3,322	1.0	(56.4)
Share of loss of an investment using equity accounting	(21,950)	(7.5)	(11,004)	(3.3)	99.5
<b>Loss before income tax</b>	<b>(65,164)</b>	<b>(22.3)</b>	(37,714)	(11.4)	72.8
Income tax credit/(expense)	14,799	5.1	(12,841)	(3.9)	(215.2)
<b>Loss for the period</b>	<b>(50,365)</b>	<b>(17.2)</b>	(50,555)	(15.3)	(0.4)
Non-IFRS Measure: Adjusted net loss (unaudited)	(42,159)	(14.4)	(33,892)	(10.3)	24.4



## Revenue

The Group's revenue decreased by approximately 11.5% from approximately RMB330.0 million for the six months ended June 30, 2016 to approximately RMB292.1 million for the six months ended June 30, 2017.

During the six months ended June 30, 2017, the revenue contributed by game business decreased by approximately 18.4% or RMB60.6 million, compared with the corresponding period of 2016, which due to less new games released during the first half year of 2017 than that of 2016, which 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 RMB22.7 million from sales of licensing of film rights during the six months ended June 30, 2017.

### Revenue by game forms and sources

The following table set forth the breakdown of our revenue by game business and movie business respectively. And for the game business, the other following tables set forth the breakdown of revenue by (i) game forms; and (ii) self-developed games and licensed games for six months ended June 30, 2017 and 2016 respectively:

	For the six months ended June 30,			
	2017		2016	
	RMB'000	approximate %	RMB'000	approximate %
Development and operations of online games	269,437	92.2	330,025	100.0
Licensing of film rights	22,692	7.8	-	-
<b>Total</b>	<b>292,129</b>	<b>100.0</b>	<b>330,025</b>	<b>100.0</b>

	For the six months ended June 30,			
	2017		2016	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Mobile games	262,345	97.4	313,982	95.1
Web-based games	1,450	0.5	2,511	0.8
Client-based games	5,642	2.1	13,532	4.1
Total	269,437	100.0	330,025	100.0

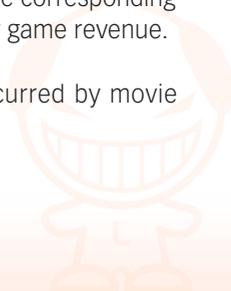
	For the six months ended June 30,			
	2017		2016	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Self-developed games	82,803	30.7	229,276	69.5
Licensed games	186,634	69.3	100,749	30.5
Total	269,437	100.0	330,025	100.0

## Cost of revenue

The Group's cost of revenue for the six months ended June 30, 2017 was approximately RMB167.7 million, representing a decrease of approximately 0.3% from approximately RMB168.2 million for the six months ended June 30, 2016. The Group's cost of revenue excluding share-based compensation expense for the six months ended June 30, 2017, was approximately RMB166.8 million, representing a decrease of approximately 0.2% from approximately RMB167.1 million the six months ended June 30, 2016.

During the six months ended June 30, 2017, the cost incurred by game business was approximately RMB148.2 million, representing a decrease of approximately 11.9%, or RMB20.0 million, compared with the corresponding period of 2016, which was according to the decrease of our game revenue.

During the six months ended June 30, 2017, the cost incurred by movie business was approximately RMB19.5 million.



## Gross profit and gross profit margin

The Group's gross profit for the six months ended June 30, 2017 was approximately RMB124.4 million, representing a decrease of approximately 23.1% from approximately RMB161.8 million for the six months ended June 30, 2016. The Group's gross profit, excluding share-based compensation expense, for the six months ended June 30, 2017 was approximately RMB125.4 million, representing a decrease of approximately 23.0% as compared to approximately RMB162.9 million for the six months ended June 30, 2016. The decrease in the Group's gross profit was primarily due to (1) decrease in revenue generated from game business for the six months ended June 30, 2017 compared with that of the corresponding period of 2016; (2) the additional production cost incurred by movie business for the six months ended June 30, 2017.

The Group's gross profit margin for the six months ended June 30, 2017 was approximately 42.6%, representing a decrease of approximately 6.4 percentage points as compared to approximately 49.0% for the six months ended June 30, 2016. The Group's gross profit margin, excluding share-based compensation expense, for the six months ended June 30, 2017 was approximately 42.9%, representing a decrease of approximately 6.5 percentage points as compared to approximately 49.4% for the six months ended June 30, 2016.

During the six months ended June 30, 2017, the gross profit margin of game business was approximately 45.0%, representing a decrease of approximately 4.0 percentage points compared with the corresponding period of 2016, which mainly due to the increase in proportion of revenue from licensed mobile game to the overall revenue.

The gross profit margin from movie business was approximately 14.1%, which was lower than gross profit margin of game business.



## **Selling and marketing expenses**

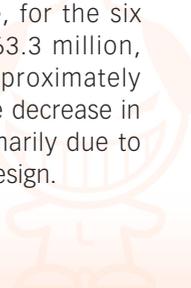
The Group's selling and marketing expenses for the six months ended June 30, 2017 were approximately RMB92.5 million, representing a decrease of approximately 6.5% from approximately RMB98.9 million for the six months ended June 30, 2016. The Group's selling and marketing expenses, excluding share-based compensation expense, for the six months ended June 30, 2017 were approximately RMB92.0 million, representing a decrease of approximately 6.1% from approximately RMB98.0 million for the six months ended June 30, 2016. The decrease 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, 2017 were approximately RMB42.7 million, representing a decrease of approximately 11.6% from approximately RMB48.4 million for the six months ended June 30, 2016. The Group's administrative expenses, excluding share-based compensation expense, for the six months ended June 30, 2017 were approximately RMB38.2 million, representing a decrease of approximately 5.2% from approximately RMB40.3 million for the six months ended June 30, 2016. The decrease in the Group's administrative expenses was primarily due to the Group provided impairment of game license fees paid as a result of certain already issued games were ceased the operation for the six months ended June 30, 2016, no such impairment provided in the corresponding period of 2017.

## **Research and development expenses**

The Group's research and development expenses for the six months ended June 30, 2017 were approximately RMB65.5 million, representing a decrease of approximately 7.3% from approximately RMB70.6 million for the six months ended June 30, 2016. The Group's research and development expenses, excluding share-based compensation expense, for the six months ended June 30, 2017 were approximately RMB63.3 million, representing a decrease of approximately 1.2% from approximately RMB64.1 million for the six months ended June 30, 2016. The decrease in the Group's research and development expenses was primarily due to decreased expenditures from outsourcing animation and art design.



## Other gains — net

The Group's other gains for the six months ended June 30, 2017 was approximately RMB31.7 million, compared to approximately RMB26.0 million for the six months ended June 30, 2016. Such change in the Group's other gains was mainly due to the changes in fair value of the securities assets (including listed and unlisted securities) held by the Company in between the two periods ended June 30, 2016 and 2017 respectively.

## Finance income — net

Our finance income decreased from approximately RMB3.3 million for the six months ended June 30, 2016 to approximately RMB1.4 million for the six months ended June 30, 2017 mainly due to the decrease in interest income generated from an offshore flexible deposit account and other wealth management products. No interest was capitalised for the six months ended June 30, 2017 (six months ended June 30, 2016: 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, 2017 was approximately RMB22.0 million, it was approximately RMB11.0 million for the six months ended June 30, 2016, which was mainly due to a loss incurred by the investee, the Fuze Entertainment Co., Ltd ("**Fuze**"), as a result of continued expenditure incurred in its early operational stage.

## Income tax credit/(expense)

The Group's income tax credit was approximately RMB14.8 million for the six months ended June 30, 2017, while the Group's income tax expense for the six months ended June 30, 2016 was approximately RMB12.8 million. The change in income tax was mainly due to a subsidiary of the Group was accredited as software enterprises in the year of 2017, and subject to relevant preferential tax regulation, the income tax accrued in the year of 2016 was exempted and reversed during the six months ended June 30, 2017 accordingly.



## Loss for the period

As a result of the foregoing, the loss was approximately RMB50.4 million for the six months ended June 30, 2017, as compared to a loss of approximately RMB50.6 million for the six months ended June 30, 2016.

## 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. The adjusted net loss is an unaudited figure.

The following table reconciles our adjusted net loss for the six months ended June 30, 2017 and 2016 respectively, in accordance with IFRSs:

	For the six months ended June 30,		
	2017	2016	Change
	RMB'000	RMB'000	approximate
	(Unaudited)	(Unaudited)	%
<b>Loss for the period</b>	<b>(50,365)</b>	(50,555)	(0.4)
<b>Add:</b>			
Share-based compensation expenses	<b>8,206</b>	16,663	(50.8)
<b>Adjusted net loss</b>	<b>(42,159)</b>	(33,892)	24.4



The Group's adjusted net loss for the six months ended June 30, 2017 was approximately RMB42.2 million, representing an increase of approximately 24.4% as compared to adjusted net loss of approximately RMB33.9 million for the six months ended June 30, 2016. The increase in adjusted net loss for the periods was mainly due to combined effect of: (i) the decrease of gross profit made during the six months ended June 30, 2017; and (ii) the Group's share of loss of an investment using equity accounting, the investee, Fuze, on its early operational stage. We have presented adjusted net loss in this report as we believe that the adjusted net loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses. 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 report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

## Liquidity and Financial Resources

During the six months ended June 30, 2017, we financed our operations primarily through cash generated from our operating activities. The Group maintains a solid cash position since the net proceeds we received 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, 2017, 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 of June 30, 2017, we had cash and cash equivalents of approximately RMB373.0 million (December 31, 2016: approximately RMB338.7 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 20.2%), Hong Kong dollars (“**HKD**”) (as to approximately 32.7%), U.S. dollars (“**USD**”) (as to approximately 44.7%) and other currencies (as to approximately 2.4%).

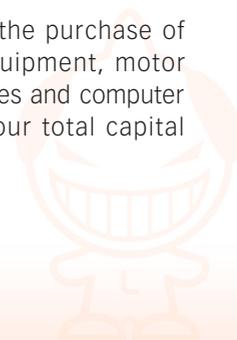
As of June 30, 2017, we had short-term bank deposit of approximately amounting to RMB173.6 million (December 31, 2016: approximately RMB313.0 million).

