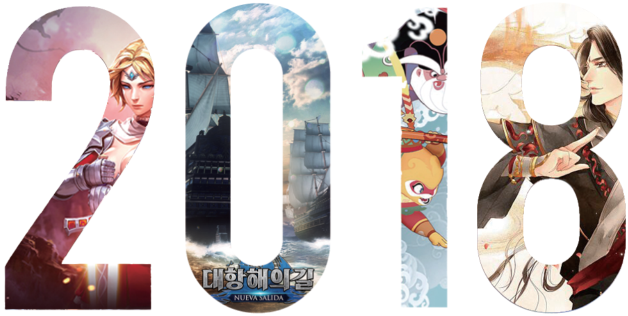

LINEKONG

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

蓝港
Linekong

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

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

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

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

CONTENTS

Corporate Information

Board of Directors

Executive Directors

Mr. Wang Feng *(Chairman, ceased to be the chief executive officer on June 15, 2018)*
Ms. Liao Mingxiang *(appointed as the chief executive officer on June 15, 2018)*
Mr. Chen Hao (appointed with effect from May 11, 2018)
Mr. Wang Jin (also known as Yan Yusong) (appointed with effect from May 11, 2018)
Mr. Qian Zhonghua (resigned with effect from February 15, 2018)
Mr. Zhao Jun (resigned with effect from February 15, 2018)

Non-executive Director

Mr. Pan Donghui

Independent Non-executive Directors

Ms. Zhao Yifang
Mr. Zhang Xiangdong
Ms. Wu Yueqin (appointed with effect from May 29, 2018)
Mr. Ma Ji (resigned with effect from May 29, 2018)
Mr. Wang Xiaodong (retired with effect from June 15, 2018)

Board Committees

Audit Committee

Ms. Wu Yueqin *(Chairman)* (appointed with effect from May 29, 2018)
Mr. Pan Donghui
Ms. Zhao Yifang
Mr. Zhang Xiangdong
Mr. Ma Ji (resigned with effect from May 29, 2018)
Mr. Wang Xiaodong (retired with effect from June 15, 2018)

Remuneration Committee

Mr. Zhang Xiangdong *(Chairman)*
Mr. Wang Feng
Ms. Liao Mingxiang
Ms. Zhao Yifang
Ms. Wu Yueqin (appointed with effect from May 29, 2018)
Mr. Ma Ji (resigned with effect from May 29, 2018)
Mr. Zhao Jun (resigned with effect from February 15, 2018)
Mr. Wang Xiaodong (retired with effect from June 15, 2018)

Nomination Committee

Mr. Wang Feng *(Chairman)*
Mr. Pan Donghui
Ms. Zhao Yifang
Mr. Zhang Xiangdong
Ms. Wu Yueqin (appointed with effect from May 29, 2018)
Ms. Liao Mingxiang (resigned with effect from June 15, 2018)
Mr. Ma Ji (resigned with effect from May 29, 2018)
Mr. Wang Xiaodong (retired with effect from June 15, 2018)

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")

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Wangjing North Road
Chaoyang District
Beijing
the PRC

Principal Place of Business in Hong Kong

40th Floor, Sunlight Tower
No. 248 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

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

GEM Stock Code

8267

Company Website

www.linekong.com

Highlights

	For the six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	**291,112**	292,129
Loss for the period	**(68,782)**	(50,365)
Adjusted net loss	**(54,089)**	(42,159)

Adjusted net loss refers to the loss for the period excluding share-based compensation expenses and one-off compensation for loss of office paid to the staff to improve management efficiency. Such information is deemed as a useful supplement in the interim condensed consolidated statement of comprehensive income/(loss), which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the "**Group**") for the financial period indicated.

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

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

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

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

Interim Results (Unaudited)

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

Management Discussion and Analysis

Business Review and Prospects

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

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

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

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

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

3. Embarking on the H5 game segment

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

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

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

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

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

International markets

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

Our players

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

Financial Review

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

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

Revenue

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

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

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

Revenue by game forms and sources

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

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

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

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

Cost

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

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

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

Gross profit and gross profit margin

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

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

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

Selling and marketing expenses

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

Administrative expenses

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

Research and development expenses

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

Net impairment losses on financial assets

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

Other (losses)/gains — net

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

Finance (costs)/income — net

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

Share of loss of an investment using equity accounting

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

Income tax (expense)/credit

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

Loss for the period

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

Non-IFRSs measure — adjusted net loss

To supplement our consolidated financial statements presented in accordance with the International Financial Reporting Standards ("**IFRSs**"), we also adopted adjusted net loss as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted net loss was derived from our net loss for the period deducted share-based compensation expenses and impacts from one-off compensation for loss of office. The adjusted net loss is an unaudited figure.

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

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

The Group's adjusted net loss for the six months ended June 30, 2018 was approximately RMB54.1 million, representing an increase of approximately 28.3% as compared to the adjusted net loss of approximately RMB42.2 million for the six months ended June 30, 2017. The increase in adjusted net loss for the period was mainly due to the combined effect of: (1) decrease in gross profit for the six months ended June 30, 2018 and (2) the fact that no gain on disposal of available-for-sale financial assets was generated for the for the six months ended June 30, 2018. We have presented adjusted net loss in this report as we believe that the adjusted net loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration share-based compensation expenses and impacts from one-off compensation for loss of office. However, adjusted net loss should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss presented in this 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, 2018, we financed our operations primarily through cash generated from our operating activities. The Group has been maintaining a solid cash position since we received the net proceeds from the listing of the Company's shares (the "**Shares**") on the Stock Exchange (the "**Listing**") which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the six months ended June 30, 2018, the majority of the Group's idle capital was invested in short-term wealth management products issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives.

