



Inke Limited

映客互娱有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code : 3700 HK

2020

INTERIM REPORT



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Corporate Information



BOARD OF DIRECTORS

Executive Directors

Mr. FENG Yousheng (*Chairman and Chief Executive Officer*)
Mr. HOU Guangling

Non-Executive Director

Mr. LIU Xiaosong

Independent Non-Executive Directors

Mr. David CUI
Mr. DU Yongbo
Dr. LI Hui

AUDIT COMMITTEE

Mr. David CUI (*Chairman*)
Mr. LIU Xiaosong
Dr. LI Hui

NOMINATION COMMITTEE

Mr. FENG Yousheng (*Chairman*)
Mr. DU Yongbo
Dr. LI Hui

REMUNERATION COMMITTEE

Mr. DU Yongbo (*Chairman*)
Mr. LIU Xiaosong
Mr. David CUI

JOINT COMPANY SECRETARIES

Ms. SZETO Kar Yee Cynthia
Mr. XIAO Liming

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AUTHORIZED REPRESENTATIVES

Mr. FENG Yousheng
Ms. SZETO Kar Yee Cynthia

AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
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Central
Hong Kong

COMPLIANCE ADVISOR

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STOCK CODE

3700

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Cayman Islands

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PRINCIPAL BANKS

China Merchants Bank, Shouti Branch
China Merchants Bank, Wanda Branch



Management Discussion and Analysis



The board of directors (the “Board”) of Inke Limited (the “Company”) is pleased to present the unaudited condensed consolidated results (the “Interim Results”) of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 (the “Reporting Period”). The Interim Results have been reviewed by PricewaterhouseCoopers, the auditor of the Company, and the audit committee of the Company (the “Audit Committee”).

BUSINESS OVERVIEW AND OUTLOOK

Business Review for the First Half of 2020

In the first half of 2020, the Group maintained the stable growth of Inke APP while accelerating the research and development and commercialization of innovative products. The business model of several products has been proved effective and drove the rapid growth of operating income. The strategy of establishing a product matrix for “interactive social networking” has been implemented steadily. The Group’s revenue for the first half of 2020 recorded a growth of 24% as compared with approximately RMB1,783 million generated in the second half of 2019 and 48% as compared with the corresponding period in 2019. Revenue from Inke App for the Reporting Period was approximately RMB1,387 million, accounting for 62.95% of the revenue for the Reporting Period. Revenue from innovative products for the Reporting Period was approximately RMB807 million, accounting for 36.63% of the revenue for the Reporting Period.

Since the global outbreak of the pandemic, peoples’ daily lives have been changed significantly and online interactive social networking has seen a tremendous boost in demand but has developed into various small segments. Products targeting the lower-tier markets and the demand for vertical interactive social networking of user bases with different characteristics have brought us huge business opportunities and potential for development. In addition, the surge of the demand for online entertainment stimulated the integration of online audio and video technologies with various industries and scenarios, which generated multifarious new functions and applications. The Group has been focusing on and exploring market segments and interactive social needs of users, also insisted on innovation and steadily accelerated the establishment of interactive social networking product matrix by leveraging on its extensive experience in the industry, commercialization capabilities and technologies advantages, so as to promote the sustainable and rapid growth in operating income amid the competition in the rapidly developing and changing market.

Based on the demand for interactive social networking of its users, the Group has put great efforts in innovating the contents and interactive functions of Inke APP, so as to improve users’ experiences constantly. In June 2020, the Group entered into an exclusive strategic cooperation agreement with Asia Television (“ATV”), pursuant to which the Inke APP will become the exclusive online competition platform for Miss Asia Pageant 2020. The Group aimed to gain a strong presence in the Asia-Pacific region and speed up its internationalization process through broadcasting ATV Miss Asia Pageant 2020.

In addition, by leveraging on its extensive experience in products, operation and commercialization, the Group has developed a wide range of innovative interactive social networking products, including video and audio social networking products. The business model of these products has been proved effective by the market in a short period of time, which drove the rapid growth of revenue and became important engines for sustainable revenue growth of the Group.

Jimu (積目) APP and other social networking products have been growing rapidly and built up strong competitiveness in their respective segments. The commercialization of Jimu APP commenced in December 2019. In the first half of 2020, the social algorithms and matching strategies of Jimu APP were optimized to improve the accuracy of the matching of users and retention. The community functions of Jimu APP were also innovated so as to realize the accurate matching between users, users and places as well as users and interests.



Management Discussion and Analysis



Business Outlook

Looking forward, the Group will adhere to the core strategy of interactive social networking. Continuous effort will be made to expand product layout in different market segments and vertical target groups in order to achieve sustainable and rapid growth of operating income. Through refining governance structure and management system and other measures, the Group will enhance its operation efficiency to facilitate its long-term and stable development. The Group will adopt the following strategies to achieve growth:

- **Increasing its investments in existing products:** For the products with proven business models, the Company will continue to increase its investments. The Company will further improve the position of its products in market segments and industries and expand product coverage and penetration, in order to achieve continuous growth in both revenue and user base and provide stable and continuous cash flows and new traffic base to the Group.
- **Continuously expanding the interactive social networking product matrix:** The Group will keep abreast of the interactive social networking needs of different people to diversify its product offering and continue to expand its product matrix. Through the formulation of product matrix, the Group strives to establish an interactive social networking platform with a broader coverage of users and markets. By leveraging on its extensive experience in commercialization, the Group will prove business models of products rapidly to achieve a sustainable and rapid growth of revenues.
- **Continuously identifying investment, merger and acquisition opportunities:** The Group will closely follow new needs of interactive social networking in the vertical markets and target groups, focus on new opportunities in the upstream and downstream of the industrial chain, identify products that can generate synergy for its development and have a sizeable user base or revenue scale, and prudently seek the opportunities for investment and acquisition in line with the strategic plan of the Group.
- **Keeping abreast of new technology development:** Through continuous technology investments and innovation, the Group will establish a new interactive social networking ecosystem. By keeping up with the development trend of new technologies including 5G and AI. The Group will continue to build up its reserves for new technologies to maintain its first-mover advantages in order to provide users with more fluent and immersive product experiences.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The Group's revenue for the six months ended 30 June 2020 amounted to approximately RMB2,202.6 million, representing an increase of 48.3% from approximately RMB1,485.6 million recorded for the corresponding period in 2019. Live streaming revenue increased by 53.5% to approximately RMB2,165.1 million for the six months ended 30 June 2020 from approximately RMB1,410.2 million for the corresponding period in 2019. The increase in revenue was primarily caused by the rapid growth in revenue from innovative products. The Group will stick to its strategic plan of "interactive social networking" and actively expand innovative business to provide new impetus to its development, while steadily developing its existing business.



Management Discussion and Analysis

Cost of sales

The Group's cost of sales increased by 62.9% to approximately RMB1,718.4 million for the six months ended 30 June 2020 from approximately RMB1,054.8 million for the corresponding period in 2019, mainly affected by the increase in the revenue. The Group's cost of sales percentage of revenue increased to 78.0% for the six months ended 30 June 2020 from 71.0% for the corresponding period in 2019, primarily due to an increase in revenue sharing with the Group's streamers.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by 12.4% to approximately RMB484.2 million for the six months ended 30 June 2020 from approximately RMB430.8 million for the corresponding period in 2019, and the Group's gross profit margin decreased to 22.0% for the six months ended 30 June 2020 from 29.0% for the corresponding period in 2019, primarily due to an increase in revenue sharing with the Group's streamers.