As of June 30, 2017, approximately RMB103.0 million (December 31, 2016: approximately RMB106.1 million) are restricted deposits held at bank as reserve for serving of a loan facility with total a credit line of approximately RMB100.0 million provided by the bank, and which will expire in 2018.

Net proceeds from our Listing, after deducting the underwriting commission and other estimated expenses in connection with the Listing, which the Company received amounted to approximately HKD686.2 million. As at the date of this interim report, some of the net proceeds (see Use of IPO Proceeds) from our Listing had been utilised and the rest has been deposited into short-term demand deposits in bank accounts maintained by the Group. We will continue to utilise the net proceeds from our 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, 2017, our total capital



expenditure amounted to approximately RMB3.6 million (for the six months ended June 30, 2016: approximately RMB31.8 million), including the purchase of furniture and office equipment of approximately RMB0.7 million (for the six months ended June 30, 2016: approximately RMB0.9 million), server and other equipment of approximately RMB0.1 million (for the six months ended June 30, 2016: approximately RMB0.2 million), motor vehicles of approximately RMB0.3 million (for the six months ended June 30, 2016: approximately RMB0.7 million), leasehold improvements of approximately RMB0.1 million (for the six months ended June 30, 2016: approximately RMB1.8 million), trademarks and licenses approximately RMB2.3 million (for the six months ended June 30, 2016: approximately RMB27.5 million) and computer software of approximately RMB0.1 million (for the six months ended June 30, 2016: approximately RMB0.7 million).

## Capital Structure

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

## Borrowing and Gearing Ratio

As of June 30, 2017, long-term bank loan amounting to approximately RMB99.7 million borrowed by the Group, of which approximately RMB0.6 million is due within one year (As of December 31, 2016, long-term bank loan amounting to RMB100.0 million borrowed by the Group, of which approximately RMB0.6 million is due within one year). As at June 30, 2017, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 23.8% (As at December 31, 2016: approximately 27.4%).

## Charge on Group Assets

As at June 30, 2017, a restricted deposit of approximately RMB103.0 million of the Group was pledged as a security for bank borrowing (As at December 31, 2016: approximately RMB106.1 million).



## Information on Employees and Remuneration Policy

As of June 30, 2017, the Group had 652 employees (June 30, 2016: 634), 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, 2017 and June 30, 2016 respectively:

Function	As at June 30,			
	2017		2016	
	Number of Employees	approximate % of total employees	Number of Employees	approximate % of total employees
Research and development	378	58.0	376	59.3
Game publishing	148	22.7	153	24.1
— Game licensing	58	8.9	41	6.5
— Customer service	26	4.0	57	9.0
— Sales and marketing	64	9.8	55	8.6
General and administrative	88	13.5	105	16.6
Movie business	38	5.8	—	—
Total	652	100.0	634	100.0

The total remuneration of the employees of the Group was approximately RMB100.8 million for the six months ended June 30, 2017 (for the six months ended June 30, 2016: approximately RMB99.1 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 report.

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

Share-based compensation expenses in connection with the RSU Scheme and share option scheme for the six months ended June 30, 2017 were approximately RMB8.2 million, representing a decrease of approximately 50.8% from approximately RMB16.7 million for corresponding period in 2016.

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, 2017.

## Contingent Liabilities

As at June 30, 2017, the Group did not have any significant contingent liabilities (December 31, 2016: 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 oversea 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, 2017.



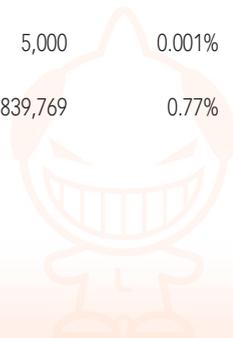
## Corporate Governance and Other Information

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

As of June 30, 2017, 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 4)
Mr. Wang Feng <sup>(Note 1)</sup>	Interest of controlled corporation	66,576,160	20.94%
	Beneficial owner	10,646,308	
Ms. Liao Mingxiang <sup>(Note 2)</sup>	Interest of controlled corporation	12,168,720	4.09%
	Beneficial owner	2,918,269	
Mr. Qian Zhonghua	Beneficial owner	5,000	0.001%
Mr. Zhao Jun <sup>(Note 3)</sup>	Beneficial owner	2,839,769	0.77%



*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 2,213,000 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, 2017, approximately 90.00% of the RSUs granted to him have been vested and the remaining RSUs are subject to vesting.
- (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 106,500 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, 2017, approximately 90.00% of the RSUs granted to her have been vested and the remaining RSUs are subject to vesting.
- (3) Mr. Zhao Jun holds 28,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of June 30, 2017, approximately 60.00% of the RSUs granted to him have been vested and the remaining RSUs are subject to vesting.
- (4) As of June 30, 2017, the Company issued 368,730,964 shares.

Save as disclosed above, on June 30, 2017, 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, 2017, 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 Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd.) (" <b>Linekong Entertainment</b> ")	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Entertainment	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Entertainment	Mr. Zhang Yuyu	RMB1,091,000	10.91%

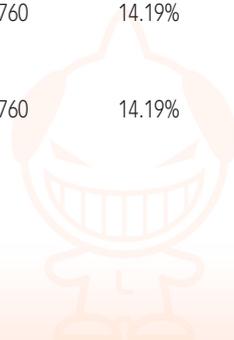


## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

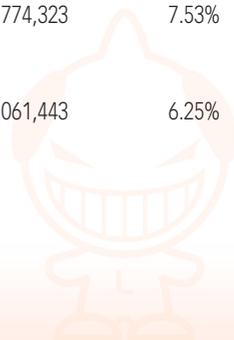
So far as is known to the Directors or chief executive of the Company, as of June 30, 2017, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall 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

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares or securities held</b>	<b>Approximate percentage of interest in the Company</b> (Note 8)
Wangfeng Management Limited <sup>(Note 1)</sup>	Beneficial owner	66,576,160	18.06%
Zhu Li <sup>(Note 2)</sup>	Interest of spouse	77,222,468	20.94%
China Momentum Fund, L.P. <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun China Momentum Fund GP, Ltd. <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun Financial Holdings Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun Holdings Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%



<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares or securities held</b>	<b>Approximate percentage of interest in the Company</b> (Note 8)
Fosun International Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760	14.19%
Fosun International Limited (Note 3)	Interest of controlled corporation	52,318,760	14.19%
Fosun Momentum Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760	14.19%
Guo Guangchang (Note 3)	Interest of controlled corporation	52,318,760	14.19%
Starwish Global Limited (Note 3)	Beneficial owner	52,318,760	14.19%
The Core Trust Company Limited (Note 4)	Trustee of a trust	407,700,158	11.04%
Premier Selection Limited (Note 4)	Nominee for another person	407,700,158	11.04%
Chi Sing Ho (Note 5)	Interest of controlled corporation	29,922,996	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. (Note 5)	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund Associates, L.P. (Note 5)	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund L. P. (Note 5)	Beneficial owner	23,061,443	6.25%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 8)
Quan Zhou <i>(Note 5)</i>	Interest of controlled corporation	27,774,323	7.53%
Fubon Financial Holding Co., Ltd. <i>(Note 6)</i>	Interest of controlled corporation	23,739,000	6.44%
Fubon Life Insurance Co., Ltd. <i>(Note 6)</i>	Beneficial owner	23,739,000	6.44%
JPMorgan Chase & Co. <i>(Note 7)</i>	Interest of controlled corporation	25,771,564	6.98%
J. P. Morgan Broker-Dealer Holdings Inc <i>(Note 7)</i>	Interest of controlled corporation	25,771,564	6.98%
J. P. Morgan Securities LLC <i>(Note 7)</i>	Beneficial owner	25,771,564	6.98%

## 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".
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, 2017, Fosun International Limited is 71.55% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of June 30, 2017, 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 Premier Selection Limited (the RSU nominee), which originally held 43,406,041 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, 2017, 2,705,883 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 40,700,158 underlying Shares, including a total of 15,462,231 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 4,217,154 RSUs granted to Mr. Zhao Jun. On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017 and June 22, 2017 the Company had directed the Core Trust Company Limited to purchase and hold on-market 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 Shares, 1,000 Shares, 72,000 Shares, 140,000 Shares and 100,000 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfied 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. J.P. Morgan Securities LLC is 100% owned by J.P. Morgan Broker-Dealer Holdings Inc. J.P. Morgan Broker-Dealer Holdings Inc is 100% owned by JPMorgan Chase & Co..
8. As of June 30, 2017, 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, 2017, 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	The weighted average closing price of the shares	Outstanding balance as at January 1, 2017	During the reporting period				Outstanding balance as at June 30, 2017	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 <sup>(iii)</sup>	8.10	8.028	462,298	0	0	0	0	462,298	0	0
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 <sup>(iii)</sup>	7.18	6.896	4,742,500	0	0	0	480,000	4,262,500	0	511,250
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 <sup>(iii)</sup>	4.366	4.366	1,450,000	0	0	0	37,500	1,412,500	0	362,500
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 <sup>(iii)</sup>	3.10	3.084	N/A	9,225,000	0	0	615,000	8,610,000	0	0



## Notes:

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

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 10 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. 16 months upon the acceptance of the offer for grant of share options	37.5% (rounded down to the nearest integral number of shares) of the share options granted
iii. 22 months upon the acceptance of the offer for grant of share options	50% (rounded down to the nearest integral number of shares) of the share options granted
iv. 28 months upon the acceptance of the offer for grant of share options	62.5% (rounded down to the nearest integral number of shares) of the share options granted
v. 34 months upon the acceptance of the offer for grant of share options	75% (rounded down to the nearest integral number of shares) of the share options granted
vi. 40 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
vii. 46 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

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



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

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 12 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. 18 months upon the acceptance of the offer for grant of share options	37.5% (rounded down to the nearest integral number of shares) of the share options granted
iii. 24 months upon the acceptance of the offer for grant of share options	50% (rounded down to the nearest integral number of shares) of the share options granted
iv. 30 months upon the acceptance of the offer for grant of share options	62.5% (rounded down to the nearest integral number of shares) of the share options granted
v. 36 months upon the acceptance of the offer for grant of share options	75% (rounded down to the nearest integral number of shares) of the share options granted
vi. 42 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
vii. 48 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