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

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

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

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

Capital expenditures

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

Capital Structure

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

Borrowing and Gearing Ratio

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

Charge on Group Assets

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

Information on Employees and Remuneration Policy

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

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

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

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

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

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

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

The Company has adopted a share option scheme as incentive to the Directors and eligible persons, details of which are set out in the paragraph headed "Share Option Scheme" of this interim 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, 2018 were approximately RMB2.1 million, representing a decrease of approximately 74.0% from approximately RMB8.2 million for corresponding period in 2017.

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

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

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

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

Contingent Liabilities

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

Foreign Exchange Risk

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

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognized assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from 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, 2018.

Corporate Governance and Other Information

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

As of June 30, 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

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

Notes:

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

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

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

(4) Mr. Wang Jin is interested in 300,000 share options granted to him on June 15, 2016 under the share option scheme of the Company entitling him to receive 300,000 Shares upon exercise of the share options. As of June 30, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this report.

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

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

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

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

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

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

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

Long and short positions in the shares

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

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

(L) Long position (S) short position

Notes:

1. Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited.

2. Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in all of the shares which are interested by Mr. Wang Feng under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report.

3. Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P. Fosun China Momentum Fund GP, Ltd. is in turn wholly owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). As of June 30, 2018, Fosun International Limited is 71.70% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of June 30, 2018, Mr. Guo Guangchang owns 64.45% equity interest in Fosun International Holdings Limited.

4. The Core Trust Company Limited, being the RSU trustee, directly holds the entire issued share capital of TCT (BVI) Limited, which in turn directly holds the entire issued share capital of Premier Selection Limited (the RSU nominee), which originally held 42,161,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of June 30, 2018, 7,803,955 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 37,555,586 underlying Shares, including a total of 11,720,918 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 475,841 RSUs granted to Mr. Chen Hao. On March 29, 2018, April 3, 2018 and April 4, 2018, the Company had directed The Core Trust Company Limited to purchase and hold on-market 415,000 Shares, 320,000 Shares and 250,000 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.

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

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

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

Share Option Scheme

The Company adopted a share option scheme on November 20, 2014 (the "**Share Option Scheme**"). The purpose of the Share Option Scheme is to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full-time or part-time) or a director of a member of the Group or associated companies of the Company or any person who provides or has provided consultancy or other advisory services to the Group. Key terms of the Share Option Scheme are summarized in Appendix IV "Share Option Scheme" of the Prospectus.

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

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

Notes:

(1) The vesting period of the share options is starting from the date of acceptance of the grant to the commencement of the exercise period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Share Incentive Scheme

The Company approved and adopted the RSU Scheme on March 21, 2014 and as amended on August 22, 2014. The RSU Scheme is not subject to the provisions of Chapter 23 of the GEM Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

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

Events during the Reporting Period and Subsequent Events

Share Purchase by RSU Trustee

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

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

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

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

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

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

Resignation and Retirement of Directors

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

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

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

Use of IPO Proceeds

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

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

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

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

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

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

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

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

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

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

Interests in Competing Business

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

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

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

Purchase, Sale or Redemption of Listed Securities of the Company

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

Audit Committee

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

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

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

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

Corporate Governance

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

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

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

Directors' Securities Transactions

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

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

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 45 to 120, 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, 2018 and the interim condensed consolidated statement of comprehensive income/(loss) for the three-month and six-month periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of 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 GEM 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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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 of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 10, 2018

Interim Condensed Consolidated Balance Sheet

	Note	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**4,690**	6,850
Intangible assets	*7*	**32,438**	34,310
Films rights and films in progress	*8*	**21,463**	48,372
Investments using equity accounting	*9*	**48,524**	52,268
An associate measured at fair value through profit or loss	*10*	**45,530**	44,330
Available-for-sale financial assets		**–**	94,973
Financial assets at fair value through profit or loss	*11*	**111,721**	16,602
Deferred income tax assets — net	*12*	**1,517**	2,975
Other receivables	*14*	**3,964**	6,539
Other non-current assets	*15*	**165**	118
		270,012	307,337
Current assets			
Trade receivables	*13*	**60,765**	52,340
Other receivables	*14*	**40,635**	29,739
Other current assets	*15*	**64,041**	77,455
Available-for-sale financial assets		**–**	12,446
Financial assets at fair value through profit or loss	*11*	**23,551**	17,447
Restricted deposits	*16*	**215,338**	188,236
Cash and cash equivalents	*16*	**312,806**	349,563
		717,136	727,226
Total assets		**987,148**	1,034,563

Interim Condensed Consolidated Balance Sheet (Continued)

