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Linekong Interactive Group Co., Ltd.

藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

**Interim Results Announcement
for the Six Months Ended June 30, 2020**

The board of directors of Linekong Interactive Group Co., Ltd. (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries for the six months ended June 30, 2020. This announcement, containing the full text of the 2020 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of interim results. Printed version of the 2020 interim report of the Company will be delivered to the shareholders of the Company in due course.

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

Beijing, PRC, August 14, 2020

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

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

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

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.

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



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wang Feng (*Chairman*)
 Ms. Liao Mingxiang
(Chief Executive Officer)
 Mr. Chen Hao
 Mr. Wang Jin
(also known as Yan Yusong)

Non-executive Director

Mr. Ji Xuefeng
(appointed on March 27, 2020)
 Mr. Pan Donghui
(resigned on March 27, 2020)

Independent Non-executive Directors

Ms. Zhao Yifang
 Mr. Zhang Xiangdong
 Ms. Wu Yueqin

Board Committees

Audit Committee

Ms. Wu Yueqin (*Chairman*)
 Ms. Zhao Yifang
 Mr. Zhang Xiangdong
 Mr. Ji Xuefeng
(appointed on March 27, 2020)
 Mr. Pan Donghui
(resigned on March 27, 2020)

Remuneration Committee

Mr. Zhang Xiangdong (*Chairman*)
 Mr. Wang Feng
 Ms. Liao Mingxiang
 Ms. Zhao Yifang
 Ms. Wu Yueqin

Nomination Committee

Mr. Wang Feng (*Chairman*)
 Ms. Zhao Yifang
 Mr. Zhang Xiangdong
 Ms. Wu Yueqin
 Mr. Ji Xuefeng
(appointed on March 27, 2020)
 Mr. Pan Donghui
(resigned on March 27, 2020)

Company Secretary

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

Authorised Representatives

Mr. Wang Feng
 Ms. Liao Mingxiang

Compliance Officer

Ms. Liao Mingxiang

Registered Office

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Principal Place of Business in Hong Kong

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Auditors

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity
Auditors
22/F, Prince's Building
Central
Hong Kong

Legal Advisors as to Hong Kong Laws

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
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Central
Hong Kong

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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

WOORI BANK (China) Limited
Business Department
Bank of Communications Co., Ltd.
Hong Kong Branch
XIAMEN INTERNATIONAL BANK CO.,
LTD. BEIJING BRANCH
BANK OF COMMUNICATIONS, BEIJING
BRANCH WANGJING SUB-BRANCH
CTBC Bank Co., Ltd.

GEM Stock Code

8267

Company Website

www.linekong.com



HIGHLIGHTS

	For the six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	107,305	105,994
Profit/(loss) for the period	6,981	(4,837)
Adjusted net profit <i>(Note)</i>	9,359	1,139

Note:

Adjusted net profit refers to the profit/(loss) for the period which excludes share-based compensation and one-off compensation for loss of office paid. This item is deemed as supplemental information as stated 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.

- Revenue of the Group for the six months ended June 30, 2020 amounted to approximately RMB107.3 million, representing an increase of approximately 1.2% as compared to approximately RMB106.0 million for the corresponding period of 2019.
- Profit for the six months ended June 30, 2020 amounted to approximately RMB7.0 million, as compared to a loss of approximately RMB4.8 million for the corresponding period of 2019.
- Adjusted net profit for the six months ended June 30, 2020 amounted to approximately RMB9.4 million, representing an increase of approximately 721.7% as compared to an adjusted net profit of approximately RMB1.1 million for the corresponding period of 2019.
- The board of Directors (the “**Board**”) of the Company does not recommend any payment of dividends for the six months ended June 30, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the Group maintains its prudent business strategy. We recorded net profit of approximately RMB6.981 million for the six months ended June 30, 2020 while adjusted net profit for the same period was RMB9.359 million, representing a year-on-year increase of 721.7%. The revenue from filming business was RMB32.9 million, representing a year-on-year increase of 121.4%. Our game business mainly focused on the expansion of major overseas markets, such as Korea, Japan and North America. We also focused on the development of female-oriented mobile games, casual games and the extension of IP values of our games. Our filming business has entered into a phase of matrix product development in early 2020 and we will further enrich our IP reserves and promote film production. Looking forward, the Group will further develop its business in the cultural fields such as gaming, film and television to promote the development of the industry by providing high quality cultural products.

Research and development of new products and accelerating expansion of overseas game markets of Linekong Games

In order to further enrich its product lines and enhance the competitiveness of the Group in the casual games market, a casual games development team has been established for the research and development of products such as ultra-casual, moderate casual, strategy and female-oriented games. “金幣大冒險”, named as Coin Tycoon in overseas markets and independently developed by the Group, is a game about the civilization evolution and technology development of a world with players participating in casual social activities. The game was launched in North America for a small scale paid non-deletion test in July 2020. The retention and payment records of the game are satisfactory and is under the process of further improvement. “蠻荒紀元” is a new MMORPG fairy tale mobile game and is scheduled to be launched in the third quarter of 2020. The game features beautiful and vivid graphics to provide great game experience and allows players to experience the prosperity of ancient China. The mobile game “十萬個冷笑話 • 懷舊版” is expected to commence external deletion testing in the third quarter of 2020. The classic game has been completely optimized and upgraded, allowing players to return to the game world. “新後宮甄嬛傳”, a female-oriented AVG+RPG game distributed under the gaming business, will also be launched this year. It is a game to reveal the lifestyle in the palace of Qing dynasty with 2D style graphics. Players can experience various features of the game, including clothes changing, relationship development and business operation.

In respect of our games business segment in South Korea, we officially distributed “一夢江湖” (formerly known as “楚留香”) (“검은달” in Korean), a game developed by NetEase Games, on March 18, 2020. In addition, based on our research and analysis of overseas markets, the Group has prioritized the expansion of the Japan market as the focus of our overseas expansion after South Korea. Our Japan distribution team was established in 2019, the members of which have experience in publishing top 30 best-selling games in Japan. The Group has recently been licensed to exclusively adapt and globally distribute the mobile version of the epic ARPG game in Japan “Ys VIII”. The mobile version of the game will be launched soon. The adaption of the mobile version of “Ys VIII” will be supervised by Falcom to offer exciting gaming experiences to players. Well-known Japanese writers are engaged to refine and upgrade the plot of the game and a number of famous Japanese painters are recruited to create beautiful artworks. In the Tokyo Game Show held in 2019, the Group offered a demo of the mobile version of “Ys VIII” on site and attracted a large number of players and was reported by well-known Japanese media of the industry, such as 4Gamer and Famitsu (Fami 通). The Group plans to release information regarding the newest mobile version of “Ys VIII” in the 2020 Tokyo Game Show.

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

Linekong Pictures has entered into a phase of matrix product development, ensuring that prime dramas and secondary dramas will continue to be well-received

In 2020, we have entered into a phase of matrix product development to focus on target audiences and ensure that our prime dramas and secondary dramas will continue to be well-received. After over four years of experience and accumulation of brands, Linekong Pictures has a series of outstanding drama reserves, including prime drama (頭部劇), secondary drama (腰部劇) and movie (電影).