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



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

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 12 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. 18 months upon the acceptance of the offer for grant of share options	37.5% (rounded down to the nearest integral number of shares) of the share options granted
iii. 24 months upon the acceptance of the offer for grant of share options	50% (rounded down to the nearest integral number of shares) of the share options granted
iv. 30 months upon the acceptance of the offer for grant of share options	62.5% (rounded down to the nearest integral number of shares) of the share options granted
v. 36 months upon the acceptance of the offer for grant of share options	75% (rounded down to the nearest integral number of shares) of the share options granted
vi. 42 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
vii. 48 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

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



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

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 12 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. 18 months upon the acceptance of the offer for grant of share options	37.5% (rounded down to the nearest integral number of shares) of the share options granted
iii. 24 months upon the acceptance of the offer for grant of share options	50% (rounded down to the nearest integral number of shares) of the share options granted
iv. 30 months upon the acceptance of the offer for grant of share options	62.5% (rounded down to the nearest integral number of shares) of the share options granted
v. 36 months upon the acceptance of the offer for grant of share options	75% (rounded down to the nearest integral number of shares) of the share options granted
vi. 42 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
vii. 48 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

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

- (6) Please refer to the announcements of the Company dated August 12, 2015, October 9, 2015, June 15, 2016 and January 18, 2017 for details.
- (7) For details of the values of the share options granted, please refer to notes 20(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, 2017, RSUs in respect of 35,471,879 underlying shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 633,456 underlying shares granted to 9 grantees had been lapsed during the six months ended June 30, 2017. On June 30, 2017, 27,025,665 RSUs have been vested unconditionally and there were 4,353,411 RSUs granted and outstanding. For further details of the movement of the RSUs, please refer to note 20(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 January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017 and June 22, 2017 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 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 shares, 1,000 Shares, 72,000 Shares, 140,000 Shares and 100,000 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 January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 13, 2017 and June 22, 2017 respectively.



## **Grant of Share Options**

Pursuant to the Share Option Scheme, on January 18, 2017, share options were granted by the Company and details are set out in the section headed “Share Option Scheme”.

## **Re-designation of Director, Appointment of Non-Executive Director and Changes in the composition of the Board Committees**

On February 3, 2017, the Board announced the following changes to the Board, with effect from February 3, 2017: (1) Mr. Qian Zhonghua was redesignated from the non-executive Director of the Company to the executive Director of the Company. Mr. Qian Zhonghua, following his redesignation, ceased to be a member of the audit committee of the Board and a member of the nomination committee of the Board. He has entered into a director’s service agreement with the Company, pursuant to which, he has been appointed as an executive Director for a term of three years commencing from February 3, 2017. He is currently entitled to a remuneration of RMB137,500 per month, which is determined with reference to his duties and responsibilities within the Group and the prevailing market condition; and (2) Mr. Pan Donghui was appointed as the non-executive Director of the Company, a member of the audit committee of the Board and a member of the nomination committee of the Board.

## **Resignation of Executive Director**

On June 16, 2017, Mr. Mei Song has resigned as an executive director and a member of the nomination committee with effect from June 16, 2017 due to his personal reasons.



## 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**”).

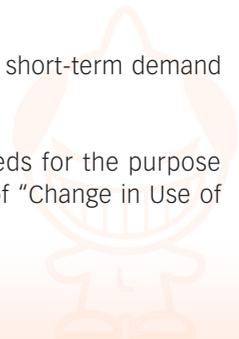
As of June 30, 2017, a total amount of approximately HKD234.7 million from the IPO Proceeds had been utilized for the purposes and approximately in the amount set out below:

- (a) approximately HKD81.7 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD35.2 million was used for potential strategic acquisition or investment in companies in online game and related businesses;
- (c) approximately HKD58.2 million was used for creating pan-entertainment environment;
- (d) approximately HKD48.1 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 HKD11.5 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, 2017, approximately HKD451.5 million, being the residual part of the IPO Proceeds, remains unutilized.

The unutilized IPO Proceeds has 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

Mr. Qian Zhonghua, a non-executive Director (re-designated as executive Director with effect from February 3, 2017), has been a managing director of Fosun Equity Investment Management Ltd. from October 2014 to January 2017 and a director of Starwish Global Limited from April 2015 to January 2017 before the re-designation as executive Director. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 00656)) and its subsidiaries (together, the **"Fosun Group"**). Fosun Group is an investment group taking roots in China with a global foothold. It has established two principal businesses comprising integrated finance (including insurance, investment, wealth management and internet finance) and industrial operation (including health, happiness, steel, property development and sales, and resources). Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including private mobile game and network game companies including Shanghai Muyou Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies. In addition, Fosun Group has nominated representatives to hold directorship in the board of directors of the aforementioned companies after the appointment. On the other hand, although Fosun Group has the right to nominate one of its representatives to act as a non-executive director in each of the private portfolio companies, it does not control any of the board of directors of the private portfolio companies.

Save as aforementioned, 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, 2017.



## 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, 2017.

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

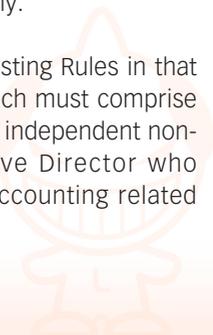
During the six months ended June 30, 2017, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## Audit Committee

The audit committee was established on April 24, 2014. The chairman of the audit committee is Mr. Ma Ji, independent non-executive Director, and other members included Mr. Qian Zhonghua (resigned with effect from February 3, 2017), an executive Director, Mr. Pan Donghui (appointed with effect from February 3, 2017), a non-executive Director, and Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang, the independent non-executive Directors. The written terms of reference of the audit committee are posted on the GEM website and on the Company's website.

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

The Company 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, 2017 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, 2017 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, 2017, except for the deviation of Code provision A.2.1 and A.5.1 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 the date of this report, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element.



Code Provision A.5.1 of Code provides that issuers should establish a nomination committee which is chaired by the chairman of the Board or an independent non-executive Director and comprises a majority of independent non-executive Directors. For the period from January 1, 2017 to June 16, 2017, the nomination committee of the Company comprised Mr. Wang Feng (Chairman of nomination committee), Ms. Liao Mingxiang, Mr. Mei Song (resigned with effect from June 16, 2017) as executive Directors; Mr. Qian Zhonghua (re-designated as executive Directors and ceased to be a member of the nomination committee with effect from February 3, 2017) and Mr. Pan Donghui (appointed as non-executive Director and a member of the nomination committee with effect from February 3, 2017) as non-executive Directors; and Mr. Ma Ji, Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang as independent non-executive Directors. During the period from January 1, 2017 to June 16, 2017, although the independent non-executive Directors only account for half of the members, the Company considers that this composition can operate more effectively and the overall independence has not been affected. On June 16, 2017, Mr. Mei Song resigned as an executive Director and a member of the nomination committee with effect from 16 June 2017. For the period from June 17, 2017 to June 30, 2017, the Company has complied with the Code provision A.5.1 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, 2017.



## Report on Review of Interim Financial Information



羅兵咸永道

**To the Board of Directors of Linekong Interactive Group Co., Ltd.**  
*(incorporated in the Cayman Islands with limited liability)*

### Introduction

We have reviewed the interim financial information set out on pages 47 to 104, which comprises the interim condensed consolidated balance sheet of Linekong Interactive Group Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as of June 30, 2017 and the related interim condensed consolidated statements of comprehensive loss, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, [www.pwchk.com](http://www.pwchk.com)



## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

## **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, August 14, 2017



## Interim Condensed Consolidated Balance Sheet

	Note	As of June 30, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	9,041	13,649
Intangible assets	7	34,253	39,406
Films in progress	8	28,704	24,418
Investments using equity accounting	9	150,398	176,362
An associate measured at fair value through profit or loss	10	47,051	19,229
Available-for-sale financial assets	11	105,790	115,125
Financial assets at fair value through profit or loss	12	16,067	15,637
Deferred income tax assets — net	13	2,518	1,431
Prepayments and other receivables	15	20,297	20,389
Restricted deposits	17	103,008	106,139
		<b>517,127</b>	531,785
<b>Current assets</b>			
Trade receivables	14	55,162	78,947
Prepayments and other receivables	15	112,602	112,905
Financial assets at fair value through profit or loss	12	16,314	17,125
Short-term bank deposits	16	173,560	312,963
Cash and cash equivalents	17	372,958	338,655
		<b>730,596</b>	860,595
<b>Total assets</b>		<b>1,247,723</b>	1,392,380
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	18	59	59
Share premium	18	1,720,691	1,720,691
Shares held for RSU Scheme	18	(2,037)	(2)
Reserves	19	418,346	426,480
Accumulated losses		(1,186,436)	(1,135,029)
		<b>950,623</b>	1,012,199
<b>Non-controlling interests</b>		<b>562</b>	(1,909)
<b>Total equity</b>		<b>951,185</b>	1,010,290

## Interim Condensed Consolidated Balance Sheet (Continued)

	Note	As of June 30, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	21	99,100	99,400
Deferred revenue	23	5,377	7,021
		<b>104,477</b>	106,421
<b>Current liabilities</b>			
Bank borrowings	21	600	600
Trade and other payables	22	134,940	171,940
Current income tax liabilities		4,199	17,813
Deferred revenue	23	52,322	85,316
		<b>192,061</b>	275,669
<b>Total liabilities</b>		<b>296,538</b>	382,090
<b>Total equity and liabilities</b>		<b>1,247,723</b>	1,392,380

The notes on pages 55 to 104 are integral parts of these interim financial information.

The interim condensed consolidated financial information on pages 47 to 104 was approved by the Board of Directors on August 14, 2017 and was signed on its behalf.