	Note	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	17	59	59
Share premium	17	1,720,690	1,720,690
Shares held for RSU Scheme	17	(4,316)	(3,578)
Reserves	18	374,186	390,603
Accumulated losses		(1,485,884)	(1,435,377)
		604,735	672,397
Non-controlling interests		9,367	3,760
Total equity		614,102	676,157
Liabilities			
Non-current liabilities			
Contract liabilities	22	2,121	4,256
		2,121	4,256
Current liabilities			
Bank borrowings	20	199,100	136,719
Trade and other payables	21	107,865	121,007
Current income tax liabilities		7,007	7,893
Contract liabilities	22	56,953	88,531
		370,925	354,150
Total liabilities		373,046	358,406
Total equity and liabilities		987,148	1,034,563

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Comprehensive Income/(Loss)

	Note	Three months ended June 30, 2018 RMB'000 (Unaudited)	Three months ended June 30, 2017 RMB'000 (Unaudited)	Six months ended June 30, 2018 RMB'000 (Unaudited)	Six months ended June 30, 2017 RMB'000 (Unaudited)
Revenue	5	173,586	124,149	291,112	292,129
Cost of revenue	23	(102,948)	(67,903)	(178,670)	(167,730)
Gross profit		70,638	56,246	112,442	124,399
Selling and marketing expenses	23	(32,476)	(47,756)	(74,109)	(92,517)
Administrative expenses	23	(22,663)	(19,168)	(43,156)	(41,119)
Research and development expenses	23	(19,001)	(32,606)	(49,676)	(65,459)
Net impairment losses on financial assets		-	(1,477)	(511)	(1,617)
Other (losses)/gains — net	24	(4,337)	5,421	(3,983)	31,651
Operating loss		(7,839)	(39,340)	(58,993)	(44,662)
Finance income/(costs) — net	25	84	1,363	(1,076)	1,448
Share of loss of investments using equity accounting	9	(2,353)	(17,542)	(4,488)	(21,950)
Loss before income tax		(10,108)	(55,519)	(64,557)	(65,164)
Income tax (expense)/credit	26	(4,099)	17,758	(4,225)	14,799
Loss for the period		(14,207)	(37,761)	(68,782)	(50,365)
Other comprehensive income/(loss)					
Items that may be subsequently reclassified to profit or loss:					
— Changes in fair value of available-for-sale financial assets, net of tax		-	6,475	-	22,060
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	(375)	-	(17,913)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		3,116	(1,880)	744	(2,407)
Items that will not be reclassified to profit or loss:					
— Currency translation differences		23,110	(13,118)	4,588	(16,651)
Other comprehensive income/(loss) for the period, net of tax		26,226	(8,898)	5,332	(14,911)

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

	Note	Three months ended June 30,		Six months ended June 30,	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Total comprehensive income/(loss) for the period		12,019	(46,659)	(63,450)	(65,276)
Loss attributable to:					
Owners of the Company		(18,957)	(37,483)	(72,907)	(51,407)
Non-controlling interests		4,750	(278)	4,125	1,042
Loss for the period		(14,207)	(37,761)	(68,782)	(50,365)
Total comprehensive income/(loss) attributable to:					
Owners of the Company		7,269	(46,400)	(67,529)	(66,309)
Non-controlling interests		4,750	(259)	4,079	1,033
Total comprehensive income/(loss) for the period		12,019	(46,659)	(63,450)	(65,276)
Loss per share (expressed in RMB per share)					
— Basic	27(a)	(0.05)	(0.11)	(0.21)	(0.15)
— Diluted	27(b)	(0.05)	(0.11)	(0.21)	(0.15)

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

Interim Condensed Consolidated Statement of Changes in Equity

(Unaudited)	Note	Attributable to owners of the Company							
		Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as of December 31, 2017		59	1,720,690	(3,578)	390,603	(1,435,377)	672,397	3,760	676,157
Adjustment on adoption of IFRS 9, net of tax	3.1(a)	-	-	-	(22,400)	22,400	-	-	-
Balance as of January 1, 2018		59	1,720,690	(3,578)	368,203	(1,412,977)	672,397	3,760	676,157
Comprehensive (loss)/income									
Loss for the period		-	-	-	-	(72,907)	(72,907)	4,125	(68,782)
Other comprehensive income/(loss)									
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	744	-	744	-	744
— Currency translation differences		-	-	-	4,634	-	4,634	(46)	4,588
Total comprehensive income/(loss) for the period		-	-	-	5,378	(72,907)	(67,529)	4,079	(63,450)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Increase in ownership interest in subsidiaries without change of control		-	-	-	(1,528)	-	(1,528)	1,528	-
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		-	-	(738)	-	-	(738)	-	(738)
— Value of employee services	19	-	-	-	2,133	-	2,133	-	2,133
Total contributions by and distributions to owners of the Company for the period		-	-	(738)	605	-	(133)	1,528	1,395
Balance as of June 30, 2018		59	1,720,690	(4,316)	374,186	(1,485,884)	604,735	9,367	614,102

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

(Unaudited)	Note	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company							
Balance as of January 1, 2017		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290
Comprehensive (loss)/income									
Loss for the period		–	–	–	–	(51,407)	(51,407)	1,042	(50,365)
Other comprehensive income/(loss)									
— Changes in fair value of available-for-sale financial assets, net of tax		–	–	–	22,060	–	22,060	–	22,060
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		–	–	–	(17,913)	–	(17,913)	–	(17,913)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	(2,407)	–	(2,407)	–	(2,407)
— Currency translation differences		–	–	–	(16,642)	–	(16,642)	(9)	(16,651)
Total comprehensive (loss)/income for the period		–	–	–	(14,902)	(51,407)	(66,309)	1,033	(65,276)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Decrease in ownership interest in subsidiaries without change of control		–	–	–	(1,438)	–	(1,438)	1,438	–
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		–	–	(2,035)	–	–	(2,035)	–	(2,035)
— Value of employee services	19	–	–	–	8,206	–	8,206	–	8,206
Total contributions by and distributions to owners of the Company for the period		–	–	(2,035)	6,768	–	4,733	1,438	6,171
Balance as of June 30, 2017		59	1,720,691	(2,037)	418,346	(1,186,436)	950,623	562	951,185