Selling and marketing expenses

The Group's selling and marketing expenses decreased by 19.8% to approximately RMB257.0 million for the six months ended 30 June 2020 from approximately RMB320.6 million for the corresponding period in 2019, which was mainly affected by the spread of COVID-19. Due to the pandemic, people are spending more time at home hence the Company reduced the outdoor advertising.

Administrative expenses

The Group's administrative expenses decreased by 28.8% to approximately RMB67.2 million for the six months ended 30 June 2020 from approximately RMB94.4 million for the corresponding period in 2019, which was mainly due to the impairment charges of certain subsidiaries for the six months ended 30 June 2019.

Research and development expenses

The Group's research and development expenses increased by 5.3% to approximately RMB161.1 million for the six months ended 30 June 2020 from approximately RMB153.0 million for the corresponding period in 2019. The increase was in line with the rapid development of cutting-edge technologies such as 5G and AI, the Company increased its research and development investment in technologies and products and developed the next generation of interactive entertainment scenarios in advance to provide enriched interactive entertainment experiences for its users.

Other gains – net

The Group recorded net other gains of approximately RMB22.2 million for the six months ended 30 June 2020, which primarily consisted of income from investment in wealth management products and investment in non-current financial assets at fair value through profit and loss. In the corresponding period in 2019, the Group recorded net other gains of approximately RMB33.5 million. Please refer to sub-section headed “— Liquidity and Capital Resources — Financial assets at fair value through profit or loss” below for details.

Finance income – net

The Group recorded net finance income of approximately RMB4.0 million for the six months ended 30 June 2020, which was mainly due to the decrease of the fixed term deposit. In the corresponding period in 2019, the Group recorded net finance income of approximately RMB22.9 million.



Management Discussion and Analysis

Share of profit of investments accounted for using the equity method

The Group's share of profit of investments accounted for using the equity method increased to approximately RMB22.4 million for the six months ended 30 June 2020 primarily due to the profit from the investments in an associate and a joint venture. The Group recorded profits of approximately RMB14.4 million for the corresponding period in 2019.

Income tax expense/(credit)

The Group's recorded income tax expense of approximately RMB5.4 million for the six months ended 30 June 2020 and income tax credit of approximately RMB1.6 million for the corresponding period in 2019, primarily due to increases of the profit before income tax for the six months ended 30 June 2020.

Profit/(loss) for the period

As a result of the foregoing, the Group's profit for the period was approximately RMB73.2 million for the six months ended 30 June 2020. In comparison, the Group recorded an approximately RMB27.5 million loss for the corresponding period in 2019.

Non-IFRS Measure – Adjusted net profit/(loss)

To supplement the Group's condensed consolidated interim financial information which is presented in accordance with the International Accounting Standard 34 ("IAS"), "Interim financial reporting", the Group also uses adjusted net profit/(loss) as an additional financial measure. The Group's adjusted net profit/(loss) eliminates the effect of non-cash share based compensation expenses. The table below sets forth the reconciliation of adjusted net profit/(loss) for the periods indicated:

	Unaudited For the six months ended 30 June	
	2020	2019
	(RMB in thousands)	
Profit/(loss) for the period	73,231	(27,547)
Add: non-cash share based compensation expenses	9,416	16,630
Adjusted net profit/(loss)	82,647	(10,917)

Liquidity and Capital Resources

For the six months ended 30 June 2020, the Group financed its operations primarily through cash generated from the Group's operating activities. The Group intends to finance its expansion and business operations with internal resources and through organic and sustainable growth.

Cash and cash equivalents and restricted cash

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB780.8 million (31 December 2019: approximately RMB603.9 million), which primarily consisted of cash at bank. Out of the RMB780.8 million, approximately RMB622.3 million is denominated in Renminbi and approximately RMB158.5 million is denominated in other currencies (primarily US dollars). The Group currently does not hedge transactions undertaken in foreign currencies.



Management Discussion and Analysis



As at 30 June 2020, the restricted cash balance was approximately RMB26.4 million (31 December 2019: RMB39.4 million), of which approximately RMB26.3 million was restricted due to the cooperation with local authorities in relation to investigation of certain end consumers of the Group's platform. The Group, based on the external lawyer's legal opinion, believed that the Company is a bona fide third party and it is not probable that an outflow of resources embodying economic benefits will be required to settle any obligations, as such no provisions have been made by the Group as at 30 June 2020.

Financial assets at fair value through profit or loss

As of 30 June 2020, the Group had current and non-current financial assets at fair value through profit or loss of approximately RMB1,742.2 million (31 December 2019: RMB1,791.6 million), mainly comprised (a) investments in wealth management products and structured deposits of approximately RMB1,690.1 million in aggregate (31 December 2019: RMB1,712.1 million), which mainly represented approximately RMB1,448.8 million in short-term non-principal guaranteed wealth products and approximately RMB241.3 million in principal guaranteed structured deposits with a floating interest rate, (b) investments in financial instruments with preferred rights of approximately RMB52.1 million (31 December 2019: RMB79.4 million).

Subscriptions of wealth management products were made for treasury management purposes to maximize the return on the unutilized funds of the Company after taking into account, among others, the level of risk, return on investment, liquidity and the term to maturity. Generally, the Company had in the past selected short-term financial products issued by reputable commercial banks that had relatively low associated risk. Prior to making an investment, the Company had also ensured that there remains sufficient working capital for the Group's business needs, operating activities and capital expenditures even after making the investments in such financial products. The wealth management products were considered to have relatively low risk and are also in line with the internal risk management, cash management and investment policies of the Group. The Company had, in the past, totally recovered the principal and received the expected returns upon the redemption or maturity of similar financial products. In addition, the wealth management products were with flexible redemption terms or a relatively short term of maturity. In accordance with the relevant accounting standards, the wealth management products are accounted for as financial assets at fair value through profit and loss.

In view of an upside of earning a more attractive return than current saving or fixed deposit rate under the low interest rate trend, as well as the low risk nature and the flexible redemption terms or a relatively short term of maturity of the wealth management products, the directors of the Company (the "Directors") are of the view that these financial products pose little risk to the Group and the terms and conditions of each of the subscriptions are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Capital expenditures

For the six months ended 30 June 2020, the Group's capital expenditure amounted to approximately RMB2.6 million (six months ended 30 June 2019: approximately RMB3.5 million), which was mainly used for the acquisition of property, plant, equipment and intangible assets. The Group funded its capital expenditure by using the cash flow generated from its operations.



Management Discussion and Analysis



Contingent liabilities and guarantees

As at 30 June 2020, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against the Group.

Pledge of Assets

As at 30 June 2020, the Group did not have any pledge or charge on assets.

Foreign exchange risk management

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of the Company is USD and the functional currency of subsidiaries operated in the PRC is RMB. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

Employees and Staff Costs

As at 30 June 2020, the Group had a total of 1,383 full-time employees, mainly located in mainland China. In particular, 288 employees are responsible for the Group's business operations, 32 for sales and marketing, 166 for content monitoring, 70 for customer service, 697 for technology, research and development, and 130 for general and administrative functions.