**Wang Feng**  
Director

**Liao Mingxiang**  
Director



## Interim Condensed Consolidated Statement of Comprehensive Loss

	Note	Three months ended June 30,		Six months ended June 30,	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	5	124,149	163,108	292,129	330,025
Cost of revenue	24	(67,903)	(83,978)	(167,730)	(168,215)
<b>Gross profit</b>		<b>56,246</b>	79,130	<b>124,399</b>	161,810
Selling and marketing expenses	24	(47,756)	(45,008)	(92,517)	(98,922)
Administrative expenses	24	(20,645)	(27,812)	(42,736)	(48,358)
Research and development expenses	24	(32,606)	(35,436)	(65,459)	(70,596)
Other gains — net	25	5,421	4,283	31,651	26,034
<b>Operating loss</b>		<b>(39,340)</b>	(24,843)	<b>(44,662)</b>	(30,032)
Finance income/(costs) — net	26	1,363	(399)	1,448	3,322
Share of loss of investments using equity accounting	9	(17,542)	(6,326)	(21,950)	(11,004)
<b>Loss before income tax</b>		<b>(55,519)</b>	(31,568)	<b>(65,164)</b>	(37,714)
Income tax credit/(expense)	27	17,758	(11,715)	14,799	(12,841)
<b>Loss for the period</b>		<b>(37,761)</b>	(43,283)	<b>(50,365)</b>	(50,555)
<b>Other comprehensive income/(loss)</b>					
Items that may be subsequently reclassified to profit or loss:					
— Changes in fair value of available-for-sale financial assets, net of tax		6,475	(1,839)	22,060	(1,034)
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		(375)	(248)	(17,913)	(414)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		(1,880)	1,276	(2,407)	862
Items that will not be reclassified to profit or loss:					
— Currency translation differences		(13,118)	18,159	(16,651)	12,428
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<b>(8,898)</b>	17,348	<b>(14,911)</b>	11,842

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

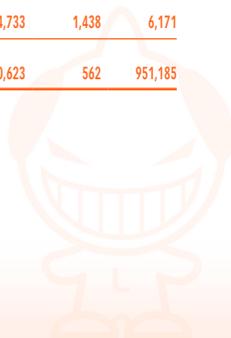
Note	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>Total comprehensive loss for the period</b>	<b>(46,659)</b>	(25,935)	<b>(65,276)</b>	(38,713)
<b>Loss attributable to:</b>				
Owners of the Company	<b>(37,483)</b>	(43,282)	<b>(51,407)</b>	(50,554)
Non-controlling interests	<b>(278)</b>	(1)	<b>1,042</b>	(1)
<b>Loss for the period</b>	<b>(37,761)</b>	(43,283)	<b>(50,365)</b>	(50,555)
<b>Total comprehensive loss attributable to:</b>				
Owners of the Company	<b>(46,400)</b>	(25,934)	<b>(66,309)</b>	(38,712)
Non-controlling interests	<b>(259)</b>	(1)	<b>1,033</b>	(1)
<b>Total comprehensive loss for the period</b>	<b>(46,659)</b>	(25,935)	<b>(65,276)</b>	(38,713)
<b>Loss per share (expressed in RMB per share)</b>				
— Basic	28(a) <b>(0.11)</b>	(0.12)	<b>(0.15)</b>	(0.15)
— Diluted	28(b) <b>(0.11)</b>	(0.12)	<b>(0.15)</b>	(0.15)

The notes on pages 55 to 104 are integral parts of the interim financial information.



## Interim Condensed Consolidated Statement of Changes in Equity

(Unaudited)	Note	Attributable to owners of the Company							Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Accumulated		Total RMB'000	Non- controlling interests RMB'000	
					Reserves RMB'000	losses RMB'000			
<b>Balance at January 1, 2017</b>		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290
<b>Comprehensive (loss)/income</b>									
Loss for the period		-	-	-	-	(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)
<b>Total comprehensive (loss)/income for the period</b>		-	-	-	(14,902)	(51,407)	(66,309)	1,033	(65,276)
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
Decrease in ownership interest in subsidiaries without change of control		-	-	-	(1,438)	-	(1,438)	1,438	-
Employee share option and RSU Scheme:									
— Shares purchased for RSU Scheme		-	-	(2,035)	-	-	(2,035)	-	(2,035)
— Value of employee services	20	-	-	-	8,206	-	8,206	-	8,206
<b>Total contributions by and distributions to owners of the Company for the period</b>		-	-	(2,035)	6,768	-	4,733	1,438	6,171
<b>Balance at June 30, 2017</b>		59	1,720,691	(2,037)	418,346	(1,186,436)	950,623	562	951,185



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

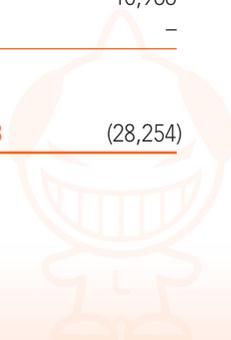
(Unaudited)	Note	Attributable to owners of the Company						Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
<b>Balance at January 1, 2016</b>		59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513
<b>Comprehensive loss</b>									
Loss for the period		-	-	-	-	(50,554)	(50,554)	(1)	(50,555)
Other comprehensive (loss)/income									
— Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	(1,034)	-	(1,034)	-	(1,034)
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	-	-	(414)	-	(414)	-	(414)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	862	-	862	-	862
— Currency translation differences		-	-	-	12,428	-	12,428	-	12,428
<b>Total comprehensive income/(loss) for the period</b>		-	-	-	11,842	(50,554)	(38,712)	(1)	(38,713)
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
Employee share option and RSU Scheme:									
— Value of employee services	20	-	-	-	16,663	-	16,663	-	16,663
<b>Total contributions by and distributions to owners of the Company for the period</b>		-	-	-	16,663	-	16,663	-	16,663
<b>Balance at June 30, 2016</b>		59	1,722,308	(3)	354,218	(1,028,211)	1,048,371	(1,908)	1,046,463

The notes on pages 55 to 104 are integral parts of the interim financial information.



## Interim Condensed Consolidated Statements of Cash Flows

	<b>Six months ended June 30,</b>	
	<b>2017</b>	2016
<i>Note</i>	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Cash flows from operating activities</b>		
Cash used in operations	<b>(69,093)</b>	(45,629)
Income tax paid	<b>(1,284)</b>	(2,771)
<b>Net cash used in operating activities</b>	<b>(70,377)</b>	(48,400)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(1,575)</b>	(3,621)
Purchase of intangible assets	<b>(15,125)</b>	(12,730)
Net cash received from disposal of property, plant and equipment	-	145
Purchase of available-for-sale financial assets	<b>(200,000)</b>	(133,400)
Proceeds from disposal of available-for-sale financial assets	<b>234,576</b>	133,873
Capital injection in an associate measured at fair value through profit or loss	<b>(15,000)</b>	(15,000)
Purchase of financial assets at fair value through profit or loss	-	(3,887)
Loan granted to a related party	<b>(1,200)</b>	-
Payments for films in progress	<b>(20,934)</b>	(4,600)
Loan repayments received from a third party	-	10,966
Decrease in short term bank deposits	<b>133,191</b>	-
<b>Net cash generated from/(used in) investing activities</b>	<b>113,933</b>	(28,254)



## Interim Condensed Consolidated Statements of Cash Flows (Continued)

		Six months ended June 30,	
		2017	2016
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
<b>Cash flows from financing activities</b>			
Repayments of bank borrowings	21	(300)	–
Interests paid		(1,340)	–
Purchase of shares for RSU Scheme	18	(2,035)	–
<b>Net cash used in financing activities</b>		<b>(3,675)</b>	–
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period		39,881	(76,654)
Exchange (loss)/gain on cash and cash equivalents		338,655	794,461
		(5,578)	11,253
<b>Cash and cash equivalents at end of the period</b>		<b>372,958</b>	729,060

The notes on pages 55 to 104 are integral parts of these interim financial information.



## Notes to Interim Condensed Consolidated Financial Information

### 1. General information

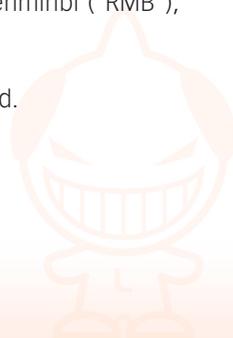
Linekong Interactive Group Co., Ltd. (the “Company”), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office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

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in developing and publishing online games (the “Group’s Game Business”) 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, 2017 and the related interim condensed consolidated statements of comprehensive loss for the six-month period and the three-month period then ended, changes in equity 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 14, 2017.

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 should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2016 as set out in the 2016 annual report of the Company (the “2016 Financial Statements”), which have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and requirements of Hong Kong Companies Ordinance Cap. 622.

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

### 3.1 Summary of significant accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016, 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 amendments to IFRSs effective for the first time for the interim period. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, 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.

There adoption of amendments to IFRSs that are effective for the first time for this interim period does not have a material impact on the Group.

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, 2017. 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.

### **3. Summary of significant accounting policies and critical accounting estimates and judgments (Continued)**

#### *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 2016 Financial Statements.

### **4. Financial risk management**

#### *4.1 Financial risk factors*

The Group is subject to a variety of financial risks: foreign exchange risk, credit risk, concentration risk and others.

##### (a) 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 recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency.

## 4. Financial risk management (Continued)

### 4.1 Financial risk factors (Continued)

#### (b) Credit risk

The Group's exposure to credit risk mainly comes from trade receivables and other receivables.

For trade receivables, a significant portion of trade receivables at the end of each reporting period was due from those game distribution channels in cooperation with the Group. If the strategic relationship with game distribution channels is terminated or scaled-back; or if the co-operative arrangements with the game distribution channels are altered; or if they experience financial difficulties in paying the Group, the Group's trade receivables might be adversely affected in terms of recoverability.

To manage this risk, the Group maintains frequent communications with the game distribution channels to ensure the effective credit control. In view of the history of cooperation with the game distribution channels and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from game distribution channels is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2016 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2017.

## 4. Financial risk management (Continued)

### 4.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).



## 4. Financial risk management (Continued)

### 4.2 Fair value estimation (Continued)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>(Unaudited)</b>				
<b>At June 30, 2017</b>				
<b>Assets</b>				
An associate measured at fair value through profit or loss	-	-	47,051	47,051
Financial assets at fair value through profit or loss				
— Listed securities	16,314	-	-	16,314
— Unlisted securities	-	-	16,067	16,067
Available-for-sale financial assets	-	-	105,790	105,790
	<b>16,314</b>	<b>-</b>	<b>168,908</b>	<b>185,222</b>
<b>(Audited)</b>				
<b>At December 31, 2016</b>				
<b>Assets</b>				
An associate measured at fair value through profit or loss	-	-	19,229	19,229
Financial assets at fair value through profit or loss				
— Listed securities	17,125	-	-	17,125
— Unlisted securities	-	-	15,637	15,637
Available-for-sale financial assets	-	-	115,125	115,125
	<b>17,125</b>	<b>-</b>	<b>149,991</b>	<b>167,116</b>

The Group did not have any financial liabilities that were measured at fair value as of June 30, 2017 and December 31, 2016.