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

Interim Condensed Consolidated Statements of Cash Flows

	Note	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash used in operations		**(53,241)**	(69,093)
Income tax paid		**(3,653)**	(1,284)
Net cash used in operating activities		**(56,894)**	(70,377)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(578)**	(1,575)
Purchase of intangible assets		**(2,962)**	(15,125)
Purchase of available-for-sale financial assets		**–**	(200,000)
Proceeds from disposal of available-for-sale financial assets		**–**	234,576
Capital injection in an associate measured at fair value through profit or loss		**–**	(15,000)
Purchase of financial assets at fair value through profit or loss	*11(c)*	**(80,000)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	*11(c)*	**81,116**	–
Loan granted to a related party		**–**	(1,200)
Payments for films in progress		**(4,715)**	(20,934)
Advances to film producers		**(10,000)**	–
Loan repayments received from third parties		**2,076**	–
Increase in restricted deposits		**(24,215)**	–
Decrease in short term bank deposits		**–**	133,191
Net cash (used in)/generated from investing activities		**(39,278)**	113,933

Interim Condensed Consolidated Statements of Cash Flows (Continued)

	Note	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cash flows from financing activities			
Proceeds from bank borrowings	*20*	62,681	–
Repayments of bank borrowings	*20*	(300)	(300)
Interests paid		(2,920)	(1,340)
Repurchase of shares for RSU Scheme	*17*	(738)	(2,035)
Net cash generated from/(used in) financing activities		58,723	(3,675)
Net (decrease)/increase in cash and cash equivalents		(37,449)	39,881
Cash and cash equivalents at beginning of period		349,563	338,655
Exchange gain/(loss) on cash and cash equivalents		692	(5,578)
Cash and cash equivalents at end of the period		312,806	372,958

The above interim condensed consolidated statements of cash flows should be read in conjunction with the accompanying notes.

Notes to Interim Condensed Consolidated Financial Information

1. General information

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

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in developing and publishing online games (the "Group's Game Business") in the People's Republic of China (the "PRC") and other countries and regions.

The interim condensed consolidated balance sheet of the Group as of June 30, 2018 and the related interim condensed consolidated statements of comprehensive income/(loss) for the six-month period and the three-month period then ended, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the "Interim Financial Information") have been approved by the Board of Directors on August 10, 2018.

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

The Interim Financial Information has not been audited.

2. Basis of preparation

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

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

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2017, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

The following new and amended standards, and annual improvement are mandatory for the first time for the Group's financial year beginning on January 1, 2018 and are applicable for the Group:

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

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

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

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

3.1 Summary of significant accounting policies

(a) IFRS 9 "Financial Instruments"

(I) Impact on the financial statements

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

Note:

(i) Classification and measurement

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

Note: (Continued)

(i) Classification and measurement (Continued)

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

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

Note:

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

Note: (Continued)

(ii) Impairment of financial assets

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

- trade receivables, and
- other receivables.

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

Investments and other financial assets

Classification

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

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

- those to be measured at amortised cost.

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

Measurement

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

(i) Debt instruments

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

(i) Debt instruments (Continued)

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

(ii) Equity instruments

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

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

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

3.1 Summary of significant accounting policies (Continued)

(a) IFRS 9 "Financial Instruments" (Continued)

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

Impairment

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

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition

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

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

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition (Continued)

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

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition (Continued)

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

Principal agent consideration

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition (Continued)

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

Recognition of revenue generated from sales of in game virtual items

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition (Continued)

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

Recognition of revenue generated from sales of in game virtual items (Continued)

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

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition (Continued)

(II) Revenue generated from licensing and technical support fees

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

(III) Revenue generated from the licensing of film rights

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

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

3.1 Summary of significant accounting policies (Continued)

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

Revenue Recognition (Continued)

(IV) Revenue generated from the production of film rights

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

Contract assets and contract liabilities

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

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

3.1 Summary of significant accounting policies (Continued)

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

Contract assets and contract liabilities (Continued)

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

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

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

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

IFRS 16 "Leases"

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

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

3.1 Summary of significant accounting policies (Continued)

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

The accounting for lessors will not significantly change.

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

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

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

3.2 Critical accounting estimates and judgments

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

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

4. 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 overseas cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency.

(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.

4. Financial risk management

4.1 Financial risk factors

(b) Credit risk (Continued)

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 2017 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2018.

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
(Unaudited)				
At June 30, 2018				
Assets				
An associate measured at fair value through profit or loss	–	–	45,530	45,530
Financial assets at fair value through profit or loss				
— Listed securities	10,707	–	–	10,707
— Unlisted securities	–	–	124,565	124,565
	10,707	–	170,095	180,802
(Audited)				
At December 31, 2017				
Assets				
An associate measured at fair value through profit or loss	–	–	44,330	44,330
Financial assets at fair value through profit or loss				
— Listed securities	17,447	–	–	17,447
— Unlisted securities	–	–	16,602	16,602
Available-for-sale financial assets	–	–	107,419	107,419
	17,447	–	168,351	185,798

The Group did not have any financial liabilities that were measured at fair value as of June 30, 2018 and December 31, 2017.