“琴瑟緣” and “雲海傳”, formerly known as “the Tomb Guardian (鎮墓獸)”, are the prime IPs (頭部 IP) of Linekong Pictures. A nostalgic animated IP, “琴瑟緣” (created by S-class creator team), is the first ancient costume fairy drama in China based on ancient music and its production is scheduled to commence in December 2020. The touching and romantic drama reproduces the forgotten legend of ancient musical instrument and the beauty of stunning ancient music, shows the unique charm and connotation of the nation, and creates new dynamics in traditional culture. The original IP was included and ranked first in the 2017 List of National Items for Reforms and Development (改革發展項目庫2017年入庫名額). The comic on which the drama was based on included in the 2016 Mobility Supporting Plan for Chinese Original Comic and Animation (2016年原動力中國原創動漫出版扶持計劃) by the National Radio and Television Administration (國家廣電總局). “雲海傳”, which is scheduled to commence production in October 2020, is the first ancient-setting youth adventure drama in China co-produced by Cai Jun (蔡駿) and Tian Xia Ba Chang (天下霸唱). It is a courageous and enthusiastic story of three young men who are going to embark upon their journey of treasure hunt without a map to reveal the truth of a ten-thousand year old treasure, growing together hand-in-hand in adversity and choosing between right and wrong.

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

In 2020, the Group will continue to enrich its IP reserves. “喂兒” is a new style drama and a key project of the Group. The project is adapted from a popular IP written by Nan Bei Zhu Feng (南北逐風) of Changpei Wenxue (長佩文學), which is a unique crosstalk drama in the market. The drama integrated traditional culture as well as youth and enthusiasm. It tells the story about a pair of crosstalk partners who strive to revive traditional culture and unravel the impact of traditional culture on youngsters nowadays and the inheritance of traditional culture. In addition, an urban inspirational idol drama “再次遇見你”, adapted from a well-known IP, is scheduled to start filming in November 2020. Targeting modern striving females who struggle between marriage and love, the drama tells a sweet and real-life story about an imaginary utopia where a couple gets married after falling in love. An original urban love comedy of the Group, “小未來·將將好”, is scheduled to start filming in 2020. Set against a backdrop of an old mansion in Shanghai in 2028, it is about a hilarious battle of wits and courage among five teenagers who share the same house. They comfort and support each other and grow together in laughter and tears as the story revolves around love, friendship, dream and hope. As for film production, the movie “給初戀的你” will start in the first half of 2021.

During the reporting period, the artist agency business of the Group was also developing steadily. Linekong Pictures has currently signed contracts with various actors of the new generation, such as Mr. Ding Jiawen, Mr. Wang Guangyuan and Ms. Zhang Ge. Mr. Ding Jiawen has been highly regarded due to his role of Cao Ping (“神仙哥哥”) in a recent popular TV drama “Serenade of Peaceful Joy (清平樂)”. In addition, he also appeared in the new TV dramas “乘風少年”, “原來你是這樣的顧先生” and “花好月又圓” which will be broadcast in the second half of 2020. Mr. Wang Guangyuan starred as the lead actor Luo Xiaoyi in “老師·好” and is being quickly known by audiences due to his outstanding performance. He received numerous attention and acknowledgement inside and outside of the industry, as well as favorable criticism of the movie he starred in. The movie is the dark horse of the box office during the period. Ms. Zhang Ge, who is an actress born after 2000 with high potentials, performed in popular dramas such as “閃光少女” and “八月未央”. She was among the hot searches on Weibo Hot Searches several times due to her role of the adorable Xiao Ai in the popular drama “Go Go Squid (親愛的·熱愛的)”, and is being widely praised for her mature acting.

In the second half of 2020, the Group will focus on major works including self-development business of games, deployment of casual games, expansion in the overseas markets, matrix product development of various television projects and artist agency business. The Group will adhere to its practical and customer-oriented principle to create high quality products and offer fascinating entertainment.

Financial Review

Revenue

The Group's revenue increased by approximately 1.2% from approximately RMB106.0 million for the six months ended June 30, 2019 to approximately RMB107.3 million for the six months ended June 30, 2020.

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

	For the six months ended	
	June 30,	
	2020	2019
	RMB'000	RMB'000
Segment revenue:		
Game Business		
— Sales of in-game virtual items	58,508	70,944
— License fee and technical support fee	15,916	20,197
	74,424	91,141
Film Business		
— Production and licensing of film rights and others	32,881	14,853
Total	107,305	105,994



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

	For the six months ended June 30, 2020		2019	
	RMB'000	approximate %	RMB'000	approximate %
China (including Hong Kong, Macau and Taiwan regions)	66,407	61.9	57,548	54.3
South Korea	35,085	32.7	38,816	36.6
Other overseas countries and regions	5,813	5.4	9,630	9.1
Total	107,305	100.0	105,994	100.0

For the six months ended June 30, 2020, the revenue contributed by game business decreased by approximately 18.3% or RMB16.7 million as compared with the corresponding period of 2019, which was attributable to the decrease in number of new games released for the six months ended June 30, 2020 as compared with the corresponding period of 2019 and a decrease in revenue from existing games of declining popularity. The Group has implemented strategies to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of the Group's film business, the Group recognised revenue of approximately RMB32.9 million from production and licensing of film rights and others for the six months ended June 30, 2020, representing an increase of approximately 121.4% from approximately RMB14.9 million for the six months ended June 30, 2019, which was mainly due to the revenue recognised for the drama “原來你是這樣的顧先生”.

Cost

The Group's cost for the six months ended June 30, 2020 was approximately RMB69.7 million, representing an increase of approximately 15.6% as compared to approximately RMB60.3 million for the six months ended June 30, 2019.

For the six months ended June 30, 2020, the cost incurred for our game business was approximately RMB41.6 million, representing a decrease of 17.8% from approximately RMB50.6 million for the corresponding period in 2019, which was due to the decrease in the number of new games released in the six months ended June 30, 2020 and attenuation of existing games.

For the six months ended June 30, 2020, the cost incurred for film business was approximately RMB28.1 million, representing an increase of approximately 189.7% from approximately RMB9.7 million for the corresponding period in 2019, which was mainly due to costs incurred for the drama “原來你是這樣的顧先生”.

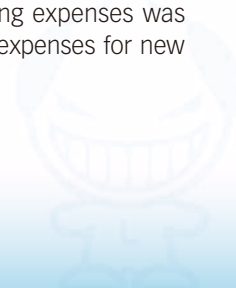
Gross profit and gross profit margin

The Group's gross profit for the six months ended June 30, 2020 was approximately RMB37.6 million, representing a decrease of approximately 17.7% from approximately RMB45.7 million for the six months ended June 30, 2019. The decrease in the Group's gross profit was primarily due to the decrease in the number of new games released and decrease in revenue from existing games of declining popularity.

The Group's gross profit margin for the six months ended June 30, 2020 was approximately 35.0%, representing a decrease of approximately 8.1 percentage points as compared to approximately 43.1% for the six months ended June 30, 2019. The decrease in gross profit margin of the Group was mainly due to lower gross profit margin from customized dramas in the film business.

Selling and marketing expenses

The Group's selling and marketing expenses for the six months ended June 30, 2020 were approximately RMB7.7 million, representing a decrease of approximately 56.3% from approximately RMB17.6 million for the six months ended June 30, 2019. The decrease in selling and marketing expenses was primarily due to the decrease in advertising and marketing expenses for new games distribution.