There were no transfers among level 1, 2 and 3 during the six months ended June 30, 2017.

## 4. Financial risk management (Continued)

### 4.2 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- a combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples.



## 4. Financial risk management (Continued)

### 4.2 Fair value estimation (Continued)

There were no changes in valuation techniques used during the six months ended June 30, 2017.

For the fair value measurements categorised within level 3 of the fair value hierarchy, the significant assumptions and inputs utilised in the valuation using discounted cash flow method by the Company for during the six months ended June 30, 2017 were as follows:

Discount rate: 20% ~ 35%

Terminal growth rate: 3%

Discount for lack of marketability: 10% ~ 22%

Volatility: 36% ~ 61%

The changes in level 3 instruments during the six months ended June 30, 2017 and 2016 are presented in Notes 10, 11 and 12.



## 5. Revenue and segment information

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	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	96,937	155,610	230,455	312,535
— License fee and technical support fee	27,212	7,498	38,982	17,490
Licensing of film rights (Note (b))	—	—	22,692	—
	124,149	163,108	292,129	330,025

- (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,	
	2017	2016	2017	2016
	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	120,867	157,780	262,345	313,982
— Web-based games	716	1,144	1,450	2,511
— Client-based games	2,566	4,184	5,642	13,532
	124,149	163,108	269,437	330,025

The chief operating decision maker of the Company considers that the Group's Game Business is operated and managed as a single segment of developing and distribution of online games, 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, 2017 and 2016.

- (b) Revenue from licensing of film rights (including rights of internet drama) is recognised upon the delivery of the master tapes to the customers, in accordance with the terms of the underlying contracts. Revenue from licensing of film rights (including rights of internet drama) was derived from a single external customer in PRC.

## 5. Revenue and segment information (Continued)

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,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue from external customers:				
— Mainland China	82,557	138,160	219,439	286,012
— Korea	34,095	15,826	59,934	22,264
— Overseas countries and regions	7,497	9,122	12,756	21,749
	<b>124,149</b>	163,108	<b>292,129</b>	330,025

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, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
Mainland China	78,365	81,366
Overseas countries and regions	6,522	7,727
	<b>84,887</b>	89,093



## 6. Property, plant and equipment

(Unaudited)	Furniture and office equipment RMB'000	Server and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
<b>At January 1, 2017</b>					
Cost	11,674	22,798	4,058	13,470	52,000
Accumulated depreciation	(7,649)	(20,858)	(1,644)	(8,200)	(38,351)
Net book amount	4,025	1,940	2,414	5,270	13,649
<b>Six months ended June 30, 2017</b>					
Opening net book amount	4,025	1,940	2,414	5,270	13,649
Additions	720	80	327	107	1,234
Depreciation	(1,869)	(534)	(422)	(3,017)	(5,842)
Closing net book amount	2,876	1,486	2,319	2,360	9,041
<b>At June 30, 2017</b>					
Cost	11,791	22,878	4,385	11,676	50,730
Accumulated depreciation	(8,915)	(21,392)	(2,066)	(9,316)	(41,689)
Net book amount	2,876	1,486	2,319	2,360	9,041
<b>At January 1, 2016</b>					
Cost	10,215	23,963	4,065	9,735	47,978
Accumulated depreciation	(5,676)	(20,972)	(1,574)	(5,288)	(33,510)
Net book amount	4,539	2,991	2,491	4,447	14,468
<b>Six months ended June 30, 2016</b>					
Opening net book amount	4,539	2,991	2,491	4,447	14,468
Additions	921	240	688	1,809	3,658
Depreciation	(1,226)	(670)	(356)	(1,818)	(4,070)
Disposals	-	-	(7)	-	(7)
Closing net book amount	4,234	2,561	2,816	4,438	14,049
<b>At June 30, 2016</b>					
Cost	11,136	24,203	4,057	11,049	50,445
Accumulated depreciation	(6,902)	(21,642)	(1,241)	(6,611)	(36,396)
Net book amount	4,234	2,561	2,816	4,438	14,049

## 7. Intangible assets

<b>(Unaudited)</b>	<b>Trademarks and licenses RMB'000</b>	<b>Computer software RMB'000</b>	<b>Total RMB'000</b>
<b>At January 1, 2017</b>			
Cost	71,714	4,119	75,833
Accumulated impairment	(5,807)	-	(5,807)
Accumulated amortisation	(27,675)	(2,945)	(30,620)
Net book amount	<b>38,232</b>	<b>1,174</b>	<b>39,406</b>
<b>Six months ended June 30, 2017</b>			
Opening net book amount	38,232	1,174	39,406
Additions	2,300	102	2,402
Amortisation	(7,313)	(242)	(7,555)
Closing net book amount	<b>33,219</b>	<b>1,034</b>	<b>34,253</b>
<b>At June 30 2017</b>			
Cost	71,259	4,221	75,480
Accumulated impairment	(4,929)	-	(4,929)
Accumulated amortisation	(33,111)	(3,187)	(36,298)
Net book amount	<b>33,219</b>	<b>1,034</b>	<b>34,253</b>
<b>At January 1, 2016</b>			
Cost	46,296	3,130	49,426
Accumulated impairment	(2,515)	-	(2,515)
Accumulated amortisation	(15,289)	(2,279)	(17,568)
Net book amount	<b>28,492</b>	<b>851</b>	<b>29,343</b>
<b>Six months ended June 30, 2016</b>			
Opening net book amount	28,492	851	29,343
Additions	27,495	694	28,189
Amortisation	(7,657)	(358)	(8,015)
Disposals	(733)	-	(733)
Impairment	(2,261)	-	(2,261)
Closing net book amount	<b>45,336</b>	<b>1,187</b>	<b>46,523</b>
<b>At June 30, 2016</b>			
Cost	70,017	3,824	73,841
Accumulated impairment	(3,137)	-	(3,137)
Accumulated amortisation	(21,544)	(2,637)	(24,181)
Net book amount	<b>45,336</b>	<b>1,187</b>	<b>46,523</b>

## 8. Films in progress

	<b>Six months ended June 30,</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Beginning of the period	<b>24,418</b>	–
Additions of the period	<b>21,503</b>	4,600
Transfers of the period	<b>(17,217)</b>	–
End of the period	<b>28,704</b>	4,600

## 9. Investments using equity accounting

	<b>Six months ended June 30,</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Beginning of the period	<b>176,362</b>	180,183
Share of losses	<b>(21,950)</b>	(11,004)
Other comprehensive (loss)/income	<b>(2,407)</b>	862
Currency translation difference	<b>(1,607)</b>	777
End of the period	<b>150,398</b>	170,818

<b>Name</b>	<b>Principal activities/ country of incorporation</b>	<b>% Interest held as of June 30, 2017</b>	<b>% Interest held as of December 31, 2016</b>	<b>Nature of the relationship</b>
Fuze Entertainment Co., Ltd. ("Fuze")	Gaming hardware development and sale/Cayman Islands	<b>36.82%</b>	36.82%	Note (a)
Huaying Jiashi (Beijing) International Culture Media Co., Ltd. ("Huaying")	Film distribution/PRC	<b>21.05%</b>	21.05%	Note (b)

## 9. Investments using equity accounting (Continued)

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, 2017 and 2016.

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 Jiashi 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.



## 10. An associate measured at fair value through profit or loss

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Unlisted fund	<b>47,051</b>	19,229

<b>Name</b>	<b>Principal activities/ country of incorporation</b>	<b>% Interest held as of June 30, 2017</b>	% Interest held as of December 31, 2016	<b>Nature of the relationship</b>
Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "Jikebang Fund")	Investment holding as a private equity fund/PRC	<b>32.56%</b>	22.45%	<i>Note</i>

*Note:*

On January 4, 2016 and May 8, 2017, Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd., "Linekong Entertainment") invested RMB15,000,000 and RMB15,000,000 respectively in Jikebang Fund as a limited partner. The directors of the Company determined that the Group has significant influence on Jikebang Fund and this investment was classified as investment in an associate.

Jikebang Fund is not traded on an active market, its fair value is determined using valuation techniques as disclosed in Note 4.2. The fair value is within level 3 of the fair value hierarchy.

Changes in fair value of an associate measured at fair value through profit or loss are recorded in "other gains — net" in the statement of profit or loss (Note 25).



## 11. Available-for-sale financial assets

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
<b>Included in non-current assets</b>		
Unlisted equity investments	<b>105,790</b>	115,125

*Note:*

As of June 30, 2017, unlisted equity investments include equity investments held by the Group in several private companies, equity funds and production of films in PRC.

The equity interests held by the Group in the private companies and funds is less than 10% for each entity and the Group does not have control nor significant influence over the operating and financial decisions of each of these entities respectively. Therefore, the Group classified its investment in each of these entities as an available-for-sale financial asset.

Investments in film production represent funds provided to the film companies for collaborate on the production of films and/or television programmes. The investments are governed by the relevant investment agreements entered into between the Group and the film companies whereby the Group is entitled to receive a percentage of the proceeds generated from the distribution of the related films and/or television programmes after they are released. The Group has agreed the project plan and budget but does not participate in any of the ongoing production or commercialisation decisions. Therefore, the Group determined its investment in film production as financial assets and classified each of them as an available-for-sale financial asset.

There are no quoted market prices available for all the underlying entities and film productions. The Group has determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 4.2. The fair value are within level 3 of the fair value hierarchy.

Gains or losses arising from the changes in fair value of available-for-sale financial assets are recognised as other comprehensive (loss)/income. The cumulative loss identified as impairment is reclassified from equity and recognize in profit or loss.



## 12. Financial assets at fair value through profit or loss

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
<b>Included in current assets</b>		
Listed securities — Hong Kong <i>(Note (a))</i>	<b>16,314</b>	17,125
<b>Included in non-current assets</b>		
Unlisted securities <i>(Note (b))</i>	<b>16,067</b>	15,637

Notes:

- (a) The fair value of all listed equity securities is based on their current bid price in an active market.
- (b) The unlisted securities represent shares held by the Group in certain entities, which are redeemable upon occurrence of certain future events which are at option of the Group. Therefore, the Group has designated each of these investments as a financial asset at fair value through profit or loss upon initial recognition.