There were no transfers among level 1, 2 and 3 during the six months ended June 30, 2018.

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.

There were no changes in valuation techniques used during the six months ended June 30, 2018.

4. Financial risk management (Continued)

4.2 Fair value estimation (Continued)

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, 2018 were as follows:

Discount rate: 21% ~ 33%
Terminal growth rate: 3%
Discount for lack of marketability: 7% ~ 20%
Volatility: 34% ~ 44%

The following table presents the changes in level 3 financial assets for the six months ended June 30, 2018 and 2017, respectively.

	An associate at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Opening balance as of January 1, 2018 (Audited)	44,330	16,602	107,419	168,351
Reclassify investments from available-for-sale to FVPL	–	107,419	(107,419)	–
Additions	–	80,000	–	80,000
Disposals	–	(80,613)	–	(80,613)
Gains recognised in other (losses)/gains — net	1,200	1,123	–	2,323
Exchange adjustment	–	34	–	34
Closing balance as of June 30, 2018 (Unaudited)	45,530	124,565	–	170,095

4. Financial risk management (Continued)

4.2 Fair value estimation (Continued)

	An associate at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Opening balance as of January 1, 2017 (Audited)	19,229	15,637	115,125	149,991
Additions	15,000	495	200,000	215,495
Disposals	–	–	(213,092)	(213,092)
Gains recognised in other (losses)/gains — net	12,822	–	–	12,822
Gains recognised in other comprehensive income	–	–	5,530	5,530
Impairment charges	–	–	(1,773)	(1,773)
Exchange adjustment	–	(65)	–	(65)
Closing balance as of June 30, 2017 (Unaudited)	47,051	16,067	105,790	168,908

5. Revenue and segment information

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

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

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

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

5. Revenue and segment information (Continued)

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

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

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

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

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

6. 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
At January 1, 2018					
Cost	13,080	24,406	3,698	11,718	52,902
Accumulated depreciation	(10,748)	(21,875)	(2,265)	(11,164)	(46,052)
Net book amount	2,332	2,531	1,433	554	6,850
Six months ended June 30, 2018					
Opening net book amount	2,332	2,531	1,433	554	6,850
Additions	269	76	–	–	345
Depreciation	(952)	(620)	(340)	(492)	(2,404)
Disposals	(101)	–	–	–	(101)
Closing net book amount	1,548	1,987	1,093	62	4,690
At June 30, 2018					
Cost	13,118	24,482	3,698	11,718	53,016
Accumulated depreciation	(11,570)	(22,495)	(2,605)	(11,656)	(48,326)
Net book amount	1,548	1,987	1,093	62	4,690
At January 1, 2017					
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
Six months ended June 30, 2017					
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
At June 30, 2017					
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

7. Intangible assets

(Unaudited)	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
At January 1, 2018			
Cost	84,584	4,853	89,437
Accumulated impairment	(9,550)	–	(9,550)
Accumulated amortisation	(41,684)	(3,893)	(45,577)
Net book amount	33,350	960	34,310
Six months ended June 30, 2018			
Opening net book amount	33,350	960	34,310
Additions	8,233	331	8,564
Amortisation	(7,060)	(389)	(7,449)
Disposals	(2,987)	–	(2,987)
Closing net book amount	31,536	902	32,438
At June 30, 2018			
Cost	70,948	5,184	76,132
Accumulated amortisation	(39,412)	(4,282)	(43,694)
Net book amount	31,536	902	32,438
At January 1, 2017			
Cost	71,714	4,119	75,833
Accumulated impairment	(5,807)	–	(5,807)
Accumulated amortisation	(27,675)	(2,945)	(30,620)
Net book amount	38,232	1,174	39,406
Six months ended June 30, 2017			
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	33,219	1,034	34,253
At June 30, 2017			
Cost	71,259	4,221	75,480
Accumulated impairment	(4,929)	–	(4,929)
Accumulated amortisation	(33,111)	(3,187)	(36,298)
Net book amount	33,219	1,034	34,253

8. Film rights and films in progress

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Film rights and films in progress — Under production/production yet to commence	**21,463**	48,372

	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Beginning of the period	**48,372**	24,418
Additions	**4,652**	21,503
Recognised in cost of revenue	**(31,561)**	(17,217)
End of the period	**21,463**	28,704

9. Investments using equity accounting

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

9. Investments using equity accounting (Continued)

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

Notes:

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

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

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

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

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

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Unlisted fund	45,530	44,330

Name	Principal activities/ country of incorporation	% Interest held as of June 30, 2018	% Interest held as of December 31, 2017	Nature of the relationship
Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "Jikebang Fund")	Investment holding as a private equity fund/PRC	31.19%	31.19%	*Note*

Note:

On January 4, 2016 and May 8, 2017, Linekong Online (Beijing) Technology Co., Ltd. ("Linekong Online") 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 (losses)/gains — net" in the income statement (Note 24).