Administrative expenses

The Group's administrative expenses for the six months ended June 30, 2020 were approximately RMB18.9 million, representing a decrease of 17.1% from approximately RMB22.8 million for the six months ended June 30, 2019. The decrease in administrative expenses was primarily due to the decrease in expenses to meet the needs of the business phase and development strategies of the Company.

Research and development expenses

The Group's research and development expenses for the six months ended June 30, 2020 were approximately RMB7.6 million, representing a decrease of approximately 57.5% from approximately RMB17.9 million for the six months ended June 30, 2019. The decrease in research and development expenses was primarily due to the reduction in salary expenses as a result of the reduction in headcount for meeting the needs of the business phase and development strategies of the Company.

Segments results — operating profit/(loss)

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Segments results		
— operating profit/(loss):		
— Game business	2,091	(11,077)
— Film business	6,827	(91)
Total	8,918	(11,168)

The operating profit for the six months ended June 30, 2020 was approximately RMB8.9 million, and the operating loss for the corresponding period of 2019 was approximately RMB11.2 million.

For the six months ended June 30, 2020, the operating profit from the game business was approximately RMB2.1 million, and the operating loss from the game business for the corresponding period of 2019 was approximately RMB11.1 million.

For the six months ended June 30, 2020, the operating profit from the film business was approximately RMB6.8 million, and the operating loss from the film business for the corresponding period of 2019 was approximately RMB0.1 million.

Share of loss of investments using equity accounting

The Group's share of loss of investments using equity accounting for the six months ended June 30, 2020 was approximately RMB0.5 million, and the share of loss of investments for the six months ended June 30, 2019 was approximately RMB0.1 million.

Non-IFRSs measure — adjusted net profit

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



The following table respectively sets out the reconciliation from profit/(loss) for the period under IFRSs to the adjusted net profit for the six months ended June 30, 2020 and 2019:

	For the six months ended		
	June 30,		
	2020	2019	Change
	RMB'000	RMB'000	approximate
	(Unaudited)	(Unaudited)	%
Profit/(loss) for the period	6,981	(4,837)	—
Add:			
Share-based compensation expenses	1,160	1,705	(32.0)
One-off compensation for loss of office paid	1,218	4,271	(71.5)
Adjusted net profit	9,359	1,139	721.7

The Group's adjusted net profit for the six months ended June 30, 2020 was approximately RMB9.4 million, representing an increase of 721.7% as compared to the adjusted net profit of approximately RMB1.1 million for the six months ended June 30, 2019.



Liquidity and Financial Resources

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.

Treasury policy

During the six months ended June 30, 2020, 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 capital, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives. In order to meet the domestic working capital requirements, we will seek for long-term stable financial supports from banks at market lending rate.

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

As of June 30, 2020, we had cash and cash equivalents of approximately RMB161.7 million (as of December 31, 2019: approximately RMB96.5 million), which primarily consisted of cash at bank, other financial institutions and cash in hand and were mainly denominated in U.S. dollars ("**USD**") (as to approximately 66.3%), HKD (as to approximately 16.9%), RMB (as to approximately 16.1%) and other currencies (as to approximately 0.7%).

As of June 30, 2020, we had short-term bank deposits of RMB42.5 million (as of December 31, 2019: approximately RMB128.0 million).

As of June 30, 2020, approximately RMB174.2 million (as of December 31, 2019: RMB230.9 million) are restricted deposits held at a bank as its reserve for the provision of a loan facility of RMB149.1 million (as of December 31, 2019: approximately RMB199.1 million) provided by the bank which will expire within 1 year.



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, 2020, bank loans borrowed by the Group amounted to approximately RMB149.1 million (as at December 31, 2019: RMB199.1 million). As at June 30, 2020, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 34.6% (as at December 31, 2019: approximately 41.1%).

Pledge of Group Assets

As at June 30, 2020, restricted deposits of approximately RMB174.2 million of the Group were pledged to secure bank borrowings (as at December 31, 2019: approximately RMB230.9 million).

Information on Employees and Remuneration Policy

The Group has established the remuneration committee on April 21, 2014 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules. The remuneration committee will regularly review and recommend to the Board from time to time regarding the remuneration and compensation of the Directors and the senior management of the Group. The Group offers a competitive remuneration package commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus. As at June 30, 2020, the Group had 159 employees. For the six months ended June 30, 2020, total remuneration for employees of the Group was approximately RMB24.8 million (for the six months ended June 30, 2019: approximately RMB42.9 million).

The Company has adopted a share option scheme (the “**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 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, 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.

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 organizes 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.

Contingent Liabilities

As at June 30, 2020, the Group did not have any significant contingent liabilities (December 31, 2019: 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 USD. 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. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

USE OF IPO PROCEEDS

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

As of June 30, 2020, the IPO Proceeds have been utilised as follows:

	Net proceeds million HKD	Amounts utilised as of December 31, 2019 million HKD	Amounts utilised during the six months ended June 30, 2020 million HKD	Amounts unutilised million HKD
Overseas expansions (expanding our business in overseas markets)	137.2	137.2	0	0
Potential strategic acquisition or investment in companies in online game or related businesses	68.6	52.2	4.4	12
Creating pan-entertainment environment	157.8	157.8	0	0
Licensing more high quality games with different genres and themes from Chinese and overseas game developers and the operation of such games	68.6	68.6	0	0
Research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content	137.2	137.2	0	0
Providing funding for our working capital and other general corporate purposes	34.3	19.9	14.4	0
Investing in our technology platform, including developing and improving our game development tools and purchase of commercialized game engines developed by third parties	34.3	26.2	0	8.1
Mastering user usage flow entry point via developing intellectual hardware and mobile phone software	48.2	9.4	0	38.8
Total	686.2	608.5	18.8	58.9

As of June 30, 2020, approximately HKD58.9 million of the IPO Proceeds remained unutilised. The unutilised IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

Among the unutilised proceeds, funding reserved for acquisition will be utilised in accordance with the progress of our potential acquisition projects. We will utilise the funding reserved for working capital in the Company's operations; funding for investing in our technology platform will be used in 2020 to purchase and develop new game engines; and funding for development of intellectual hardware and mobile phone software for mastering user usage flow entry point will be utilised in accordance with the development progress in 2020.

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

DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended June 30, 2020.

REVIEW OF THE INTERIM RESULTS

The interim financial results of the Group for the six months ended June 30, 2020 is unaudited and has not been reviewed by the auditors of the Company, but has been reviewed by the audit committee of the Company (the "**Audit Committee**").

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial results for the six months ended June 30, 2020 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters of the Group.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As of June 30, 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to 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) Interest in Shares and underlying Shares

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

Notes:

1. (L) denotes long position.
2. Based on the number of issued Shares as of June 30, 2020, being 368,730,964 Shares.
3. Mr. Wang Feng held the entire issued share capital of Wangfeng Management Limited, which in turn directly held 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in all the 66,576,160 Shares held by Wangfeng Management Limited under the SFO.

In addition, Mr. Wang Feng held 4,207,072 Shares and was interested in 8,433,308 RSUs granted to him under the RSU Scheme entitling him to receive 8,433,308 Shares subject to vesting. As of June 30, 2020, all of the RSUs (as defined below) have been vested.