Interim Condensed Consolidated Statements of Comprehensive Income/(Loss)



	Note	Unaudited Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	7	2,202,636	1,485,571
Cost of sales	8	(1,718,395)	(1,054,794)
Gross profit		484,241	430,777
Selling and marketing expenses	8	(256,964)	(320,585)
Administrative expenses	8	(67,249)	(94,400)
Research and development expenses	8	(161,116)	(153,033)
Other gains — net	9	22,165	33,546
Other income	10	31,193	37,210
Operating profit/(loss)		52,270	(66,485)
Finance income — net	11	3,965	22,874
Share of profit of investments accounted for using the equity method	17	22,432	14,420
Profit/(loss) before income tax		78,667	(29,191)
Income tax (expense)/credit	12	(5,436)	1,644
Profit/(loss) for the half-year		73,231	(27,547)
Profit/(loss) attributable to:			
— The owners of the Company		73,265	(26,344)
— Non-controlling interests		(34)	(1,203)
		73,231	(27,547)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		7,102	1,687
Total comprehensive income/(loss) for the half-year, net of tax		80,333	(25,860)



Interim Condensed Consolidated Statements of Comprehensive Income/(Loss)

	Note	Unaudited Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Total comprehensive income/(loss) attributable to:			
– The owners of the Company		80,367	(24,657)
– Non-controlling interests		(34)	(1,203)
		80,333	(25,860)
Earnings/(loss) per share attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic earnings/(loss) per share	13	0.04	(0.01)
– Diluted earnings/(loss) per share	13	0.04	(0.01)

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



Interim Condensed Consolidated Balance Sheets



	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	13,997	19,277
Intangible assets	16	622,185	634,556
Investments accounted for using the equity method	17	264,978	242,546
Financial assets at fair value through profit or loss	18	52,121	430,106
Deferred tax assets		51,748	53,109
Term deposits		397,000	397,000
Right-of-use assets	24	133,100	145,785
Loans, other receivables, prepayments, deposits and other assets	21	25,367	119,061
Total non-current assets		1,560,496	2,041,440
Current assets			
Inventories		856	1,249
Accounts receivables	19	34,917	20,489
Loans, other receivables, prepayments, deposits and other assets	21	277,036	209,108
Financial assets at fair value through profit or loss	18	1,690,144	1,361,447
Cash and cash equivalents		780,821	603,932
Term deposits		—	184,756
Restricted cash	20	26,369	39,418
Total current assets		2,810,143	2,420,399
Total assets		4,370,639	4,461,839
EQUITY			
Equity attributable to the shareholders of the Company			
Share capital		13,262	13,351
Other reserves		3,979,158	4,050,234
Accumulated deficits		(525,146)	(598,411)
		3,467,274	3,465,174
Non-controlling interests		—	(3,450)
Total equity		3,467,274	3,461,724



Interim Condensed Consolidated Balance Sheets

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	24	112,293	127,958
Deferred tax liabilities		26,567	27,676
Other payables and accruals		25,868	36,004
Total non-current liabilities		164,728	191,638
Current liabilities			
Accounts payables	22	484,710	512,052
Other payables and accruals		115,005	138,328
Current income tax liabilities		701	5,998
Contract liabilities		111,228	113,045
Lease liabilities	24	26,829	25,773
Provisions		164	13,059
Other current liabilities		—	222
Total current liabilities		738,637	808,477
Total liabilities		903,365	1,000,115
Total equity and liabilities		4,370,639	4,461,839

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



Interim Condensed Consolidated Statements of Changes in Equity



	Attributable to the owner of the Company					Non-controlling interests	Total
	Notes	Share capital	Other reserves	Accumulated deficits	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019 (Audited)		13,623	4,113,873	(653,343)	3,474,153	(1,299)	3,472,854
Loss and other comprehensive income							
Total loss and other comprehensive income		—	1,687	(26,344)	(24,657)	(1,203)	(25,860)
Transactions with owners in their capacity as owners							
Share-based compensation expense		—	16,630	—	16,630	—	16,630
Shares repurchased		—	(58,570)	—	(58,570)	—	(58,570)
Total transactions with owners in their capacity as owners		—	(41,940)	—	(41,940)	—	(41,940)
Balance at 30 June 2019 (Unaudited)		13,623	4,073,620	(679,687)	3,407,556	(2,502)	3,405,054
Balance at 1 January 2020 (Audited)		13,351	4,050,234	(598,411)	3,465,174	(3,450)	3,461,724
Profit and other comprehensive income							
Total profit and other comprehensive income		—	7,102	73,265	80,367	(34)	80,333
Transactions with owners in their capacity as owners							
Share-based compensation expense	23	—	7,976	—	7,976	—	7,976
Shares repurchased		—	(78,739)	—	(78,739)	—	(78,739)
Shares cancelled		(89)	89	—	—	—	—
Acquisition of non-controlling interests in a subsidiary		—	(7,504)	—	(7,504)	3,484	(4,020)
Total transactions with owners in their capacity as owners		(89)	(78,178)	—	(78,267)	3,484	(74,783)
Balance at 30 June 2020 (Unaudited)		13,262	3,979,158	(525,146)	3,467,274	—	3,467,274

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

Interim Condensed Consolidated Statements of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	1,387	(9,115)
Interest received	6,774	24,817
Income tax paid	(23,128)	(9,633)
Net cash (used in)/generated from operating activities	(14,967)	6,069
Cash flows from investing activities		
Payments for intangible assets	(634)	(713)
Payments for property, plant and equipment	(1,933)	(2,753)
Payments for acquisition of a subsidiary	(10,094)	—
Payments for investments in associates and joint ventures	—	(53,030)
Payments for long-term deposits	—	(247,000)
Payments for short-term deposits	—	(1,253,017)
Payments for investments in non-current financial assets at fair value through profit or loss	(2,977)	(164,971)
Payments for investments in current financial assets at fair value through profit or loss	(1,418,590)	(1,157,910)
Proceeds from disposal of investments in current financial assets at fair value through profit or loss	1,277,867	1,066,300
Proceeds from disposal of long-term deposits	—	200,000
Proceeds from disposal of short-term deposits	184,756	1,710,446
Proceeds from disposal of non-current financial assets at fair value through profit or loss	213,607	14,045
Proceeds from disposal of property, plant and equipment and intangible assets	497	163
Loans to third parties	(16,600)	(25,392)
Proceeds from third parties	—	6,000
Loans to related parties	(23,100)	(27,617)
Proceeds from related parties	86,100	5,000
Net cash out flow due to disposal of a subsidiary, net of consideration received	—	(25,839)
Others	—	31
Net cash generated from investing activities	288,899	43,743



Interim Condensed Consolidated Statements of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Cash flows from financing activities		
Acquisition of treasury shares*	(78,739)	(58,570)
Payment of lease liabilities	(21,261)	(16,323)
Net cash used in financing activities	(100,000)	(74,893)
Net increase/(decrease) in cash and cash equivalents	173,932	(25,081)
Effects of exchange rate changes on cash and cash equivalents	2,957	1,608
Cash and cash equivalents at beginning of period	603,932	849,629
Cash and cash equivalents at end of the period	780,821	826,156

* During the six months ended 30 June 2020, the Company repurchased 40,924,000 shares and the restricted share unit scheme purchased 40,463,000 shares from the market. The total cost is RMB78,739,000.

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



Notes to the Condensed Consolidated Interim Financial Information



1. General information

Inke Limited (the “Company”) was incorporated in the Cayman Islands on 24 November 2017 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 PO Box 309, Ugland House, Grand Cayman, KY1-1104, the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together referred as to the “Group”) are principally engaged in operating live streaming platforms in the People’s Republic of China (the “PRC” or “China”).