Each of these entities is a private company and there is no quoted market price available for its shares. The Group has determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 4.2. The fair value are within level 3 of the fair value hierarchy.

- (c) Changes in fair values of financial assets at fair value through profit or loss are recorded in "other-gains net" in the statement of profit or loss.



### 13. Deferred income tax — net

The analysis of deferred income tax assets and liabilities is as follows:

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
<b>Deferred income tax assets:</b>		
— To be recovered within 12 months	2,136	528
— To be recovered after 12 months	19,132	15,576
	<b>21,268</b>	<b>16,104</b>
<b>Deferred income tax liabilities:</b>		
— To be settled within 12 months	(23)	(83)
— To be settled after 12 months	(18,727)	(14,590)
	<b>(18,750)</b>	<b>(14,673)</b>
	<b>2,518</b>	<b>1,431</b>

The net movement of the Group's deferred income tax account is as follows:

	<b>Six months ended June 30, 2017 RMB'000 (Unaudited)</b>	2016 RMB'000 (Unaudited)
Beginning of the period	1,431	7,490
Recognised in profit or loss	2,470	(3,450)
Charged to other comprehensive income	(1,383)	(594)
End of the period	<b>2,518</b>	<b>3,446</b>

### 13. Deferred income tax — net (Continued)

Movement in deferred income tax assets and liabilities without taking into consideration of the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets:

(Unaudited)	Deferred revenue RMB'000	Accrued employee benefit expenses RMB'000	Tax losses RMB'000	Provision and others RMB'000	Total RMB'000
<b>Six months ended</b>					
<b>June 30, 2017</b>					
Beginning of the period	1,318	-	14,674	112	16,104
(Charged)/Credited to profit or loss	(405)	-	4,054	1,515	5,164
End of the period	913	-	18,728	1,627	21,268
<b>Six months ended</b>					
<b>June 30, 2016</b>					
Beginning of the period	5,579	-	3,791	371	9,741
(Charged)/Credited to profit or loss	(2,718)	-	3,422	131	835
End of the period	2,861	-	7,213	502	10,576

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB135,891,742 as of June 30, 2017 (December 31, 2016: RMB151,960,742) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2017 to 2022.

### 13. Deferred income tax — net (Continued)

Deferred income tax liabilities:

(Unaudited)	Trademarks and licenses RMB'000	Fair value changes of financial assets RMB'000	Fair value changes of an associate RMB'000	Total RMB'000
<b>Six months ended</b>				
<b>June 30, 2017</b>				
Beginning of the period	(83)	(13,533)	(1,057)	(14,673)
Credited/(Charged) to profit or loss	61	450	(3,205)	(2,694)
Charged to other comprehensive income	-	(1,383)	-	(1,383)
End of the period	(22)	(14,466)	(4,262)	(18,750)
<b>Six months ended</b>				
<b>June 30, 2016</b>				
Beginning of the period	(78)	(2,173)	-	(2,251)
Charged to profit or loss	(2)	(3,823)	(460)	(4,285)
Charged to other comprehensive income	-	(594)	-	(594)
End of the period	(80)	(6,590)	(460)	(7,130)



## 14. Trade receivables

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Trade receivables	<b>56,922</b>	80,221
Less: impairment provision	<b>(1,760)</b>	(1,274)
	<b>55,162</b>	78,947

- (a) The revenue of the Group from the Game Distribution Channels, third-party payment vendors and international game 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:

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
0–60 days	<b>51,531</b>	68,810
61–90 days	<b>1,169</b>	2,706
91–180 days	<b>1,144</b>	5,018
181–365 days	<b>1,366</b>	1,950
over 1 year	<b>1,712</b>	1,737
	<b>56,922</b>	80,221



#### 14. Trade receivables (Continued)

- (b) As at June 30, 2017 and December 31, 2016, trade receivables of past due but not impaired were RMB8,708,000 and RMB16,160,000 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:

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Outstanding after due dates:		
0-60 days	<b>6,246</b>	8,729
61-90 days	<b>301</b>	1,015
91-180 days	<b>1,105</b>	5,137
181-365 days	<b>332</b>	816
over 1 year	<b>724</b>	463
	<b>8,708</b>	16,160



## 15. Prepayments and other receivables

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
<b>Current</b>		
Prepaid service charges to Game Distribution Channels	<b>18,162</b>	31,307
Prepayment to game developers	<b>31,347</b>	33,923
Staff advance ( <i>Note (a)</i> )	<b>2,596</b>	693
Amount due from a related party ( <i>Note 30</i> )	<b>1,200</b>	–
Loans to employees ( <i>Note (b)</i> )	<b>4,184</b>	4,283
— Loans to key management ( <i>Note 30</i> )	<b>2,212</b>	2,162
— Loans to other employees	<b>1,972</b>	2,121
Prepaid rental, advertising cost and others	<b>22,128</b>	33,498
Rental and other deposits	<b>535</b>	731
Interests receivable	<b>3,286</b>	902
Advances for films productions ( <i>Note (c)</i> )	<b>15,900</b>	–
Deductible VAT input	<b>9,381</b>	5,283
Others	<b>4,383</b>	2,285
	<b>113,102</b>	112,905
Less: provision for impairment of other receivables	<b>(500)</b>	–
	<b>112,602</b>	112,905
<b>Non-current</b>		
Prepaid service charges to Game Distribution Channels	<b>125</b>	56
Loans to employees ( <i>Note (b)</i> )	<b>1,913</b>	2,587
— Loans to key management ( <i>Note 30</i> )	<b>206</b>	208
— Loans to other employees	<b>1,707</b>	2,379
Rental and other deposits	<b>3,689</b>	3,942
Prepayment for investments	<b>12,764</b>	11,564
Others	<b>1,806</b>	2,240
	<b>20,297</b>	20,389

## 15. Prepayments and other receivables (Continued)

Notes:

- (a) Staff advances represent the advances to employees for various expenses to be incurred in the ordinary course of business.
- (b) Loans to employees represent the housing loans provided to certain employees. These housing loans are unsecured and with a term ranging from 2 to 5 years.
- (c) Advances for films productions are due from films owners or films investors for the Group's investment in film projects. The advances for films are unsecured, repayable with next 12 months and with a fixed guarantee return of 15% ~ 20% (2016: Nil).

## 16. Short-term bank deposits

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Short-term bank deposits	<b>173,560</b>	312,963

## 17. Cash and cash equivalents and restricted deposits

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Cash and cash equivalents		
— Cash at bank and in hand	<b>365,536</b>	331,617
— Cash at other financial institutions	<b>7,422</b>	7,038
	<b>372,958</b>	338,655
Restricted deposits		
— Matured after 12 months	<b>103,008</b>	106,139

Note:

As of June 30, 2017, HKD118,700,000, approximately equivalent to RMB103,008,000, (December 31, 2016: HKD118,700,000, approximately equivalent to RMB106,139,000) are restricted deposits held at bank as reserve for serving of a loan facility with total a credit line of RMB100,000,000 provided by the bank, and which will expire in 2018.

## 18. Share capital and share premium

The authorised share capital of the Company has been designed as 2,000,000,000 ordinary shares with par value of USD0.000025 each since December 30, 2014.

(Unaudited)	Number of ordinary shares (‘000)	Nominal value of ordinary shares USD‘000	Equivalent nominal value of ordinary shares RMB‘000	Share premium RMB‘000	Shares hold for RSU Scheme RMB‘000
Issued:					
<b>As of January 1, 2017</b>	<b>368,228</b>	<b>10</b>	<b>59</b>	<b>1,720,691</b>	<b>(2)</b>
Employee share-based compensation scheme:					
— Shares purchased for RSU Scheme	-	-	-	-	(2,035)
<b>As of June 30, 2017</b>	<b>368,228</b>	<b>10</b>	<b>59</b>	<b>1,720,691</b>	<b>(2,037)</b>
Issued:					
<b>As of January 1, 2016 and June 30, 2016</b>	<b>369,869</b>	<b>10</b>	<b>59</b>	<b>1,722,308</b>	<b>(3)</b>



## 19. Reserves

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share- based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
<b>Balance at April 1, 2017</b>	(9,269)	115,394	9,557	280,941	29,385	426,008
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	6,475	6,475
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (Note 25)	-	-	-	-	(375)	(375)
Share of other comprehensive income of investments using equity method, net of tax (Note 9)	-	-	-	-	(1,880)	(1,880)
Employee share option and RSU scheme: — Value of employee services (Note 20)	-	-	-	1,255	-	1,255
Currency translation differences	-	(13,137)	-	-	-	(13,137)
<b>Balance at June 30, 2017</b>	(9,269)	102,257	9,557	282,196	33,605	418,346
<b>Balance at April 1, 2016</b>	(7,831)	68,126	9,557	251,460	9,526	330,838
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(1,839)	(1,839)
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (Note 25)	-	-	-	-	(248)	(248)
Share of other comprehensive income of investments accounted for using the equity method, net of tax (Note 9)	-	-	-	-	1,276	1,276
Employee share option and RSU scheme: — Value of employee services (Note 20)	-	-	-	6,032	-	6,032
Currency translation differences	-	18,159	-	-	-	18,159
<b>Balance at June 30, 2016</b>	(7,831)	86,285	9,557	257,492	8,715	354,218



## 19. Reserves (Continued)

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share- based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
<b>Balance at January 1, 2017</b>	(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 25)	-	-	-	-	(17,913)	(17,913)
Share of other comprehensive income of investments using equity method, net of tax (Note 9)	-	-	-	-	(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 (Note 20)	-	-	-	8,206	-	8,206
Currency translation differences	-	(16,642)	-	-	-	(16,642)
<b>Balance at June 30, 2017</b>	(9,269)	102,257	9,557	282,196	33,605	418,346
<b>Balance at January 1, 2016</b>	(7,831)	73,857	9,557	240,829	9,301	325,713
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(1,034)	(1,034)
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (Note 25)	-	-	-	-	(414)	(414)
Share of other comprehensive income of investments accounted for using the equity method, net of tax (Note 9)	-	-	-	-	862	862
Employee share option and RSU scheme: — Value of employee services (Note 20)	-	-	-	16,663	-	16,663
Currency translation differences	-	12,428	-	-	-	12,428
<b>Balance at June 30, 2016</b>	(7,831)	86,285	9,557	257,492	8,715	354,218



## 20. Share-based payments

### (a) *Restricted Share Units ("RSUs")*

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company set up a restricted share unit scheme ("RSU Scheme") with the objective to incentivize 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, 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.