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

In addition, Ms. Liao Mingxiang held 174,000 Shares and was interested in 6,491,769 RSUs granted to her under the RSU Scheme entitling her to receive 6,491,769 Shares subject to vesting. As of June 30, 2020, 4,964,569 RSUs have been vested.

5. The 2,300,000 Shares that Mr. Wang Jin was interested in consisted of (a) 300,000 share options and 1,000,000 share options granted to him on June 15, 2016 and April 1, 2019, respectively, under the Share Option Scheme entitling him to receive an aggregate of 1,300,000 Shares upon exercise; and (b) 1,000,000 RSUs granted to him under the RSU Scheme entitling him to receive 1,000,000 Shares subject to vesting, among which, 670,000 RSUs have been vested as of June 30, 2020.

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

6. The 1,575,841 Shares that Mr. Chen Hao was interested in consisted of (a) 100,000 share options and 1,000,000 share options granted to him on October 9, 2015 and January 18, 2017, respectively, under the Share Option Scheme entitling him to receive an aggregate of 1,100,000 Shares upon exercise; and (b) 475,841 RSUs granted to him under the RSU Scheme entitling him to receive 475,841 Shares subject to vesting, among which 375,841 RSUs have been vested as of June 30, 2020.

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



Save as disclosed above, as of June 30, 2020, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As of June 30, 2020, the following Directors or the chief executive of the Company are directly or indirectly (other than indirectly by virtue of their interest in the Company) interested in the shares or underlying shares of the other member of the Group as follows:

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

Note:

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

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

So far as is known to the Directors, as of June 30, 2020, the following persons (other than Directors and chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

(i) Substantial Shareholders

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

Shareholder	Nature of Interest	Number of Shares (Note 1)	Approximate percentage of interest (Note 2)
Fosun International Holdings Limited (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang (Note 5)	Interest of controlled corporation	52,318,760 (L)	14.19%
The Core Trust Company Limited (Note 6)	Trustee of a trust	42,077,086 (L)	11.41%
TCT (BVI) Limited (Note 6)	Trustee of a trust	42,077,086 (L)	11.41%
Premier Selection Limited (Note 6)	Nominee for another person	42,077,086 (L)	11.41%

Notes:

- (L) denotes long position.
- Based on the number of issued Shares as of June 30, 2020, being 368,730,964 Shares.
- Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in the Shares in which Mr. Wang Feng is interested under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report.
- Mr. Wang Feng, Chairman of the Company and Director, holds the entire issued share capital of Wangfeng Management Limited.
- Starwish Global Limited is wholly-owned by China Momentum Fund, L.P. ("**China Momentum**"), an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. ("**Fosun China Momentum**") is the general partner of China Momentum and is in turn wholly-owned by Fosun Momentum Holdings Limited ("**Fosun Momentum Holdings**"). Fosun Momentum Holdings is wholly-owned by Fosun Financial Holdings Limited ("**Fosun Financial Holdings**") which is in turn wholly-owned by Fosun International Limited ("**Fosun International**"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00656).

As of June 30, 2020, based on information available on the Stock Exchange, Fosun International is 71.09% owned by Fosun Holdings Limited ("**Fosun Holdings**") which is in turn wholly-owned by Fosun International Holdings Ltd. ("**Fosun International Holdings**"), a company controlled as to approximately 85.29% by Mr. Guo Guangchang.

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

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

(ii) Other Shareholders

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

Notes:

1. (L) denotes long position.
2. Based on the number of issued Shares as of June 30, 2020, being 368,730,964 Shares.
3. Each of IDG-Accel China Growth Fund L.P. ("**IDG Fund**", holding 23,061,443 Shares) and IDG-Accel China Growth Fund-A LP. ("**IDG Fund-A**", holding 4,712,880 Shares) is controlled by its sole general partner, IDG-Accel China Growth Fund Associates, L.P. ("**IDG Fund Associates**"), which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. ("**IDG GP Associates**"). IDG GP Associates is held as to 35.00% by each of Mr. Zhou Quan and Mr. Ho Chi Sing.

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

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

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

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

Share Option Scheme

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

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

Details of the granted and outstanding share options of the Company as of June 30, 2020 and movement during the six months ended June 30, 2020 are as follows:

Category	Date of grant	Option period (note 1)	Share Options granted	Exercise price HKD	Closing Price of the Shares immediately before the date of grant HKD	Outstanding balance as at January 1, 2020	During the Reporting Period				Outstanding balance as at June 30, 2020	Number of new shares issued during the Reporting Period	Number of new shares which may be issued during the Reporting Period
							Granted	Exercised	Cancelled	Lapsed			
Ms. Liao Mingxiang	September 12, 2019	September 12, 2019 to September 11, 2029	3,500,000 (note 5)	0.72	0.72	3,500,000	—	—	2,000,000	1,500,000	—	—	—
Mr. Chen Hao	October 9, 2015	October 9, 2015 to October 8, 2025	100,000 (note 3)	7.18	7.18	100,000	—	—	—	—	100,000	—	—
	January 18, 2017	January 18, 2017 to January 17, 2027	1,000,000 (note 3)	3.10	3.10	1,000,000	—	—	—	—	1,000,000	—	125,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,000,000 (note 5)	0.72	0.72	1,000,000	—	—	—	1,000,000	—	—	—
Mr. Wang Jin	June 15, 2016	June 15, 2016 to June 14, 2026	300,000 (note 3)	4.366	4.18	300,000	—	—	—	—	300,000	—	37,500
	April 1, 2019	April 1, 2019 to March 31, 2029	1,000,000 (note 4)	0.88	0.88	1,000,000	—	—	—	—	1,000,000	—	85,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,600,000 (note 5)	0.72	0.72	1,600,000	—	—	—	1,600,000	—	—	—
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 (note 3)	8.10	8.10	462,298	—	—	—	—	462,298	—	—
	October 9, 2015	October 9, 2015 to October 8, 2025	5,910,000 (note 3)	7.18	7.18	2,778,750	—	—	—	—	2,778,750	—	—
	June 15, 2016	June 15, 2016 to June 14, 2026	1,450,000 (note 3)	4.366	4.18	675,000	—	—	—	—	675,000	—	—
	January 18, 2017	January 18, 2017 to January 17, 2027	8,225,000 (note 3)	3.10	3.10	2,315,000	—	—	—	21,250	2,293,750	—	63,125
	April 1, 2019	April 1, 2019 to March 31, 2029	300,000 (note 4)	0.88	0.88	300,000	—	—	—	—	300,000	—	25,500
	August 16, 2019	August 16, 2019 to August 15, 2029	860,000 (note 3)	0.65	0.64	860,000	—	—	—	50,000	810,000	—	—
	September 12, 2019	September 12, 2019 to September 11, 2029	800,000 (note 5)	0.72	0.72	800,000	—	—	—	800,000	—	—	—

Notes:

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

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

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

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

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

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

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

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

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

As at June 30, 2020, among the 6,900,000 share options granted on September 12, 2019, 4,900,000 share options had lapsed according to their vesting conditions and 2,000,000 share options had been cancelled. Please refer to the announcements of the Company dated January 21, 2020 and February 7, 2020 for details.

Share Incentive Scheme

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

As of June 30, 2020, there were 35,581,294 RSUs granted and outstanding, among which 32,815,094 RSUs have been vested.