The condensed consolidated interim financial information comprises the condensed consolidated balance sheets as at 30 June 2020, the condensed consolidated comprehensive income for the six months ended 30 June 2020, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months ended 30 June 2020, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

2. Basis of preparation of Interim Financial Information

This condensed consolidated Interim Financial Information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard 34 (“IAS”), “Interim financial reporting”. The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, this Interim Financial Information is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by the Company during the interim reporting period.

3. Changes in accounting policies

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements except for: (1) the adoption of amendments to IFRSs which become effective for the current reporting period; and (2) the early adoption of amendment to IFRS 16 on COVID-19-Related Rent Concessions for the current reporting period.

The income taxes for the interim period are accrued using the tax rates would be applicable to the expected total annual assessable profits.



3. Changes in accounting policies (continued)

(a) New and amended standards adopted by the Group

The Group has applied the following amendments to standards which become applicable for the current reporting period:

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 7 and IFRS 9	<i>Interest Rate Benchmark Reform</i>

The Group also elected to adopt the following amendments early:

Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions</i>
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Except for amendment to IFRS 16 on COVID-19-Related Rent Concessions, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Amendment to IFRS 16 on COVID-19-Related Rent Concessions provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

Amendment to IFRS 16 on COVID-19-Related Rent Concessions is mandatory for annual reporting periods beginning on or after 1 June 2020. The Group has elected to early adopt amendment to IFRS 16 on COVID-19-Related Rent Concessions for the current reporting period as permitted by this amendment.

The Group has applied the practical expedient to all rent concessions that meet the above conditions in respect of lease arrangements for which lease liabilities are recognised. During the six months ended 30 June 2020, an amount of RMB212,000 is recognised in profit or loss as variable lease payments to reflect changes in lease liabilities that arise from rent concessions.



4. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense.

The outbreak of COVID-19 has developed rapidly in 2020 and significantly impacted entities and economic activities in varying scales globally. While there have been more immediate and pronounced disruptions in certain industries, its impact on the live streaming industry has been rather modest during the current reporting period. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

In particular, some estimates, however, will continue to be affected by the ongoing COVID-19 outbreak. The severity, magnitude and duration, as well as the economic consequences of the COVID-19 pandemic, are uncertain, rapidly changing and it is currently impossible to predict. As a result, our accounting estimates and assumptions may change over time in response to how market conditions develop. In addition, actual results may differ from these estimates and assumptions.

5. Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated 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 annual report for the year ended 31 December 2019.

There have been no changes in the risk management policies since 31 December 2019.

5.2 Fair value estimate

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.



Notes to the Condensed Consolidated Interim Financial Information

5. Financial risk management (continued)**5.2 Fair value estimate (continued)****(a) Fair value hierarchy (continued)**

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

As at 30 June 2020, the Group's financial assets that are measure at fair value using level 2 inputs represent investments in certain wealth management products ("WMPs") with quoted net worth (i.e. the unit return) provided by the respective financial institutions. Although the quoted net worth (i.e. the unit return) of these WMPs are considered observable, they are included in level 2 as such WMPs are not traded in an active market.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities, wealth management products and structured deposits.

The following table presents the Group's financial assets that are measured at fair value at 30 June 2020 and 31 December 2019.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 30 June 2020 (Unaudited)				
Assets –				
Financial assets at fair value through profit or loss	–	456,706	1,285,559	1,742,265
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019 (Audited)				
Assets –				
Financial assets at fair value through profit or loss	–	–	1,791,553	1,791,553



5. Financial risk management (continued)

5.2 Fair value estimate (continued)

(b) Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 instruments for the half-year ended 30 June 2020:

	Assets	
	Financial assets at fair value through profit or loss — Current RMB'000	Financial assets at fair value through profit or loss — Non-current RMB'000
Opening balance 1 January 2020 (Audited)	1,361,447	430,106
Additions	990,590	—
Reclassification	150,000	(150,000)
Disposals	(1,010,866)	(213,607)
Exchange gains	4,796	446
Change in fair value *	30,561	(14,824)
Transfer to Level 2 **	(293,090)	—
Closing balance 30 June 2020 (Unaudited)	1,233,438	52,121
* Includes unrealized gain or (loss) recognized in profit or loss, attributable to balances held as of 30 June 2020	16,734	(22,752)

** There are no transfers between level 1, 2 and 3 of fair value hierarchy classification during the period ended 30 June 2020, except that certain WMPs were transferred out of level 3 of fair hierarchy to level 2 classifications as the Group was provided with the quoted net worth by the respective financial institutions as of 30 June 2020.



Notes to the Condensed Consolidated Interim Financial Information

5. Financial risk management (continued)

5.2 Fair value estimate (continued)

(b) Fair value measurements using significant unobservable inputs (Level 3) (continued)

(i) Valuation inputs and relationships to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 30 June 2020 RMB'000	Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – Non-current				
Investments in equity interests with preferred rights of certain private companies	52,121	Expected volatility	49.28%~57.01%	A decrease or increase in the expected volatility by 5% for each of the investments would result in an increase or decrease in the total fair value by RMB1,103 thousand and RMB1,074 thousand, respectively.
		Discount for lack of marketability (“DLOM”)	18.38%~30.57%	A decrease or increase in the DLOM by 5% for each of the investments would result in an increase or decrease in the total fair value by RMB3,090 thousand, respectively.
		Risk-free rate	0.24%~2.49%	If risk-free rate for each of the investments were 5% higher or lower, the total fair value would decrease or increase by RMB82 thousand, respectively.



5. Financial risk management (continued)

5.2 Fair value estimate (continued)

(b) Fair value measurements using significant unobservable inputs (Level 3) (continued)

(i) Valuation inputs and relationships to fair value (continued)

Description	Fair value at 30 June 2020 RMB'000	Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss – Current				
Investments in wealth management products	992,152	Expected rate of return/discount rate	3.70%~8.60%	The higher the expected rate of return, the higher the fair value. The lower the discount rate, the higher the fair value. A change in the expected rate of return or the discount rate by 1% for each of the investment would not result in a significant change in the fair values.
Investments in structured deposits	241,286	Expected rate of return/discount rate	3.25%~3.60%	The higher the expected rate of return, the higher the fair value. The lower the discount rate, the higher the fair value. A change in the expected rate of return or the discount rate by 1% for each of the investment would not result in a significant change in the fair values.
Total	1,285,559			

(ii) Valuation process

The Group manages the valuation exercise of level 3 instruments for financial reporting purpose.

The Group manages the valuation exercise of the investments on a case by case basis. At least once every 6 months in line with the Group's half-yearly reporting periods, the Group would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.



5. Financial risk management (continued)

5.2 Fair value estimate (continued)

(b) Fair value measurements using significant unobservable inputs (Level 3) (continued)

(ii) Valuation process (continued)

The valuation of the level 3 instruments mainly included wealth management products, structured deposits, and equity interests with preferred rights of certain private companies. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques. Specific valuation techniques used to value financial instruments include:

- for wealth management products and structured deposits — income approach to use a discounted cash flow analysis with an expected rate of return.
- for equity interests with preferred rights of certain private companies — market approach.

6. Segment information

The Group's business activities are mainly in live streaming business, for which discrete financial statements are available, and are regularly reviewed and evaluated by the chief operating decision maker ("CODM") which are the chief executive officers and the vice presidents of the Group. As a result of this evaluation, the CODM considered that the Group's operations are operated and managed as a single segment. Accordingly, no segment information is presented.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC.