11. Financial assets at fair value through profit or loss

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Included in current assets		
Listed securities — Hong Kong *(Note (a))*	10,707	17,447
Unlisted securities *(Note (b))*	12,844	–
	23,551	17,447
Included in non-current assets		
Unlisted securities *(Note (b))*	111,721	16,602

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 not held for trading, and had not been elected to present fair value gains and losses in OCI.

The significant increase of the balance was mainly caused by the reclassification of investment from available-for-sale to FVPL as described in Note 3.

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) Except for additions of the equity investment as mentioned in above (b), the Group purchased certain wealth management products issued by commercial banks in the PRC at an aggregate cash consideration of RMB80,000,000. These wealth management products are with a variable return and redeemable on demand or with a term less than three months. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on the statements provided by the banks. As of June 30, 2018, all these investments have been disposed. The related gains have been recorded in "other (losses)/gains — net" in the income statement.

12. Deferred income tax — net

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

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Deferred income tax assets:		
— To be recovered within 12 months	2,208	3,487
— To be recovered after 12 months	15,510	15,266
	17,718	18,753
Deferred income tax liabilities:		
— To be settled within 12 months	(711)	(577)
— To be settled after 12 months	(15,490)	(15,201)
	(16,201)	(15,778)
	1,517	2,975

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

	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Beginning of the period	2,975	1,431
Recognised in profit or loss	(1,458)	2,470
Charged to other comprehensive income	–	(1,383)
End of the period	1,517	2,518

12. 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
Six months ended June 30, 2018					
Beginning of the period	341	27	15,701	2,684	18,753
Credited/(Charged) to profit or loss	1,155	56	500	(2,746)	(1,035)
End of the period	1,496	83	16,201	(62)	17,718
Six months ended June 30, 2017					
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

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 RMB389,197,000 as of June 30, 2018 (2017: RMB294,810,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2018 to 2023.

12. 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
Six months ended June 30, 2018				
Beginning of the period	(76)	(12,119)	(3,583)	(15,778)
Credited/(Charged) to profit or loss	76	(199)	(300)	(423)
End of the period	–	(12,318)	(3,883)	(16,201)
Six months ended June 30, 2017				
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)

13. Trade receivables

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

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

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

13. Trade receivables (Continued)

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

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

14. Other receivables

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Current		
Staff advance *(Note (a))*	1,596	1,576
Amount due from related parties *(Note 29)*	–	2,042
Loans to employees *(Note (b))*	2,030	4,794
— Loans to key management *(Note 29)*	200	2,462
— Loans to other employees	1,830	2,332
Rental and other deposits	1,440	425
Loans to a third party	2,024	-
Interests receivable	5,712	3,238
Advances to films producers *(Note (c))*	26,100	16,100
Others	2,686	2,064
	41,588	30,239
Less: provision for impairment of other receivables	(953)	(500)
	40,635	29,739
Non-current		
Loans to employees *(Note (b))*	305	1,325
— Loans to other employees	305	1,325
Rental and other deposits	2,325	3,578
Others	1,334	1,636
	3,964	6,539

14. 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 to film producers are due from film producers for the Group's investment in film projects. The advances for films are repayable with next 12 months and with a fixed return of 15% ~ 20% (2017: 15% ~ 20%).

15. Other assets

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Current		
Prepaid service charges to game distribution channels	16,464	22,100
Prepayment to game developers	23,125	27,757
Prepaid rental, advertising cost and others	11,128	11,432
Deductible value-added tax ("VAT") input	13,324	16,166
	64,041	77,455
Non-current		
Prepaid service charges to game distribution channels	165	118

16. Cash and cash equivalents and restricted deposits

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Cash and cash equivalents		
— Cash at bank and in hand	305,744	342,304
— Cash at other financial institutions	7,062	7,259
	312,806	349,563
Restricted deposits		
— Matured within 12 months	215,338	188,236
	215,338	188,236

Note:

As of June 30, 2018, HKD118,700,000, equivalent to approximately RMB100,075,000, (December 31, 2017: HKD118,700,000, equivalent to approximately RMB99,371,000) are restricted deposits held at bank as reserve for serving of a loan facility with a credit line of RMB100,000,000 provided by the bank, and which will expire within one year.

As of June 30, 2018, USD17,420,000, equivalent to approximately RMB115,263,000, (December 31, 2017: USD13,600,000, equivalent to approximately RMB88,865,000), 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 within one year.

17. 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:					
As of January 1, 2018	**368,228**	**10**	**59**	**1,720,690**	**(3,578)**
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	**–**	**–**	**–**	**–**	**(738)**
As of June 30, 2018	**368,228**	**10**	**59**	**1,720,690**	**(4,316)**
Issued:					
As of January 1, 2017	368,228	10	59	1,720,691	(2)
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	–	–	–	–	(2,035)
As of June 30, 2017	368,228	10	59	1,720,691	(2,037)