During the six months ended June 30, 2020, no RSUs was granted; 2,313,300 RSUs were vested; no RSUs had been cancelled and 8,270,000 RSUs lapsed. In addition, The Core Trust Company Limited, the RSU trustee assisting with the administration and vesting of RSUs granted, purchased 533,000 Shares on the Stock Exchange during the six months ended June 30, 2020, which will be used to satisfy the RSUs upon exercise.

For further details of the movement of RSUs and expenses in connection with the RSU Scheme, please refer to note 13 of the condensed consolidated financial information of the Group for the six months ended June 30, 2020 in this report.

Events during the Reporting Period and Subsequent Events

Appointment of Director, Change of Member of Board Committees and Resignation of Director

On March 27, 2020, Mr. Ji Xuefeng (“**Mr. Ji**”) was appointed as a non-executive Director and a member of the Audit Committee and the nomination committee of the Company. Mr. Ji has entered into a letter of appointment with the Company for his appointment as a non-executive Director for a term of three years commencing from March 27, 2020.

On March 27, 2020, Mr. Pan Donghui resigned as a non-executive Director due to changes in the role assigned to him by a substantial shareholder (as defined under the GEM Listing Rules) of the Company and ceased to be a member of the Audit Committee and the nomination committee of the Company.

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, 2020.

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

There was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended June 30, 2020.

Purchase, Sale or Redemption of Listed Securities of the Company

During the six months ended June 30, 2020, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

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

In the opinion of the Board, the Company has complied with the CG Code throughout the six months ended June 30, 2020.



Audit Committee

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

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

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

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings throughout the six months ended June 30, 2020.



Interim Condensed Consolidated Balance Sheet

		As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,554	2,462
Right-of-use assets	6	8,329	746
Intangible assets	6	36,337	43,246
Film rights and films in progress	7	72,635	21,574
Investments using equity accounting		34,391	34,273
An associate measured at fair value through profit or loss		41,675	41,434
Financial assets at fair value through profit or loss	8	61,047	59,681
Deferred income tax assets — net		245	257
Other receivables	10	2,002	1,124
Other non-current assets	11	344	302
		258,559	205,099
Current assets			
Trade receivables	9	26,403	29,352
Other receivables	10	17,520	23,100
Other current assets	11	30,037	39,473
Financial assets at fair value through profit or loss	8	500	13,000
Short-term bank deposits		42,477	127,965
Restricted deposits		174,156	230,912
Cash and cash equivalents		161,678	96,471
		452,771	560,273
Total assets		711,330	765,372

Interim Condensed Consolidated Balance Sheet (Continued)

	Note	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		59	59
Share premium		1,720,690	1,720,690
Shares held for RSU Scheme		(10,256)	(10,019)
Reserves	12	423,121	416,225
Accumulated losses		(1,685,842)	(1,690,739)
		447,772	436,216
Non-controlling interests		17,353	14,351
Total equity		465,125	450,567
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		891	1,233
Contract liabilities		2,058	1,860
		2,949	3,093
Current liabilities			
Bank borrowings	14	149,100	199,100
Trade and other payables	15	29,764	54,470
Current income tax liabilities		8,780	8,329
Contract liabilities		47,774	49,544
Lease liabilities		7,838	269
		243,256	311,712
Total liabilities		246,205	314,805
Total equity and liabilities		711,330	765,372

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

Interim Condensed Consolidated Statement of Comprehensive Income/(Loss)

		Three months ended June 30, 2020		Six months ended June 30, 2020	
	Note	RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	48,816	53,086	107,305	105,994
Cost of revenue	16	(29,720)	(30,154)	(69,717)	(60,319)
Gross profit		19,096	22,932	37,588	45,675
Selling and marketing expenses	16	(2,672)	(1,998)	(7,748)	(17,628)
Administrative expenses	16	(9,157)	(12,368)	(18,944)	(22,816)
Research and development expenses	16	(2,227)	(6,444)	(7,576)	(17,865)
Net impairment losses on receivables	16	(249)	(43)	(299)	(90)
Other operating income — net	17	1,271	1,546	5,897	1,556
Operating profit/(loss)		6,062	3,625	8,918	(11,168)
Other (losses)/gains — net	18	(252)	5,519	(202)	5,701
Finance (costs)/income — net		(516)	753	(611)	777
Share of profit/(loss) of investments using equity accounting		95	427	(520)	(110)
Profit/(loss) before income tax		5,389	10,324	7,585	(4,800)
Income tax credit/(expense)	19	69	(35)	(604)	(37)
Profit/(loss) for the period		5,458	10,289	6,981	(4,837)
Other comprehensive (loss)/income					
Items that may be subsequently reclassified to profit or loss:					
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		(374)	1,343	638	101
Items that will not be reclassified to profit or loss:					
— Currency translation differences		(1,837)	9,933	6,016	903
Other comprehensive (loss)/income for the period, net of tax		(2,211)	11,276	6,654	1,004

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

	Note	Three months ended June 30, 2020	2019	Six months ended June 30, 2020	2019
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Total comprehensive income/ (loss) for the period		3,247	21,565	13,635	(3,833)
Profit/(loss) attributable to:					
Owners of the Company		5,217	9,820	4,897	(4,998)
Non-controlling interests		241	469	2,084	161
Profit/(loss) for the period		5,458	10,289	6,981	(4,837)
Total comprehensive income/ (loss) attributable to:					
Owners of the Company		3,006	21,096	11,551	(3,994)
Non-controlling interests		241	469	2,084	161
Total comprehensive income/ (loss) for the period		3,247	21,565	13,635	(3,833)
Earnings/(loss) per share (expressed in RMB per share)					
— Basic	20	0.02	0.03	0.01	(0.01)
— Diluted	20	0.01	0.03	0.01	(0.01)

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					Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	
Balance as of January 1, 2020		59	1,720,690	(10,019)	416,225	(1,690,739)	436,216	450,567
Comprehensive income								
Profit for the period		—	—	—	—	4,897	4,897	6,981
Other comprehensive income								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		—	—	—	638	—	638	638
— Currency translation differences		—	—	—	6,016	—	6,016	6,016
Total comprehensive income for the period		—	—	—	6,654	4,897	11,551	13,635
Total contributions by and distributions to owners of the Company recognised directly in equity								
Increase in ownership interest in subsidiaries without change of control		—	—	—	(890)	—	(890)	890
Employee share option and RSU Scheme:								
— Shares repurchased for RSU Scheme		—	—	(237)	—	—	(237)	(237)
— Value of employee services	13	—	—	—	1,132	—	1,132	28
Total contributions by and distributions to owners of the Company for the period		—	—	(237)	242	—	5	918
Balance as of June 30, 2020		59	1,720,690	(10,256)	423,121	(1,685,842)	447,772	465,125

Interim Condensed Consolidated Statement of Changes in Equity (Continued)

(Unaudited)	Note	Attributable to owners of the Company					Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	
Balance as of January 1, 2019		59	1,720,690	(5,822)	405,894	(1,581,781)	539,040	548,327
Comprehensive (loss)/income								
Loss for the period		—	—	—	—	(4,998)	(4,998)	(4,837)
Other comprehensive income								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		—	—	—	101	—	101	101
— Currency translation differences		—	—	—	903	—	903	903
Total comprehensive income/(loss) for the period		—	—	—	1,004	(4,998)	(3,994)	(3,833)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Increase in ownership interest in subsidiaries without change of control		—	—	—	723	—	723	—
Employee share option and RSU Scheme:								
— Shares repurchased for RSU Scheme		—	—	(1,086)	—	—	(1,086)	(1,086)
— Value of employee services	13	—	—	—	1,541	—	1,541	1,705
Total contributions by and distributions to owners of the Company for the period		—	—	(1,086)	2,264	—	1,178	619
Balance as of June 30, 2019		59	1,720,690	(6,908)	409,162	(1,586,779)	536,224	545,113