As at 30 June 2020 and 2019, substantially all of the non-current assets of the Group were located in the PRC.

7. Revenue

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Live streaming	2,165,085	1,410,184
Online advertising	1,114	70,350
Others	36,437	5,037
	2,202,636	1,485,571



8. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Streamer costs	1,571,921	909,399
Promotion and advertising expenses	245,732	308,807
Employee benefit expenses	207,445	203,159
Bandwidth and server custody costs	44,631	49,038
Payment handling costs	34,285	25,150
Outsourced development costs	21,202	20,212
Technical support and professional service fees	18,306	17,332
Depreciation of right-of-use assets (Note 24)	15,650	12,052
Amortization of intangible assets (Note 16)	13,005	7,269
Depreciation of property, plant and equipment (Note 15)	5,817	8,636
Travelling, entertainment and general office expenses	15,193	18,655
Taxes and surcharges	8,276	6,917
Expenses relating to short-term lease and variable lease payments not included in lease liabilities	1,247	2,024
Content and copyright costs	166	9,597
Impairment of intangible assets	—	12,730
Impairment of goodwill	—	10,334
Other expenses	848	1,501
	2,203,724	1,622,812

9. Other gains — net

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Fair value gain/(loss) of financial assets at fair value through profit or loss ("FVTPL")		
— Investments in current financial assets at FVTPL	33,178	17,063
— Investments in non-current financial assets at FVTPL	(14,824)	14,443
Net foreign exchange gain/(loss)	59	(79)
Provisions for claims and legal proceedings	(164)	(4,559)
Donations	(1,202)	(1,019)
Gain on disposal of investment in a joint venture	—	5,716
Others	5,118	1,981
	22,165	33,546



Notes to the Condensed Consolidated Interim Financial Information



10. Other income

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Government grants		
– Subsidies based on certain amount of tax paid	23,826	13,372
– Subsidies granted by various local governments to encourage the Group to operate where these governments are located	7,145	22,838
– Deferred government grant	222	1,000
	31,193	37,210

11. Finance income – net

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Finance costs		
– Interest costs	(8,040)	(3,780)
Finance income		
– Interest income	12,005	26,654
Finance income – net	3,965	22,874

12. Income tax (expense)/credit

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax	(5,184)	(56,649)
Deferred income tax	(252)	58,293
Income tax (expense)/credit	(5,436)	1,644



13. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing:

- the profit/(loss) attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares,
- by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares.

	Unaudited Six months ended 30 June	
	2020	2019
Profit/(loss) attributable to owners of the Company (RMB'000)	73,265	(26,344)
Weighted average number of ordinary shares in issue (thousands)	1,957,291	2,048,650
Basic earnings/(loss) per share attributable to the ordinary equity holders of the Company (expressed in RMB per share)	0.04	(0.01)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.



Notes to the Condensed Consolidated Interim Financial Information

13. Earnings/(loss) per share (continued)**(b) Diluted earnings per share (continued)**

	Unaudited	
	Six months ended 30 June	
	2020	2019
Earnings/(loss) (RMB'000)		
Profit/(loss) for the period	73,265	(26,344)
Profit/(loss) used to determine diluted earnings/(loss) per share	73,265	(26,344)
Weighted average number of ordinary shares (thousands)		
Weighted average number of ordinary shares in issue for basic earnings per share	1,957,291	2,048,650
Adjustments for:		
Restricted share units	6,235	—
Weighted average number of ordinary shares for diluted earnings per share	1,963,526	2,048,650
Diluted earnings/(loss) per share (expressed in RMB per share)	0.04	(0.01)

14. Dividends

No dividends have been paid or declared by the Company during each of the period ended 30 June 2020 and 2019.



15. Property, plant and equipment

	Computer equipment RMB'000	Office equipment and furniture fixtures RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Total RMB'000
At 31 December 2019 (Audited)					
Cost	33,689	818	981	26,645	62,133
Accumulated depreciation	(22,401)	(307)	(237)	(19,911)	(42,856)
Net book amount	11,288	511	744	6,734	19,277
Six months ended 30 June 2020 (Unaudited)					
Opening net book amount	11,288	511	744	6,734	19,277
Additions	1,798	23	—	112	1,933
Disposals	(1,391)	(5)	—	—	(1,396)
Depreciation charge	(2,003)	(78)	(89)	(3,647)	(5,817)
Closing net book amount	9,692	451	655	3,199	13,997
At 30 June 2020 (Unaudited)					
Cost	34,096	836	981	26,757	62,670
Accumulated depreciation	(24,404)	(385)	(326)	(23,558)	(48,673)
Net book amount	9,692	451	655	3,199	13,997



Notes to the Condensed Consolidated Interim Financial Information

16. Intangible assets

	Goodwill RMB'000	Softwares RMB'000	Domain names RMB'000	Licenses and copyrights RMB'000	User base RMB'000	Trademark RMB'000	Total RMB'000
At 31 December 2019 (Audited)							
Cost	537,239	13,515	226	60,580	16,000	74,000	701,560
Accumulated amortization and impairment	(10,334)	(7,307)	(226)	(46,487)	(800)	(1,850)	(67,004)
Net book amount	526,905	6,208	—	14,093	15,200	72,150	634,556
Six months ended 30 June 2020 (Unaudited)							
Opening net book amount	526,905	6,208	—	14,093	15,200	72,150	634,556
Additions	—	372	—	262	—	—	634
Amortization charge	—	(1,444)	—	(6,261)	(1,600)	(3,700)	(13,005)
Closing net book amount	526,905	5,136	—	8,094	13,600	68,450	622,185
At 30 June 2020 (Unaudited)							
Cost	537,239	13,887	226	60,842	16,000	74,000	702,194
Accumulated amortization and impairment	(10,334)	(8,751)	(226)	(52,748)	(2,400)	(5,550)	(80,009)
Net book amount	526,905	5,136	—	8,094	13,600	68,450	622,185

The Group normally performs goodwill impairment test in the second half of each year, and there is no indicator for impairment of goodwill as of June 30, 2020. For details of goodwill impairment assessment for the year ended December 31, 2019, please refer to the 2019 Financial Statements.



17. Investments accounted for using the equity method

The amounts recognized in the balance sheet are as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Associates (a)	64,613	67,403
Joint ventures (b)	200,365	175,143
	264,978	242,546

(a) Associates

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
At the beginning of the period/year	67,403	25,675
Additions	—	38,230
Share of (loss)/profit of associates	(2,790)	3,498
At the end of the period/year	64,613	67,403

(b) Joint ventures

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
At the beginning of the period/year	175,143	171,813
Additions	—	25,000
Share of profit/(loss) of joint ventures	25,222	(21,670)
At the end of the period/year	200,365	175,143



18. Financial assets at fair value through profit or loss

(a) Non-current

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
At the beginning of the period/year	430,106	256,988
Additions	—	175,157
Reclassification	(150,000)	—
Disposals	(213,607)	(28,167)
Exchange gains	446	—
Changes in fair value	(14,824)	26,128
At the end of the period/year	52,121	430,106

The non-current financial assets at fair value through profit or loss of RMB52,121,000 comprises the investments in equity interests with preferred rights of certain private companies.