#### (i) Grant of the RSUs

On March 21, 2014, January 21, 2015, October 9, 2015 and January 18, 2017, 31,371,494, 2,275,000, 20,000 and 1,805,385 RSUs under the RSU Scheme were granted to employees, directors and consultants, respectively.

The 31,371,494 RSUs granted on March 21, 2014 are vested in four different ways as provided in respective grant letters:

- (1) 4-year vesting: 20% on the date ending one month after the date of listing, 35% on the date ending 12 months from the grant date, 10% each on the date ending 18 and 24 months from the grant date, 7.5% each on the date ending 30 and 36 months from the grant date, 5% each on the date ending 42 and 48 months from the grant date.
- (2) 4-year vesting: 10% on the date ending one month after the date of listing, 20% on the date ending 12 month from the grant date, 12.5% each on the date ending 18, 24, 30 and 36 months from the grant date, 10% each on the date ending 42 and 48 months from the grant date.

## 20. Share-based payments (Continued)

(a) *Restricted Share Units ("RSUs") (Continued)*

(i) Grant of the RSUs (Continued)

- (3) 4-year vesting: 25% on the date ending 12 months from the grant date, 12.5% on every six months from 12 months from the grant date.
- (4) 3-year vesting: 33.33% on January 10, 2015, and 8.33% each on every three months from the first month after January 10, 2015.

The 2,275,000 RSUs granted on January 21, 2015 are vested in three different ways as provided in respective grant letters:

- (1) 4-year vesting: 25% on September 11, 2015, 12.5% each on every six months from September 11, 2015.
- (2) 2-year vesting: 25% each on every six months from the grant date.
- (3) one-off vesting: 100% on July 1, 2015.

The 20,000 RSUs granted on October 9, 2015 are vested in 4 years: 25% on October 8, 2016 and 12.5% each on every six months from October 8, 2016.

The 1,805,385 RSUs granted on January 18, 2017 are vested in 4 years: 25% on January 18, 2018 and 12.5% each on every six months from January 18, 2018.



## 20. Share-based payments (Continued)

### (a) Restricted Share Units ("RSUs") (Continued)

#### (i) Grant of the RSUs (Continued)

The RSUs are vested only if the grantees remain engaged by the Group. The RSU Scheme will be valid and effective for a period of ten years commencing from March 21, 2014, unless it is terminated earlier in accordance with the rules of RSU Scheme.

Movements in the number of RSUs outstanding:

	<b>Number of RSUs Six months ended June 30,</b>	
	<b>2017 (Unaudited)</b>	2016 (Unaudited)
Beginning of the period	<b>5,348,162</b>	12,059,414
Granted	<b>1,805,385</b>	–
Lapsed	<b>(633,456)</b>	(701,454)
Vested	<b>(2,166,680)</b>	(3,116,216)
End of the period	<b>4,353,411</b>	8,241,744

As of June 30, 2017 and December 31, 2016, 27,025,665 and 24,858,985 RSUs have been vested unconditionally, respectively.



## 20. Share-based payments (Continued)

(a) *Restricted Share Units ("RSUs") (Continued)*

(ii) Shares held for RSU Scheme

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company entered into a trust deed (the "Trust Deed") with The Core Trust Company Limited (the "RSU Trustee") and Premier Selection Limited (the "RSU Nominee") to assist with the administration of the RSU Scheme. On March 21, 2014, the Company issued 42,161,541 ordinary shares to the RSU Nominee at a par value of USD0.000025 each, totalling RMB6,488 funded by Mr. Wang Feng. Accordingly, 42,161,541 ordinary shares of the Company underlying the RSUs were held by the RSU Nominee for the benefit of eligible participants pursuant to the RSU Scheme and the Trust Deed.

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to "other reserves" as deemed contribution from shareholders. As a result of the vesting of 2,166,680 RSUs during the six months ended June 30, 2017, costs of these RSUs totally approximately RMB330 was transferred out from treasury shares upon vesting of these RSUs.



## 20. Share-based payments (Continued)

### (a) Restricted Share Units ("RSUs") (Continued)

#### (iii) Fair value of RSUs

The directors used the discounted cash flow method to estimate the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the RSUs granted on March 21, 2014. The fair value of the RSUs granted on March 21, 2014 was assessed to be RMB203,925,228.

The key assumptions used in the valuation of RSUs as of the grant date are set out in the table below:

	<b>March 21, 2014</b>
Discount rate used to determine the underlying share value of the Company	20%
Risk-free interest rate	0.08%
Volatility	52.97%

The fair value of RSUs granted on January 21, 2015, October 9, 2015 and January 18, 2017 was assessed to approximate to the market price of the grant date in the amount of HKD9.80 each (equivalent to RMB17,595,600 in total), HKD7.18 each (equivalent to RMB118,000 in total), and HKD3.10 each (equivalent to RMB4,945,015 in total) respectively.



## 20. Share-based payments (Continued)

### (b) *Share options*

On November 20, 2014, the shareholders of the Company approved the establishment of a share option scheme (the "Pre-IPO Share Option Scheme") with an objective 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 Pre-IPO Share Option Scheme will be valid and effective for a period of ten years commencing from December 30, 2014, (the listing date) unless it is terminated earlier in accordance with the rules of Pre-IPO Share Option Scheme.

The exercise price of the option shall be determined by the Board of Directors of the Company, and which shall not be less than the higher of:

- (1) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- (2) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (3) the nominal value of the shares.



## 20. Share-based payments (Continued)

### (b) *Share options (Continued)*

#### (i) Grant of share options

On August 12, 2015, 1,849,192 share options were granted under the Pre-IPO Share Option Scheme with exercise price of HKD8.10 per share option. The vesting period of the share options granted is 4 years. The vesting schedule is 25% on the date ending 10 months from the grant date and 12.5% each on every six months from 10 months from the grant date.

On October 9, 2015, June 15, 2016 and January 18, 2017, 6,010,000 share options with exercise price of HKD7.18 per share option, 1,750,000 share options with exercise price of HKD4.366 per share option and 9,225,000 share options with exercise price of HKD3.10 per share option were granted respectively. The vesting period of the share options granted is 4 years. The vesting schedule is 25% on the date ending 12 months from the grant date and 12.5% each on every six months from 12 months from the grant date.

The option period shall be ten years commencing from the grant date and the options are vested only if the grantees remain engaged by the Group.

The Group has no legal or constructive obligations to repurchase or settle the options in cash.



## 20. Share-based payments (Continued)

### (b) Share options (Continued)

#### (i) Grant of share options (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Six months ended June 30,			
	2017		2016	
	Average Exercise Price (Unaudited)	Number of share options (Unaudited)	Average Exercise Price (Unaudited)	Number of share options (Unaudited)
Beginning of the period	HKD6.63	6,654,798	HKD7.40	7,709,192
Granted	HKD3.10	9,225,000	HKD4.366	1,750,000
Lapsed	HKD4.80	(1,132,500)	HKD7.18	(915,000)
End of the period	HKD4.56	14,747,298	HKD6.81	8,544,192

Out of the 14,747,298 outstanding options (December 31, 2016: 6,654,798), 2,531,048 options (December 31, 2016: 1,657,298) were exercisable. Share options outstanding as of June 30, 2017 include 462,298 (December 31, 2016: 462,298) share options, 4,262,500 (December 31, 2016: 4,742,500) share options, 1,412,500 (December 31, 2016: 1,450,000) share options and 8,610,000 (December 31, 2016: Nil) share options with the exercise price of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 per share option, respectively. All these options will expire in 10 years from the grant date.



## 20. Share-based payments (Continued)

### (b) Share options (Continued)

#### (ii) Fair value of share options

Based on the market price of the underlying ordinary share of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 on the respective grant date of the share options, the Company has used Binomial option-pricing model to determine the fair value of the share options as of the grant date. The fair value of the share options granted on August 12, 2015, October 9, 2015, June 15, 2016 and January 18, 2017 was assessed to be HKD8,220,000 (approximately equivalent to RMB6,706,000), HKD20,442,000 (approximately equivalent to RMB16,748,000), HKD4,028,000 (approximately equivalent to RMB3,425,000) and HKD14,823,000 (approximately equivalent to RMB13,097,000), respectively.

The key assumptions used in the valuation of the share options as of the grant date are set out in the table below:

	August 12, 2015	October 9, 2015	June 15, 2016	January 18, 2017
Risk-free interest rate	1.69%	1.62%	2.50%	1.72%
Volatility	49.30%	49.70%	52.30%	57.20%
Dividend yield	-	-	-	-

The Company estimated the risk-free interest rate based on the yield of HK 10-Year Government Bond with a maturity life equal to the life of the share options. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date.



## 20. Share-based payments (Continued)

### (c) RSUs and options granted by/for subsidiaries

Pursuant to a resolution passed by the Board of Directors of the Company on December 17, 2015, the Company granted 168,000,000 RSUs of Creative Ace Limited, a subsidiary of the Company to certain employees of the Group with the objective to stimulate and promote the development of the business in US.

These RSUs granted are subject to vesting schedule, service and performance conditions.

The directors used the discounted cash flow method to estimate the underlying equity fair value of Creative Ace Limited, and determine the fair value of the RSUs granted on December 17, 2015. The fair value of the RSUs granted on December 17, 2015 was assessed to be RMB3,030,300.

The key assumptions used in the valuation of RSUs as of the grant date are set out in the table below:

	December 17, 2015
Discount rate used to determine the underlying share value of the Company	30.00%
Risk-free interest rate	3.69%
Discount for lack of marketability	20.00%

As of June 30, 2017 and December 31, 2016, 8,000,000 RSUs have been vested unconditionally, respectively, which represents 2% interest of Creative Ace Limited.