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,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from/(used in) operations		15,248	(27,609)
Income tax paid-net		(483)	(168)
Net cash generated from/(used in) operating activities		14,765	(27,777)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(31)	(788)
Purchase of intangible assets	6	(11)	—
Net cash received from disposal of property, plant and equipment		—	481
Purchase of financial assets at fair value through profit or loss		(3,000)	—
Proceeds from disposal of financial assets at fair value through profit or loss		13,691	17,477
Payments for films in progress	7	(51,061)	(3,176)
Loan repayments received from third parties		1,000	2,000
Decrease in restricted deposits		56,757	—
Decrease in short term bank deposits		231,685	102,948
Increase in short term bank deposits		(146,197)	(54,998)
Prepayment for investments		—	(2,000)
Net cash generated from investing activities		102,833	61,944

Interim Condensed Consolidated Statements of Cash Flows (Continued)

		Six months ended June 30,	
	Note	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash flows from financing activities			
Repayment of bank borrowings	14	(50,000)	—
Interests paid		(4,338)	(4,917)
Repurchase of shares for RSU Scheme		(237)	(1,086)
Principal elements of lease payments		(1,800)	(3,355)
Net cash used in financing activities		(56,375)	(9,358)
Net increase in cash and cash equivalents		61,223	24,809
Cash and cash equivalents at beginning of period		96,471	176,555
Exchange gain/(loss) on cash and cash equivalents		3,984	(6,158)
Cash and cash equivalents at end of the period		161,678	195,206

The above interim condensed consolidated statement 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 “**Game Business**”) in the People’s Republic of China (the “**PRC**”) and other countries and regions, and film business (the “**Film Business**”) in the PRC.

The interim condensed consolidated balance sheet of the Group as of June 30, 2020 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 14, 2020.

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

The Interim Financial Information has not been audited.



2. Basis of preparation

The Interim Financial Information 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, 2019 as set out in the 2019 annual report of the Company (the “**2019 Financial Statements**”) and any public announcements made by the Company during the interim reporting period, which have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”).

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

3.1 Summary of significant accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2019, 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.

(a) New and amended standards adopted by the group

A number of new amendments to accounting standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments.

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

3.1 Summary of significant accounting policies (Continued)

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

Certain standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial period beginning January 1, 2020, are not expected to have a material impact on consolidated financial statement in the foreseeable future. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards.

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 2019 Financial Statements.



4. Financial risk management

4.1 Financial risk factors

The Group is subject to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and concentration risk.

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 2019 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2020.

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).

The financial assets of the Group are all categorised within level 3 as of June 30, 2020 and December 31, 2019.

The Group did not have any financial liabilities that were measured at fair value as of June 30, 2020 and December 31, 2019.

4. Financial risk management (Continued)

4.2 Fair value estimation (Continued)

There were no transfers among level 1, 2 and 3 during the six months ended June 30, 2020.

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 models and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- a combination of observable inputs and unobservable inputs, including discount rates, risk-free interest rates, expected volatility and revenue multiples.

4. Financial risk management (Continued)

4.2 Fair value estimation (Continued)

	As of June 30, 2020	Valuation technique	Significant unobservable inputs	Percentage or ratio range
Unlisted securities	37,342	Discounted cash flow model	Discount rate	21% ~ 26%
			Terminal growth rate	3%
			Discount for lack of marketability	20% ~ 26%
			Volatility	33% ~ 61%
Unlisted securities	23,705	Market approach	Revenue multiples of comparable companies	1.06 ~ 2.96
			Discount for lack of marketability	15% ~ 20%

An associate at fair value through profit or loss comprises an investment in a private equity fund which is subject to the terms and conditions of the fund's offering documentation. The value of the associate is primarily based on the latest available financial/capital account statement reported by the general partner of the fund, unless the Group is aware of reasons that such a valuation may not be the best approximation of fair value. The Group may make adjustments to the value based on considerations such as: the underlying investments of the fund, the valuation date of the net asset value provided, cash flows since the latest valuation date, and the basis of accounting of the underlying fund. The unobservable inputs which significantly impact the fair value are the net asset value of the net assets of the fund reported by its general partner.

4. Financial risk management (Continued)

4.2 Fair value estimation (Continued)

The following table presents the changes in level 3 financial assets for the six months ended June 30, 2020 and 2019, respectively.

(Unaudited)	An associate at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Opening balance as of January 1, 2020	41,434	72,681	114,115
Additions	—	3,000	3,000
Disposals	—	(13,691)	(13,691)
Gains/(losses) recognised in other (losses)/gains — net	241	(443)	(202)

Closing balance as of June 30, 2020	41,675	61,547	103,222
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(Unaudited)	An associate at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Opening balance as of January 1, 2019	44,000	106,395	150,395
Disposals	—	(17,477)	(17,477)
(Losses)/gains recognised in other (losses)/gains — net	(1,043)	6,744	5,701
Exchange adjustment	—	4	4

Closing balance as of June 30, 2019	42,957	95,666	138,623
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5. Revenue and segment information

The chief operating decision maker (“**CODM**”) of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

The Company separately manages the production and operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. For the six months ended June 30, 2020, the Group is organised into two reportable operating segments.

The Group identifies 2 segments as follows:

- The Game Business, which is primarily engaged in developing and publishing online games in the PRC and other countries and regions;
- The Film Business, which is primarily engaged in licensing self-developed film rights (including internet drama) to third-party publishers and producing films (including internet drama) for specific customers in the PRC.

The CODM assesses the performance of the operating segments based on the operating profit/loss of each reporting segments. The reconciliation of operating profit/loss to loss before income tax is shown in the interim condensed consolidated statement of comprehensive income/(loss).



5. Revenue and segment information (Continued)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:				
Game Business				
— Sales of in-game virtual items	32,819	32,743	58,508	70,944
— License fee and technical support fee	5,746	7,732	15,916	20,197
	38,565	40,475	74,424	91,141
Film Business				
— Production and licensing of film rights and others	10,251	12,611	32,881	14,853
Total	48,816	53,086	107,305	105,994
Segments results — operating profit/(loss):				
— Game Business	4,106	1,581	2,091	(11,077)
— Film Business	1,956	2,044	6,827	(91)
Total	6,062	3,625	8,918	(11,168)



5. Revenue and segment information (Continued)

A breakdown of revenue derived from the PRC, South Korea and other overseas countries and regions in the respective period is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers:				
— PRC	24,127	31,851	66,407	57,548
— South Korea	20,497	17,644	35,085	38,816
— Other overseas countries and regions	4,192	3,591	5,813	9,630
	48,816	53,086	107,305	105,994

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, 2020	As of December 31, 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
— PRC	118,653	66,920
— South Korea	546	1,410
	119,199	68,330