(b) Current

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Structured deposits	241,286	343,050
Investment in wealth management products	1,448,858	1,018,397
	1,690,144	1,361,447

The investment in wealth management products were mainly issued by reputable banks and financial institutions in the PRC. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy. Changes in fair value (realized and unrealized) of these financial assets had been recorded in "Other gains/(losses) — net" in the condensed consolidated statements of comprehensive income.

The maximum exposure to credit risk at the reporting date is the carrying value of these investments. None of these investments are either past due or impaired.



19. Accounts receivables

- (a) Majority of the Group's debtors are granted with credit periods mainly ranged from 1 to 3 months. An aging analysis of accounts receivables based on invoice date is as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Accounts receivables		
– Up to 3 months	22,887	17,777
– 3 to 6 months	11,105	923
– 6 months to 1 year	353	1,184
– 1 to 2 years	572	605
	34,917	20,489

As at 30 June 2020 and 31 December 2019, the carrying amount of accounts receivables are primarily denominated in RMB and approximate to their fair values at each of the reporting dates.

- (b) As of 30 June 2020, accounts receivables of RMB1,666,000 were past due but not impaired (31 December 2019: RMB5,193,000). These relate to a number of independent customers. No impairment provision was considered necessary against these balances after the management had performed assessment on their credit quality with reference to historical counterparty default rates.

20. Restricted cash

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Restricted cash	26,369	39,418

As at 30 June 2020, the restricted cash balance of RMB26,369,000 was resulted from ongoing investigations by regulators or the courts on spending made by certain users of one of the Group's online platforms. The Group has not received any decisions or rulings from any courts in the PRC nor as defendant in any legal cases. The Group based on the external lawyer's legal opinion, believed that it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations, as such no provisions have been made by the Group as at 30 June 2020.



Notes to the Condensed Consolidated Interim Financial Information

21. Loans, other receivables, prepayments, deposits and other assets

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Non-current:		
Loans to related parties	17,400	112,348
Rental and other deposits	6,815	5,435
Others	1,152	1,278
	25,367	119,061
Current:		
Loans to related parties	49,448	17,500
Amounts due from third parties		
— Loans to third parties	31,600	15,000
— Arising from disposal of equity interests in one joint venture	5,716	5,716
Prepayment to suppliers	58,078	49,231
Prepayments for promotion and advertising	27,967	45,628
Deductible input VAT	49,079	34,741
Prepaid income tax	33,196	20,549
Interest receivable	18,586	13,355
Other deposits	2,327	3,998
Others	1,039	3,390
	277,036	209,108

22. Accounts payables

Aging analysis of the accounts payables at the end of each reporting period are as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
— Up to 3 months	278,584	285,554
— 3 to 6 months	14,477	11,817
— 6 months to 1 year	9,546	8,781
— Over 1 year	182,103	205,900
	484,710	512,052



23. Share-based payments

Restricted Share Units (“RSUs”)

Pursuant to a resolution passed by the Board of Directors of the Company on 18 November 2018, the Company set up a restricted share unit scheme (“RSU Scheme”) with the objective to incentivize employees 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.

(a) Grant of the RSUs in 2019

On 3 June 2019, 4,000,000 RSUs under the RSU Scheme were granted to employees. The RSUs are fully vested on 11 June 2019.

(b) Grant of the RSUs in 2020

On 22 January 2020, 1,564,200 RSUs under the RSU Scheme were granted to employees.

(c) Shares held for RSU Scheme

Pursuant to a resolution passed by the Board of Directors of the Company on 18 November 2018, the Company entered into a trust deed (the “Trust Deed”) with Computershare Hong Kong Trustees Limited (the “RSU Trustee”) to assist with the administration of the RSU Scheme. For the six months ended 30 June 2020, the Group repurchased 40,463,000 ordinary shares at the cost of approximately RMB37,981,000. The RSU Trustee held these shares for the benefit of eligible participants pursuant to the RSU Scheme and the Trust Deed.

(d) Fair value of RSUs

- (i) The fair value of RSUs granted on 3 June 2019 was assessed to approximate to the market price of the grant date at the amount of HKD1.64 each (equivalent to RMB5,759,000 in total).
- (ii) The fair value of RSUs granted on 22 January 2020 was assessed to approximate to the market price of the grant date at the amount of HKD1.37 each (equivalent to RMB3,041,000 in total).

A summary of RSUs activities for the six months ended 30 June 2020 is presented below:

Restricted Share Units	Unaudited Six months ended 30 June 2020	
	Number of shares	Weighted average fair value (per share) RMB
Opening balance	11,032,121	1.94
Granted	2,504,200	1.21
Vested	(1,670,383)	1.84
Forfeited	(673,747)	1.83
Closing balance	11,192,191	1.81



Notes to the Condensed Consolidated Interim Financial Information

23. Share-based payments (continued)**Restricted Share Units (“RSUs”) (continued)****(d) Fair value of RSUs (continued)**

(ii) (continued)

Share-based compensation was recognized in costs and expenses for the six months ended 30 June 2020 are as follows:

	Unaudited Six months ended 30 June 2020 RMB'000
Cost of sales	1,616
Administrative expenses	3,558
Selling and marketing expenses	758
Research and development expenses	3,484
Total	9,416

24. Lease

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Right-of-use assets		
Buildings	133,100	145,785
Lease liabilities		
– Current	26,829	25,773
– Non-current	112,293	127,958
	139,122	153,731

	Unaudited Six months ended 30 June 2020 RMB'000
Depreciation charge of right-of-use assets (Note 8)	15,650
Interest expense	3,928
Expense relating to short-term leases (Note 8)	1,247
	20,825



25. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are under common control or joint control in the controlling shareholders' families. Members of key management and their close family members of the Group are also considered as related parties.

In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of the business and terms negotiated between the Group and the respective related parties.

Names of the major related parties	Nature of relationship
Mr. Feng Yousheng ("Mr. Feng")	Founder of the Group
Mr. Hou Guangling ("Mr. Hou")	Founder of the Group
Beijing Duomi Online Technology Co., Ltd. (北京多米在線科技股份有限公司) (previously known as Beijing Caiyun Zaixian Technology Development Co., Ltd., 北京彩雲在線技術開發有限公司) ("Duomi Online")	Significant influence over Beijing Meelive Network Technology Co, Ltd. (北京蜜萊塢網路科技有限公司) ("Beijing Meelive")
Guangying Shidai (Beijing) Technology Limited (光映時代(北京) 科技有限公司) ("Guangying Shidai")	An associate of the Group
Beijing Yingtianxia Network Technology Co., Ltd. (北京映天下網絡科技有限公司) ("Beijing Yingtianxia")	An associate of the Group
Hunan Inke Property Limited (湖南映客置業有限公司) ("Hunan Inke Property")	An associate of the Group
Beijing Laoyou Duozi Internet Information Service Co., Ltd. (北京老柚多汁互聯網信息服務有限公司) ("Beijing Laoyou Duozi")	An associate of the Group
Changsha ZHUOHUA Senior High School (長沙卓華高級中學 有限公司) ("Changsha Zhuohua")	An associate of the Group
Hunan Jiyou Technology Co., Ltd (湖南機友科技有限公司) ("Hunan Jiyou")	An associate of the Group
Shenzhen Qianhai Aisi Information Consulting Co., Ltd. (深圳前海愛思信息諮詢有限公司) ("Shenzhen Qianhai Aisi")	Significant influence over Shenzhen Qianhai Aisi
Beijing Mantong Information Technology Co., Ltd (北京漫通信息科技有限公司) ("Beijing Mantong")	Significant influence over Beijing Mantong