18. Reserves

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance as of December 31, 2017	**(14,119)**	**78,176**	**15,807**	**286,797**	**23,942**	**390,603**
Adjustment on adoption of IFRS 9, net of tax *(Note 3.1(a))*	–	–	–	–	(22,400)	(22,400)
Balance as of January 1, 2018	**(14,119)**	**78,176**	**15,807**	**286,797**	**1,542**	**368,203**
Share of other comprehensive income of investments using equity method, net of tax *(Note 9)*	–	–	–	–	744	744
Increase in ownership interest in subsidiaries without change of control	(1,528)	–	–	–	–	(1,528)
Employee share option and RSU scheme: — Value of employee services *(Note 19)*	–	–	–	2,133	–	2,133
Currency translation differences	–	4,634	–	–	–	4,634
Balance as of June 30, 2018	**(15,647)**	**82,810**	**15,807**	**288,930**	**2,286**	**374,186**
Balance as of January 1, 2017	**(7,831)**	**118,899**	**9,557**	**273,990**	**31,865**	**426,480**
Changes in fair value of available-for-sale financial assets, net of tax	–	–	–	–	22,060	22,060
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax *(Note 24)*	–	–	–	–	(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 19)*	–	–	–	8,206	–	8,206
Currency translation differences	–	(16,642)	–	–	–	(16,642)
Balance as of June 30, 2017	(9,269)	102,257	9,557	282,196	33,605	418,346

19. 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.

19. 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.

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.

19. Share-based payments (Continued)

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

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

Movements in the number of RSUs outstanding:

	Number of RSUs Six months ended June 30, 2018 (Unaudited)	2017 (Unaudited)
Beginning of the period	**2,970,210**	5,348,162
Granted	**–**	1,805,385
Lapsed	**(1,225,270)**	(633,456)
Vested	**(1,409,940)**	(2,166,680)
End of the period	**335,000**	4,353,411

As of June 30, 2018 and December 31, 2017, 29,562,544 and 28,152,604 RSUs have been vested unconditionally, respectively.

(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.

19. Share-based payments (Continued)

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

(ii) Shares held for RSU Scheme (Continued)

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 1,409,940 RSUs during the six months ended June 30, 2018, approximately RMB217 was transferred out from treasury shares upon vesting of these RSUs.

(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:

	March 21, 2014
Discount rate used to determine the underlying share value of the Company	20.00%
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 approximately RMB17,595,600 in total), HKD7.18 each (equivalent to approximately RMB118,000 in total), and HKD3.10 each (equivalent to approximately RMB4,945,015 in total) respectively.

19. 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.

19. 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.

19. 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,			
	2018		2017	
	Average Exercise Price (Unaudited)	Number of share options (Unaudited)	Average Exercise Price (Unaudited)	Number of share options (Unaudited)
Beginning of the period	HKD4.58	13,440,423	HKD6.63	6,654,798
Granted		–	HKD3.10	9,225,000
Lapsed	HKD3.85	(4,133,125)	HKD4.80	(1,132,500)
End of the period	HKD4.91	9,307,298	HKD4.56	14,747,298

Out of the 9,307,298 outstanding options (December 31, 2017: 13,440,423), 5,601,048 options (December 31, 2017: 3,155,423) were exercisable. Share options outstanding as of June 30, 2018 include 462,298 (December 31, 2017: 462,298) share options, 3,128,750 (December 31, 2017: 3,865,625) share options, 1,350,000 (December 31, 2017: 1,412,500) share options and 4,366,250 (December 31, 2017: 7,700,000) 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.

19. 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 (equivalent to approximately RMB6,706,000), HKD20,442,000 (equivalent to approximately RMB16,748,000), HKD4,028,000 (equivalent to approximately RMB3,425,000) and HKD14,823,000 (equivalent to approximately 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.

19. 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, 2018 and December 31, 2017, 8,000,000 RSUs have been vested unconditionally, respectively, which represents 2% interest of Creative Ace Limited.

19. Share-based payments (Continued)

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

On July 1, 2016, the Group entered into a share-based payment agreement with three senior executives of a subsidiary, Horgos Linekong Pictures Corporation ("Horgos Pictures"), pursuant to which the Group agreed to transfer 19% shares of Horgos Pictures 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.

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, 2018 and December 31, 2017, 1,750,000 shares have been vested unconditionally, respectively, which represents 19% interest of Horgos Pictures.

(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 income/(loss). As of June 30, 2018, the Expected Retention Rate of employees was assessed to be 70% (December 31, 2017: 70%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2017: 100%).

20. Bank borrowings

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Bank borrowings		
— Secured loans	**199,100**	136,719
Included in:		
Current liabilities	**199,100**	136,719

(a) Bank borrowings are secured by the restricted deposits of RMB215,338,000 (2017: RMB188,236,000) (Note 16).

(b) The fair value of the borrowings approximately equals their carrying amount, as the impact of discounting is not significant.

(c) Effective interest rates per annum on borrowings is 2.55% — 4.79% (2017: 2.55% — 4.42%).

(d) Borrowings are repayable as follows:

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Within 1 year	**199,100**	136,719

(e) As of June 30, 2018 and December 31, 2017, the Group's borrowings are denominated in RMB.

21. Trade and other payables

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

Note:

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

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

22. Contract liabilities

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Current:		
— Sales of in-game virtual items *(Note (i))*	**50,053**	62,863
— License fee and technical support fee	**6,302**	25,507
— Others	**598**	161
	56,953	88,531
Non-current:		
— Sales of in-game virtual items *(Note (i))*	**1,028**	742
— License fee and technical support fee	**1,093**	1985
— Others	**–**	1,529
	2,121	4,256

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, 2018 and December 31, 2017. 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 RMB5,588,000 as of June 30, 2018 (December 31, 2017: RMB6,011,000).