6. Property, plant and equipment, right-of-use assets and intangible assets

	Property, plant and equipment RMB'000 (Unaudited)	Right-of-use assets RMB'000 (Unaudited)	Intangible assets RMB'000 (Unaudited)
At January 1, 2020	2,462	746	43,246
Additions	31	9,369	11
Depreciation/amortisation charge	(634)	(1,786)	(7,051)
Disposals	(305)	—	—
Exchange	—	—	131
At June 30, 2020	1,554	8,329	36,337

	Property, plant and equipment RMB'000 (Unaudited)	Right-of-use assets RMB'000 (Unaudited)	Intangible assets RMB'000 (Unaudited)
At January 1, 2019	3,001	9,747	29,586
Additions	788	—	—
Depreciation/amortisation charge	(1,046)	(3,112)	(5,527)
Disposals	(233)	(4,037)	(1,756)
Impairment loss	—	—	(143)
At June 30, 2019	2,510	2,598	22,160

6. Property, plant and equipment, right-of-use assets and intangible assets (Continued)

Assets subjected to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For one game of which the operation does not meet the original budget, the Group performed the impairment test of its related licenses on the single game's operation. Calculation in value in model uses pre-tax cash flow projections covering a three-year license period using the average revenue growth rate approximately-33%. The discount rate used is 20%.

The valuation results indicate that the recoverable amount is higher than the carrying amount, and there is no evidence of impairment.

7. Film rights and films in progress

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Film rights and films in progress		
— Under production/production yet to commence	72,635	21,574
	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Beginning of the period	21,574	14,564
Additions	51,061	3,176
Recognised in cost of revenue	—	(740)
End of the period	72,635	17,000

8. Financial assets at fair value through profit or loss

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Included in current assets		
Wealth management products (Note (a))	500	13,000
Included in non-current assets		
Unlisted securities (Note (b))	61,047	59,681

Notes:

- (a) The Group purchased certain wealth management products issued by commercial banks in the PRC. 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 contracts of wealth management products. As of June 30, 2020 and December 31, 2019, RMB500,000 and RMB13,000,000 of these investments have been recorded in "financial assets at fair value through profit or loss" in the balance sheet. The related gains have been recorded in "other (losses)/gains — net" in the income statement.
- (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 other comprehensive income.

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 is within level 3 of the fair value hierarchy.



9. Trade receivables

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Trade receivables	28,068	31,246
Less: impairment provision	(1,665)	(1,894)
	26,403	29,352

The revenue of the Group from the game distribution channels, third-party payment vendors, 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, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
0-60 days	20,275	28,479
61-90 days	96	161
91-180 days	63	336
181-365 days	6,063	567
over 1 year	1,571	1,703
	28,068	31,246

10. Other receivables

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Current		
Amount due from		
a related party (Note 22)	195	195
Loans to employees (Note (a))	4,803	3,709
Rental and other deposits	1,501	3,283
Loans to third parties (Note (b))	23,304	21,000
Interest receivable	8,419	9,055
Receivable from disposal of investment using equity accounting	—	6,000
Others	2,970	3,530
	41,192	46,772
Less: provision for impairment of other receivables	(23,672)	(23,672)
	17,520	23,100
Non-current		
Rental and other deposits	878	—
Others	1,124	1,124
	2,002	1,124

Notes:

- (a) Loans to employees are unsecured and repayable within next 12 months.
- (b) Loans to third parties are mainly due from film producers for the Group's investment in film projects, totally RMB22,719,000 of which and related interest receivable have been credit-impaired as of June 30, 2020 (December 31, 2019: RMB23,719,000). Individual assessments have been performed on the recoverability of the loans and interest receivable. Based on the assessments, an impairment provision of RMB22,719,000 has been made for such credit-impaired loans to third parties and related interest receivables as of June 30, 2020 and December 31, 2019.

11. Other assets

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Current		
Prepaid service charges to game distribution channels	4,366	11,092
Prepayments to game developers	6,400	5,404
Prepaid rental, advertising costs and others	4,859	5,413
Deductible input value-added tax	14,412	17,564
	30,037	39,473
Non-current		
Prepaid service charges to game distribution channels	344	302



12. 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 January 1, 2020	(3,403)	109,407	18,039	286,698	5,484	416,225
Share of other comprehensive income of investments using equity method, net of tax	—	—	—	—	638	638
Increase in ownership interest in subsidiaries without change of control	(890)	—	—	—	—	(890)
Employee share option and RSU scheme: — Value of employee services (Note 13)	—	—	—	1,132	—	1,132
Currency translation differences	—	6,016	—	—	—	6,016
Balance as of June 30, 2020	(4,293)	115,423	18,039	287,830	6,122	423,121
Balance as of January 1, 2019	(4,126)	103,545	17,735	284,299	4,441	405,894
Share of other comprehensive income of investments using equity method, net of tax	—	—	—	—	101	101
Increase in ownership interest in subsidiaries without change of control	723	—	—	—	—	723
Employee share option and RSU scheme: — Value of employee services (Note 13)	—	—	—	1,541	—	1,541
Currency translation differences	—	903	—	—	—	903
Balance as of June 30, 2019	(3,403)	104,448	17,735	285,840	4,542	409,162



13. 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, January 18, 2017, April 1, 2019, August 16, 2019 and September 12, 2019, 31,371,494, 2,275,000, 20,000, 1,805,385, 1,300,000, 760,000 and 3,680,000 RSUs under the RSU Scheme were granted to employees, directors and consultants, respectively.

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. More detailed information of the vesting conditions of those RSUs have been disclosed in the 2019 Financial Statements.



13. 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,	
	2020	2019
	(Unaudited)	(Unaudited)
Beginning of the period	5,129,500	250,000
Granted	—	1,300,000
Lapsed	(50,000)	—
Vested	(2,313,300)	(700,000)
End of the period	2,766,200	850,000

As of June 30, 2020 and December 31, 2019, 32,815,094 and 30,501,794 RSUs respectively have been vested unconditionally.

(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 attributed to the RSUs were held by the RSU Nominee for the benefit of eligible participants pursuant to the RSU Scheme and the Trust Deed.

13. 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 have been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to “other reserves” as deemed contribution from shareholders. As a result of the vesting of 2,313,300 RSUs during the six months ended June 30, 2020, approximately RMB356 was transferred out from treasury shares upon vesting of these RSUs.

(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.

(i) *Grant of share options*

On August 12, 2015, October 9, 2015, June 15, 2016, January 18, 2017, April 1, 2019 and August 16, 2019, 1,849,192, 6,010,000, 1,750,000, 9,225,000, 1,300,000 and 860,000 share options were granted under the Pre-IPO Share Option.

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. More detailed information of the vest conditions of those share options have been disclosed in the 2019 Financial Statements.

13. Share-based payments (Continued)

(b) Share options (Continued)

(i) Grant of share options (Continued)

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

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

	Six months ended June 30,			
	2020	2019	Average	Number of
	Average	Number of	Exercise	share
	Exercise	share	Price	options
	Price	options		
Beginning of the period	HKD4.15	9,791,048	HKD5.08	7,881,048
Granted	—	—	HKD0.88	1,300,000
Lapsed	HKD1.38	(71,250)	HKD4.02	(116,250)
End of the period	HKD4.17	9,719,798	HKD4.49	9,064,798

Out of the 9,719,798 outstanding options (December 31, 2019: 9,791,048), 8,125,798 options (December 31, 2019: 7,789,673) were exercisable. Share options outstanding as of June 30, 2020 include 462,298 (December 31, 2019: 462,298) share options, 2,878,750 (December 31, 2019: 2,878,750) share options, 975,000 (December 31, 2019: 975,000) share options, 3,293,750 (December 31, 2019: 3,315,000), 1,300,000 (December 31, 2019: 1,300,000) and 810,000 (December 31, 2019: 860,000) share options, with the exercise price of HKD8.10, HKD7.18, HKD4.366, HKD3.10, HKD0.88 and 0.65HKD per share option, respectively. All these options will expire in 10 years from the grant date.