Notes to the Condensed Consolidated Interim Financial Information

25. Related party transactions (continued)

The following transactions were carried out with related parties:

(a) Significant transactions with related parties

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Loans to related parties		
– Beijing Yingtianxia	18,000	5,000
– Changsha Zhuohua	5,100	—
– Hunan Inke Property	—	22,436
	23,100	27,436
Repayments from related parties		
– Hunan Inke Property	81,600	—
– Beijing Yingtianxia	3,000	5,000
– Beijing Mantong	1,500	—
	86,100	5,000
Interest income from related parties		
– Beijing Yingtianxia	566	47
– Shenzhen Qianhai Aisi	377	227
	943	274



25. Related party transactions (continued)

(a) Significant transactions with related parties (continued)

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue generated from related parties		
– Beijing Yingtianxia	566	10,608
– Hunan Inke Property	708	–
– Beijing Laoyou Duozhi	149	65
– Hunan Jiyou	5	–
	1,428	10,673

(b) Balances with related parties

	Unaudited	Audited
	30 June 2020	31 December 2019
	RMB'000	RMB'000
Other receivables from related parties		
– Beijing Yingtianxia (i)	21,000	6,000
– Hunan Inke Property (ii)	18,448	100,048
– Changsha Zhuohua (iii)	17,400	12,300
– Shenzhen Qianhai Aisi (iv)	10,000	10,000
– Duomi Online	1,373	1,373
– Beijing Mantong	–	1,500
	68,221	131,221

(i) The balance represents two loans lent to Beijing Yingtianxia, and repayable within one year. The balance of RMB6,000,000 is unsecured and bears an interest rate at 8% per annum and the balance of RMB15,000,000 is secured and bears an interest rate at 12% per annum.

(ii) The balance represents an interest-free, unsecured loan lent to Hunan Inke Property, and repayable within one year.

(iii) The balance represents an interest-free, unsecured loan lent to Changsha Zhuohua, and repayable over one year.

(iv) The balance represents a secured loan lent to Shenzhen Qianhai Aisi, repayable within one year and bears an interest rate at 8% per annum.



25. Related party transactions (continued)

(b) Balances with related parties (continued)

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Accounts receivables from related parties		
– Beijing Yingtianxia	15,600	–
– Hunan Inke Property	708	1,500
– Beijing Laoyou Duozhi	26	26
	16,334	1,526
Account payables to related parties		
– Shenzhen Qianhai Aisi	157	157
Other payables to related party		
– Duomi Online	15	15

Outstanding balances of accounts receivables from related parties, accounts payables to related parties and other payables to related party are unsecured and interest-free.

(c) Key management personnel compensations

Key management includes directors (executive and non-executive). The compensations paid or payable to key management for employee services are shown below:

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Salaries, other social security costs and housing benefits	2,830	2,890
Bonus	334	1,500
	3,164	4,390

26. Subsequent Events

Except as disclosed elsewhere in this report, there are no material subsequent events undertaken by the Group after 30 June 2020.



Other Information

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

As at the date of this interim report, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

(a) Interests of Directors and Chief Executive of the Company

Name of Director/ Chief Executive	Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding interest
Mr. FENG Yousheng ("Mr. Feng")	Interest in controlled corporation	358,798,000 ⁽²⁾	17.88%
Mr. LIU Xiaosong ("Mr. Liu")	Interest in controlled corporation	250,000,000 ⁽³⁾	12.46%
Mr. HOU Guangling ("Mr. Hou")	Interest in controlled corporation	167,155,000 ⁽⁴⁾	8.33%

Notes:

- All interests stated are long positions.
- Mr. Feng holds the entire share capital of Fantastic Live Holdings Limited, which in turn directly holds 358,798,000 shares of the Company (the "Shares").
- Mr. Liu holds 54.85% of the total share capital of Shenzhen Kuai Tong Lian Technology Co., Ltd, which holds 22.08% of the total share capital of Beijing Duomi Online Technology Co., Ltd. ("Duomi Online"). In addition, Mr. Liu directly holds another 22.8% of the total share capital of Duomi Online. Moreover, Duomi Online, through Hunan Feiyang Network Information Services Co., Ltd., holds the entire share capital of Feiyang Hong Kong Limited, which in turn directly holds 250,000,000 Shares.
- Mr. Hou holds the entire share capital of Horizon Live Holdings Limited, which in turn directly holds 80,409,000 Shares. In addition, Mr. Hou, through Horizon Live Holdings Limited, holds 97.99% of the total issued share capital of Evergreen live LIMITED, which in turn directly holds 86,746,000 Shares.

(b) Interests in other members of the Group

So far as the Directors were aware, as at the date of this interim report, the following persons (excluding the Company) were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	Total share capital held by the shareholder	Approximate percentage of interest
Beijing Meelive Network Technology Co., Ltd.	Mr. Feng	RMB358,798	20.94%
Beijing Meelive Network Technology Co., Ltd.	Duomi Online	RMB250,000	14.59%



Other Information



Save as disclosed above, as at the date of this interim report, none of the Directors or the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the date of this interim report, so far as was known to the Directors, the following persons, not being a Director or chief executive of the Company, had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding interest
Fantastic Live Holdings Limited	Beneficial owner	358,798,000 ⁽²⁾	17.88%
Duomi Online	Interest in controlled corporation	250,000,000 ⁽³⁾	12.46%
Hunan FeiYang Network Information Services Co., Ltd.	Interest in controlled corporation	250,000,000 ⁽³⁾	12.46%
FeiYang Hong Kong Limited	Beneficial owner	250,000,000 ⁽³⁾	12.46%
Horizon Live Holdings Limited	Beneficial owner; interest in controlled corporation	167,155,000 ⁽⁴⁾	8.33%
Wang Meilin	Interest of spouse	167,155,000 ⁽⁵⁾	8.33%
Liao Jieming ("Ms. Liao")	Interest in controlled corporation	167,155,000 ⁽⁶⁾	8.33%
Luckystar Live Holdings limited	Beneficial owner; interest in controlled corporation	167,155,000 ⁽⁶⁾	8.33%
Chen Yingyi	Interest of spouse	167,155,000 ⁽⁷⁾	8.33%

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Feng holds the entire share capital of Fantastic Live Holdings Limited, which in turn directly holds 358,798,000 Shares.
- (3) Mr. Liu holds 54.85% of the total share capital in Shenzhen Kuai Tong Lian Technology Co., Ltd, which holds 22.08% of the total share capital in Duomi Online. In addition, Mr. Liu directly holds another 22.8% of the total share capital in Duomi Online. Moreover, Duomi Online, through Hunan Feiyang Network Information Services Co., Ltd., holds the entire share capital of Feiyang HongKong Limited, which in turn directly holds 250,000,000 Shares.
- (4) Mr. Hou holds the entire share capital of Horizon Live Holdings Limited, which in turn directly holds 80,409,000 Shares. In addition, Mr. Hou through Horizon Live Holdings Limited, holds 97.99% of the total issued share capital in Evergreen live LIMITED, which in turn directly holds 86,746,000 Shares.
- (5) Ms. Wang Meilin is the spouse of Mr. Hou.
- (6) Ms. Liao holds the entire share capital of Luckystar Live Holdings Limited, which in turn directly holds 80,409,000 Shares. In addition, Ms. Liao, through Luckystar Live Holdings Limited, holds 89.99% of the total share capital in Generous Live LIMITED, which in turn directly holds 86,746,000 Shares.
- (7) Mr. Chen Yingyi is the spouse of Ms. Liao.