On July 1, 2016, the Group entered into a share-based payment agreement with three senior executives of a subsidiary, Horgos Linekong Pictures Corporation ("Linekong Horgos"), pursuant to which the Group agreed to transfer 19% shares of Linekong Horgos to them at a price to be paid in a specific period depending on occurrence of certain future events, which are also subject to vesting schedule, service and performance conditions.

## 20. Share-based payments (Continued)

### (c) *RSUs and options granted by/for subsidiaries (Continued)*

The Company has used Monte-Carlo method to determine the fair value of the share-based payment arrangement as of the grant date. The fair value of share-based payment granted on July 1, 2016 was assessed to be RMB13,823,000.

The key assumptions used in the valuation of share options as of the grant date are set out in the table below:

	July 1, 2016
Risk-free interest rate	2.59%–2.60%
Volatility	44%–45%
Dividend yield	–

As of June 30, 2017 and December 31, 2016, 437,500 shares have been vested unconditionally, respectively, which represents 4.75% interest of Linekong Horgos.

### (d) *Expected retention rate of grantees*

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the “Expected Retention Rate”) in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive loss. As of June 30, 2017, the Expected Retention Rate of employees was assessed to be 80% (December 31, 2016: 85%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2016: 100%).



## 21. Bank borrowings

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Bank borrowings		
— Secured loans	<b>99,700</b>	100,000
Included in:		
Current liabilities	<b>600</b>	600
Non-current liabilities	<b>99,100</b>	99,400

- (a) Bank borrowings are secured by the restricted deposits of RMB103,008,000 (2016: RMB106,139,000) (Note 17).
- (b) The fair value of the borrowings approximately equals their carrying amount.
- (c) Effective interest rates per annum on borrowings is 2.55%–2.77% (2016: 2.55%–2.77%).
- (d) Borrowings are repayable as follows:

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Within 1 year	<b>600</b>	600
Between 1 and 2 years	<b>99,100</b>	99,400
	<b>99,700</b>	100,000

- (e) As of June 30, 2017, the Group's borrowings are denominated in RMB.

## 22. Trade and other payables

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Trade payables (Note (i))	53,867	92,754
Other taxes payables	4,334	3,565
Interests payable	67	74
Salary and staff welfare payables	27,770	28,486
Accrued expenses and liabilities	47,537	45,561
Advance received from licence fees	1,187	952
Advance received from sales of prepaid game cards	149	486
Advance from payment vendors	29	62
	<b>134,940</b>	<b>171,940</b>

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:

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
0–180 days	42,343	60,684
181–365 days	948	25,568
1–2 years	7,411	3,405
2–3 years	1,430	1,652
over 3 years	1,735	1,445
	<b>53,867</b>	<b>92,754</b>

## 23. Deferred revenue

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
<b>Current</b>		
— License fee and technical support fee	<b>3,422</b>	3,649
— Sales of in-game virtual items (Note (i))	<b>48,845</b>	81,570
— Government subsidies	<b>55</b>	97
	<b>52,322</b>	85,316
<b>Non-current</b>		
— License fee and technical support fee	<b>3,036</b>	4,421
— Sales of in-game virtual items (Note (i))	<b>791</b>	1,029
— Government subsidies	<b>1,550</b>	1,571
	<b>5,377</b>	7,021

Note:

- (i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of June 30, 2017 and December 31, 2016. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB6,228,000 as of June 30, 2017 (December 31, 2016: RMB6,921,000).



## 24. Expenses by nature

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analysed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Service charges by Game				
Distribution Channels	40,029	57,873	94,139	117,554
Content fee to game developers	11,058	11,585	23,125	22,689
Bandwidth and server custody fees	4,692	3,822	8,725	7,700
Film rights recognised as cost of revenue	–	–	17,217	–
Payment handling costs	75	99	164	223
Employee benefit expenses (excluding share-based compensation expenses)	46,744	43,518	92,629	82,444
Share-based compensation expenses	1,255	6,032	8,206	16,663
Depreciation of property, plant and equipment (Note 6)	3,560	2,000	5,842	4,070
Amortisation and impairment of intangible assets (Note 7)	2,854	7,350	7,555	10,276
Impairment charges on trade and other receivables	1,457	2,872	1,597	2,891
Trade receivables write-off	20	–	20	–
Prepayment write-off	–	1,933	–	1,933
Promotion and advertising expenses	41,989	39,059	79,826	87,046
Traveling and entertainment expenses	1,194	1,485	2,416	2,531
Office rental expenses	3,563	3,886	7,835	8,174
Other professional service fees	2,890	3,354	5,549	6,100
Game development outsourcing costs	4,170	3,802	6,617	8,522
Utilities and office expenses	951	922	1,998	1,596
Auditors' remuneration				
— Audit related services	1,280	1,280	1,980	2,080
Others	1,129	1,362	3,002	3,599
Total	168,910	192,234	368,442	386,091

## 25. Other gains — net

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Government subsidies (Note (a))	143	1,321	164	9,705
Foreign exchange (loss)/gains, net	(2,714)	877	(3,018)	1,023
Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	(596)	(629)	144	12,451
Fair value gain from an associate measured at fair value through profit or loss	8,231	1,842	12,822	1,842
Impairment charges on available- for-sale financial assets	-	-	(1,773)	-
Gain on disposal of available-for- sale financial assets	500	277	23,884	473
Gain on disposals of property, plant and equipment	-	-	-	138
Gain on disposals of intangible assets	-	-	-	210
Others	(143)	595	(572)	192
	<b>5,421</b>	<b>4,283</b>	<b>31,651</b>	<b>26,034</b>

Note:

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



## 26. Finance income/(costs) — net

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>Finance income</b>				
Interest income on bank deposits	1,801	212	3,107	3,656
Interest income on loans to a third party	394	–	630	243
<b>Finance costs</b>				
Interest cost on bank borrowings	(667)	–	(1,332)	–
Foreign exchange losses, net	(165)	(611)	(957)	(577)
<b>Finance income/(costs) — net</b>	<b>1,363</b>	<b>(399)</b>	<b>1,448</b>	<b>3,322</b>

## 27. Income tax (credit)/expense

The income tax expense of the Group for each of the three months and six months ended June 30, 2017 and 2016 is analysed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current income tax	(14,180)	9,147	(12,329)	9,391
Deferred income tax	(3,578)	2,568	(2,470)	3,450
<b>Income tax (credit)/expense</b>	<b>(17,758)</b>	<b>11,715</b>	<b>(14,799)</b>	<b>12,841</b>



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

(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, 2017 and 2016 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 the three months and six months ended June 30, 2017 and 2016, except for Tianjin Baba Liusi Network Technology Co., Ltd. ("Tianjin 8864"), Beijing Feng and Long Interactive Culture Co., Limited ("Feng and Long") and Linekong Horgos. Tianjin 8864 and Feng and Long were accredited as software enterprises and Linekong Horgos was accredited as a new company in economic development zone. The applicable schedules of preferential income tax rate for Tianjin 8864, Feng and Long and Linekong Horgos are as follows:



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

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

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Tianjin 8864	<b>50% reduction</b>	50% reduction
Feng and Long	<b>EIT exemption</b>	EIT exemption
Linekong Horgos	<b>EIT exemption</b>	25%

(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, 2017, 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, 2017 and December 31, 2016, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.



## 28. Loss per share

### (a) Basic

Basic loss per share for the three months and the six months ended June 30, 2017 and 2016 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,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Loss attributable to owners of the Company	(37,483)	(43,282)	(51,407)	(50,554)
Weighted average number of ordinary shares in issue (thousand shares)	354,123	349,236	353,100	347,905
Basic loss per share (expressed in RMB per share)	(0.11)	(0.12)	(0.15)	(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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016 are the same as basic loss per share of the period.

## 29. Dividends

No dividends have been paid or declared by the Company during each of the six months ended June 30, 2017 and 2016.

## 30. Significant related party transactions

In addition to those disclosed elsewhere in the interim financial information, the following significant transactions were carried out between the Group and its related parties during the six months ended June 30, 2017 and 2016. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

### (a) Related party transactions

A loan granted to a related party

	<b>Six months ended June 30,</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Loan granted	<b>1,200</b>	–

### (b) Balances with related parties

#### (i) Amount due from related parties

The amount due from the related parties as of June 30, 2017 and December 31, 2016 was unsecured.

	<b>As of</b>	
	<b>June 30,</b>	As of
	<b>2017</b>	December 31,
	<b>RMB'000</b>	2016
	<b>(Unaudited)</b>	RMB'000
		(Audited)
Zhao Jun (i)	<b>2,418</b>	2,370
Fuze	<b>1,200</b>	–
	<b>3,618</b>	2,370

### 30. Significant related party transactions (Continued)

#### (b) Balances with related parties (Continued)

##### (i) Amount due from related parties (Continued)

Note:

- (i) The Group granted a housing loan with amount of RMB2,000,000 to a director in May 2015. The loan is unsecured, fully repayable on December 31, 2017 and with an interest rate of 5% per annum.

The Group granted a housing loan with amount of HKD500,000 (approximately equivalent to RMB447,000) to a director in September 2015. The loan is unsecured, fully repayable before December 31, 2018 and with an interest rate of 3.7% per annum. The housing loan is partially repaid with amount of HKD280,000 (approximately equivalent to RMB250,000) by the director in December 2015.

#### (c) Key management personnel compensations

The compensations paid or payable to key management personnel (including directors, CEO and other senior executives) for employee services are shown below:

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Wages, salaries and bonuses	4,180	3,422	7,425	6,196
Pension costs — defined contribution plans	155	126	307	275
Other social security costs, housing benefits and other employee benefits	173	141	340	287
Share-based compensation expenses	3,671	4,637	7,826	11,166
	<b>8,179</b>	8,326	<b>15,898</b>	17,924

### 31. Commitments

#### *Capital commitments*

Capital expenditure contracted for at the end of the period but not yet incurred is as follows:

	<b>As of June 30, 2017 RMB'000 (Unaudited)</b>	As of December 31, 2016 RMB'000 (Audited)
Property, plant and equipment	–	167
Purchase of film rights and production of films	<b>20,378</b>	14,188
Capital investment in investees	<b>438</b>	17,835
	<b>20,816</b>	32,190

There were no other significant commitments authorized but not contracted at the end of each of the reporting dates.