13. Share-based payments (Continued)

(c) *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 interim condensed consolidated statements of comprehensive income/(loss). As of June 30, 2020, the Expected Retention Rate of interim condensed employees was assessed to be 70% (December 31, 2019: 70%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2019: 100%).

14. Bank borrowings

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Bank borrowings		
— Secured loans	149,100	199,100
Included in:		
Current liabilities	149,100	199,100

- (a) Bank borrowings are secured by restricted deposits of RMB174,155,700(2019: RMB230,912,000).
- (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 are 4.3%-4.4% (2019: 4.4%-4.57%).

14. Bank borrowings (Continued)

(d) Borrowings are repayable as follows:

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Within 1 year	149,100	199,100

(e) As of June 30, 2020 and December 31, 2019, all of the Group's borrowings are denominated in RMB.

15. Trade and other payables

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Trade payables (Note (i))	13,315	27,641
Accrued expenses and liabilities	7,102	10,413
Salary and staff welfare payables	5,205	8,493
Amount due to a related party (Note 22)	5,438	5,438
Other taxes payable	(1,336)	2,427
Interest payable	40	58
	29,764	54,470

15. Trade and other payables (Continued)

Note:

- (i) Trade payables mainly arose from film production 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 the recognition date is as follows:

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
0–180 days	10,162	22,163
181–365 days	302	1,796
1–2 years	206	496
2–3 years	79	574
over 3 years	2,566	2,612
	13,315	27,641



16. Expenses by nature

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses, research and development expenses and net impairment losses on receivables are analysed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Service charges by game distribution channels	10,172	9,931	19,159	22,869
Content fee to game developers	3,958	1,739	7,792	7,102
Bandwidth and server custody fees	2,662	3,086	5,089	5,872
Film rights recognised as cost of revenue	—	740	—	740
Film production cost	6,294	5,273	25,968	5,634
Payment handling costs	6	—	12	—
Employee benefit expenses (excluding share-based compensation expenses)	10,400	18,492	23,683	41,224
Share-based compensation expenses	43	1,282	1,160	1,705
Depreciation of property and equipment and right-of-use assets (Note 6)	1,095	1,862	2,420	4,158
Amortisation and impairment of intangible assets (Note 6)	3,897	2,556	7,051	5,670
Net impairment losses on receivables	249	43	299	90
Other assets write-off	67	407	67	504
Promotion and advertising expenses	1,217	859	4,632	11,746
Traveling and entertainment expenses	304	736	644	2,252
Office rental expenses	363	202	535	1,448
Other professional service fees	1,753	1,574	3,135	3,139
Game development outsourcing costs	199	197	217	573
Utilities and office expenses	398	264	873	604
Auditors' remuneration	—	—	—	—
— Non-audit related services	500	500	800	800
Others	448	1,264	748	2,588
Total	44,025	51,007	104,284	118,718

17. Other operating income — net

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Government subsidies	550	498	732	898
Foreign exchange gains, net	584	481	311	42
Gain on disposals of property, plant and equipment	(102)	210	(102)	258
Gain on disposals of intangible assets	—	1,132	—	1,132
Penalty income for termination of contracts	—	—	4,717	—
Others	239	(775)	239	(774)
Total	1,271	1,546	5,897	1,556

18. Other (losses)/gains — net

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Fair value (loss)/gain from financial assets at fair value through profit or loss	(493)	6,562	(443)	6,744
Fair value gain/(loss) from an associate measured at fair value through profit or loss	241	(1,043)	241	(1,043)
Total	(252)	5,519	(202)	5,701

19. Income tax (credit)/expense

The income tax expense of the Group for each of the three months and six months ended June 30, 2020 and 2019 is analysed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax	125	39	934	168
Deferred income tax	(194)	(4)	(330)	(131)
Income tax (credit)/expense	(69)	35	604	37

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

No income tax provision for Hong Kong profit tax has been made by the Group as the Company's subsidiaries incorporated in Hong Kong did not have any taxable profit generated from operations in Hong Kong for the three months and six months ended June 30, 2020 and 2019.

The income tax provision of the Group in respect of operations in the PRC has been calculated based on the statutory tax rate of 25% on the estimated assessable profits for the six months ended June 30, 2020 and 2019 of each of the group companies, except that: (i) one subsidiary of the Company, qualified as a Software Enterprise, was subject to a preferential income tax rate of 12.5% from 2018 to 2020; (ii) one subsidiary of the Company, incorporated in Horgos, is exempted from income taxes under the relevant PRC tax rules and regulations; and (iii) one subsidiary of the Company, qualified as "High and New Technology Enterprise" for a 3-year period and is entitled to a preferential income tax rate of 15%.

20. Earnings/(loss) per share

Basic earnings/(loss) per share for the three months and the six months ended June 30, 2020 and 2019 is calculated by dividing the earnings/(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,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings/(loss) attributable to owners of the Company, used in the basic and diluted earnings/(loss) per share calculation (RMB'000)	5,217	9,820	4,897	(4,998)
Number of ordinary shares				
Weighted average number of ordinary shares in issue, used in the basic and diluted earnings/(loss) per share calculation ('000)	347,834	350,509	347,056	350,639
Dilutive equivalent shares arising from potential ordinary shares ('000) (Note (i))	2,766	412	2,932	—
Weighted average number of ordinary shares and potential ordinary shares in issue, used in the diluted earnings/(loss) per share calculation ('000)	350,600	350,921	349,988	350,639
Basic earnings/(loss) per share (expressed in RMB per share)	0.02	0.03	0.01	(0.01)
Diluted earnings/(loss) per share (expressed in RMB per share)	0.01	0.03	0.01	(0.01)

20. Earnings/(loss) per share (Continued)

Note:

- (i) 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, 2020 and 2019, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible people. As the Group incurred a loss for the six months ended June 30, 2019, the potential ordinary shares were not included in the calculation of dilutive loss per share since their inclusion would be anti-dilutive.

21. Dividends

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

22. 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, 2020 and 2019. 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,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Rendering of services to		
— Hainan Tianchen Network Technology Co., Ltd.		
("Hainan Tianchen")	87	—

22. Significant related party transactions (Continued)

(b) Balances with related parties

(i) Amount due from a related party

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Hainan Tianchen	195	195

The amount due from the related parties as of June 30, 2020 and December 31, 2019 was unsecured.

(ii) Amount due to a related party

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Fuze Entertainment Co., Ltd.	5,438	5,438



22. Significant related party transactions (Continued)

(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,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Wages, salaries and bonuses	1,555	1,386	3,201	2,721
Pension costs — defined contribution plans	—	65	19	137
Other social security costs, housing benefits and other employee benefits	77	95	163	191
Share-based compensation expenses	257	134	1,181	1,198
	1,889	1,680	4,564	4,247