Save as disclosed above, as at the date of this interim report, the Directors were not aware of any other persons who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept by the Company under Section 336 of the SFO.



MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period.

SHARE OPTION SCHEME AND RESTRICTED SHARE UNIT SCHEME

Share Option Scheme

On 23 June 2018, a share option scheme (the “Share Option Scheme”) of the Company was approved and adopted by the Shareholders. The purpose of the Share Option Scheme is to incentivize and reward the employees (whether full time or part-time) or directors of members of the Group or associated companies of the Company (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. Pursuant to the Share Option Scheme, 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 of the Company as the Board may determine to an Eligible Person.

Further details of the principal terms of the Share Option Scheme are set forth in the section headed “Statutory and General Information — D. Share Incentive Schemes — 1. Share Option Scheme” in Appendix IV to the prospectus of the Company dated 28 June 2018 (the “Prospectus”). As at 30 June 2020, no option has been granted or agreed to be granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme. The remaining life of the Share Option Scheme is around 7 years and 10 months.

Restricted Share Unit Scheme

On 23 June 2018, a restricted share unit scheme of the Company (the “RSU Scheme”) was approved and adopted by the Board. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees 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. The RSU Scheme will be valid and effective for a period of 10 years, commencing from 12 July 2018 (the “Listing Date”) (unless it is terminated earlier in accordance with its terms).

Persons eligible to receive restricted share units (the “RSUs”) under the RSU Scheme are existing employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors) or officers of the Company or any of its subsidiaries (“RSU Eligible Persons”). The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

Further details of the RSU Scheme are set forth in the section headed “Statutory and General Information — D. Share Incentive Schemes — 2. RSU Scheme” in Appendix IV to the Prospectus.

During the six months ended 30 June 2020, the trustee of the RSU Scheme has purchased a total of 40,463,000 Shares on the Stock Exchange.



Other Information



Details of the RSUs granted and outstanding under the RSU Scheme

The Board has authorized (i) the Company to direct and procure the appointed RSU trustee to purchase up to 83,992,916 ordinary Shares on market (accounting for approximately 4.08% of the issued ordinary Shares on market as at the date on which the Shares have been listed on the Stock Exchange) from time to time during the period from 12 November 2018 to 1 August 2022 and (ii) Mr. FENG Yousheng to determine the price at which the RSU trustee may purchase the Shares on market and to determine the maximum amount of cash to be provided to the RSU trustee for the purchase of the Shares on market.

In addition, the Board has authorized the Company to grant RSUs in respect of the Shares to 459 selected participants under the RSU Scheme (the “Grantees”), none of the Grantees is a Director, chief executive or substantial shareholder of the Company, nor an associate of any of them. The Grantees are not required to pay for the grant of any RSUs. As of 30 June 2020, a total of 33,033,414 RSUs have been granted to the Grantees, representing approximately 1.65% of the total issued shares of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2020, the Company has repurchased a total of 40,924,000 Shares on the Stock Exchange at an aggregate consideration of HK\$44,851,180 (of which 13,308,000 repurchased Shares have been cancelled on 15 January 2020). The highest price paid per Share is HK\$1.37, and the lowest price paid per Share is HK\$0.96.

Except as disclosed above, during the six months ended 30 June 2020, neither the Company nor its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

COMPETING INTERESTS

During the six months ended 30 June 2020, none of the Directors, the controlling shareholders of the Company and their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

INTERIM DIVIDEND

The Board does not declare any payment of interim dividend for the six months ended 30 June 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the “CG Code”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2020, the Company has complied with all the code provisions of the CG Code and adopted most of the best practices set out therein, except for a deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.



Mr. Feng is the chairman and chief executive officer of the Company. With extensive experience in the internet industry, Mr. Feng is responsible for the overall strategic planning and general management of the Group and is instrumental to the Company's growth and business expansion since its establishment in 2004. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises two executive Directors (including Mr. Feng), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independent element in its composition.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. As at the date of this interim report, the Audit Committee comprises two independent non-executive Directors, Mr. David CUI and Dr. LI Hui, and one non-executive Director, Mr. LIU Xiaosong. Mr. David CUI is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed unaudited condensed consolidated interim results and the interim report of the Company for the Reporting Period, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The interim results for the Reporting Period are unaudited, but have been reviewed by the Auditor in accordance with International Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the International Auditing and Assurance Standards Board.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS UNDER RULE 13.51B (1) OF THE LISTING RULES

There has been no change in the Directors' biographical details which are required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

USE OF PROCEEDS FROM LISTING

With the shares of the Company listed on the Main Board of the Stock Exchange on the Listing Date, the net proceeds from the global offering (following full exercise of the over-allotment option) were approximately HK\$1,229 million (the "IPO Proceeds").



Other Information



As of 30 June 2020, the Company had used approximately HK\$130.0 million to develop its new products, approximately HK\$93.6 million to market and promote new products, approximately HK\$39.9 million to develop technology, research and development capabilities, and approximately HK\$56.4 million to replenish its general working capital. All uses are consistent with the intended uses of the IPO Proceeds.

The Company does not intend to change the purpose of the IPO Proceeds as set out in the Prospectus and will gradually utilize the residual amount of the IPO Proceeds in accordance with their intended purpose.

Intended use of the net proceeds	Amount of the net proceeds for each intended use HK\$' million	Amount of the utilised net proceeds as at 30 June 2020 HK\$' million	Amount of the remaining net proceeds as at 30 June 2020 HK\$' million	Expected timeline for the remaining net proceeds to be utilised ⁽¹⁾ for the year ending 31 December 2020 HK\$' million
Diversify our product and content offerings	245.8	245.8	—	N/A
Marketing initiatives	368.7	368.7	—	N/A
Technology, research and development capabilities	245.8	245.8	—	N/A
Strategic investment and acquisition opportunities	245.8	157.0	88.8	88.8
General working capital	122.9	122.9	—	N/A
Total	1,229.0	1,140.2	88.8	88.8

Note:

- (1) The expected timeline for utilising the remaining IPO Proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

From the Listing Date, and up to 30 June 2020, HK\$1,140.2 million from the IPO Proceeds had been utilised. The delay in use of proceeds is due to the impact of the epidemic, we were unable to find suitable strategic investment and acquisition opportunities as planned. However, the Company will continue to seek for suitable investment opportunities in the remaining half of 2020 and the Company intends to continue to apply the IPO Proceeds in accordance with the purpose of the IPO proceeds as set out in the Prospectus.

EVENTS AFTER THE REPORTING PERIOD

In early 2020, there was an outbreak of an infectious respiratory disease named “COVID-19” by the World Health Organization, which is caused by a novel coronavirus, in the world. The PRC government has implemented various contingency measures and actions to prevent the spread of COVID-19 such as an extension of the Chinese New Year holiday, as well as travel and work restrictions in certain provinces and municipalities. In view of the outbreak of COVID-19, we are currently taking necessary precautions to safeguard our employees. Due to the pandemic, people are spending more time at home, and the demand for online entertainment has surged, creating new opportunities for the online interactive entertainment industry. We remain positive about the Group’s prospects. We are closely monitoring the development of the outbreak and evaluating its impact on the operation and financial position of the Group.

Save as the above, there were no significant events after 30 June 2020 and up to the date of this report.