23. 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,	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Service charges by game distribution channels	**29,227**	40,029	**71,168**	94,139
Content fee to game developers	**7,620**	11,058	**22,128**	23,125
Bandwidth and server custody fees	**4,273**	4,692	**8,914**	8,725
Film rights recognised as cost of revenue	**31,561**	–	**31,561**	17,217
Film Production Cost	**15,688**	–	**15,688**	–
Payment handling costs	**40**	75	**153**	164
Employee benefit expenses (excluding share-based compensation expenses)	**46,093**	46,744	**101,179**	92,629
Share-based compensation expenses	**305**	1,255	**2,133**	8,206
Depreciation of property, plant and equipment *(Note 6)*	**1,093**	3,560	**2,404**	5,842
Amortisation and impairment of intangible assets *(Note 7)*	**3,846**	2,854	**7,449**	7,555
Promotion and advertising expenses	**25,234**	41,989	**58,005**	79,826
Traveling and entertainment expenses	**1,342**	1,194	**3,007**	2,416
Office rental expenses	**3,782**	3,563	**7,887**	7,835
Other professional service fees	**2,890**	2,890	**5,705**	5,549
Game development outsourcing costs	**1,031**	4,170	**2,992**	6,617
Utilities and office expenses	**1,095**	951	**2,068**	1,998
Auditors' remuneration				
— Audit services	**1,280**	1,280	**1,280**	1,980
— Non-audit services	**–**	–	**30**	–
Others	**688**	1,129	**1,860**	3,002
Total	**177,088**	167,433	**345,611**	366,825

24. Other (losses)/gains — net

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

Note:

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

25. Finance income/(costs) — net

	Three months ended June 30, 2018 RMB'000 (Unaudited)	Three months ended June 30, 2017 RMB'000 (Unaudited)	Six months ended June 30, 2018 RMB'000 (Unaudited)	Six months ended June 30, 2017 RMB'000 (Unaudited)
Finance income				
Interest income on bank deposits	485	1,801	1,673	3,107
Interest income on loans to third parties	735	394	1,447	630
Finance costs				
Interest cost on bank borrowings	(1,704)	(667)	(2,994)	(1,332)
Foreign exchange gains/(losses), net	568	(165)	(1,202)	(957)
Finance income/(costs) — net	84	1,363	(1,076)	1,448

26. Income tax expense/(credit)

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

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

26. Income tax expense/(credit) (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, 2018 and 2017 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

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

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

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

26. Income tax expense/(credit) (Continued)

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

Note:

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

(d) PRC withholding Tax ("WHT")

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

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

27. Loss per share

(a) *Basic*

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Loss attributable to owners of the Company	**(18,957)**	(37,483)	**(72,907)**	(51,407)
Weighted average number of ordinary shares in issue (thousand shares)	**352,502**	354,123	**352,979**	353,100
Basic loss per share (expressed in RMB per share)	**(0.05)**	(0.11)	**(0.21)**	(0.15)

(b) *Diluted*

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

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

28. Dividends

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

29. 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, 2018 and 2017. 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

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Services received from		
— Huaying	**2,624**	–
Rendering of services to		
— Hainan Tianchen Network Technology Co., Ltd. ("Hainan Tianchen")	**2,566**	–
Sale of property, plant and equipment to		
— Hainan Tianchen	**101**	–
Loan granted		
— Fuze	**–**	12,000
— Chen Hao	**200**	–
	5,491	12,000

29. Significant related party transactions (Continued)

(b) *Balances with related parties*

(I) Amount due from related parties

The amount due from the related parties as of June 30, 2018 and December 31, 2017 was unsecured.

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Zhao Jun	–	2,462
Hainan Tianchen	2,821	–
Fuze	–	1,200
Huaying	–	842
Chen Hao	200	–
	3,021	4,504

(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,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Wages, salaries and bonuses	2,590	4,180	5,655	7,425
Pension costs-defined contribution plans	88	155	216	307
Other social security costs, housing benefits and other employee benefits	104	173	241	340
Share-based compensation expenses	(802)	3,671	157	7,826
	1,980	8,179	6,269	15,898

30. Commitments

Capital commitments

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

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Purchase of film rights and production of films	**24,732**	49,964
Capital investment in investees	**16,398**	16,400
	41,130	66,364

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

31. Subsequent events

On July 19, 2018, Linekong Online entered into two equity transfer agreements (the "transactions") with Gongqingcheng Guangnian Investment Management Partnership (Limited Partnership) ("Guangnian Investment") and Gongqingcheng Minghe Investment Management Partnership (Limited Partnership) ("Minghe Investment"), respectively. Guangnian Investment is owned as to 99% by Mr. Wang Feng, an executive Director. Minghe Investment is owned as to 99% by Ms. Liao Mingxiang, an executive Director.

Pursuant to the equity transfer agreements, Guangnian Investment agreed to transfer and Linekong Online agreed to accept 13.39% equity interest held in Hainan Tianchen at no consideration, and Minghe Investment agreed to transfer and Linekong Online agreed to accept 1.61% equity interest held in Hainan Tianchen at no consideration. Hainan Tianchen was a company established in the PRC with limited liability on January 30, 2018 and principally engaged in the online blockchain media platform business in the PRC.

Upon the completion of the transactions, investment in Hainan Tianchen will be treated as financial asset at fair value through profit or loss, and reserves of the Group will be increased correspondingly.