LINEKONG

ANNUAL REPORT

藍港互動集團有限公司
Linekong Interactive Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Feng *(Chairman and chief executive officer)*
Ms. Liao Mingxiang *(President)*
Mr. Qian Zhonghua
(re-designated from non-executive Director to executive Director with effect from February 3, 2017 and resigned as an executive Director with effect from February 15, 2018)
Mr. Zhao Jun (resigned with effect from February 15, 2018)
Mr. Mei Song (resigned with effect from June 16, 2017)

Non-executive Director

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

Mr. Zhang Xiangdong *(Chairman)*
Mr. Wang Feng
Ms. Liao Mingxiang
Mr. Ma Ji
Mr. Wang Xiaodong
Mr. Zhao Jun (resigned with effect from February 15, 2018)
Ms. Zhao Yifang

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Wang Feng
Ms. Liao Mingxiang

COMPLIANCE OFFICER

Ms. Liao Mingxiang

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "**PRC**" OR "**CHINA**")

8/F, Qiming International Mansion
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PRC

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
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Wanchai
Hong Kong

AUDITORS

PricewaterhouseCoopers
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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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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Cayman Islands

HONG KONG SHARE REGISTRAR

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Shops 1712–1716, 17th Floor
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Wanchai
Hong Kong

PRINCIPAL BANKS

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

COMPLIANCE ADVISOR

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8 Connaught Place
Hong Kong

GEM STOCK CODE

8267

COMPANY WEBSITE

www.linekong.com

Chairman's Statement

On behalf of the Board of Linekong Interactive Group Co., Ltd., I am pleased to report to our valued shareholders and investors the review and outlook of the Company and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended December 31, 2017.

In 2017, which is the year falls on the 10th anniversary of the Group since its establishment, and is a year of extremely fierce competition in the gaming industry in the PRC. The resources are concentrated in the leading enterprises, further enhancing the cost of acquiring traffic. Together with the current prolonged R&D period of product development, the development of enterprises encountered even more challenges. In 2017, we have invested efforts in our main gaming business, especially for the development of the main gaming business in the overseas market. Comparing with 2016, our overseas market revenue grew by 36%, accounting for 33.3% of the annual revenue, which illustrates that the increasing effort put into the expansion of overseas market has brought positive effect. However, due to the adjustment of distributing strategy and the fact that the R & D of some self-developing products had not lived up to the expectations, and thus our share price underperformed. We expressed our sincere apologies to our shareholders and investors who have offered us long-term support and trust.

In 2018, the Group will further focus on its main business — games. With those high quality games acquired, the Group may deliver a breakthrough performance in its main gaming business in the following aspects:

1. While maintaining the advantages of distributions and operations in China, continue to attach more importance on pushing up overseas markets. In 2017, the Korean version of our mobile game ***Daybreak*** (黎明之光) reaped fruitful results, ranking 1st on the Free Downloads Chart and 3rd on the Grossing Chart of App Store, 1st in popularity rankings and 3rd on the Grossing Chart of Google Play, 1st in popularity rankings of Kakao, and 2nd in the Korean local mall ONE store. Our mobile game ***Nueva Salida*** (大航海之路) also ranked 3rd on the Grossing Chart of Google Play and gained top popularity ranking among the strategy games in both platforms. We established our game distributing team in Europe and US and in South East Asia in the fourth quarter in 2017. In the fourth quarter in 2017 and the first quarter in 2018, different versions of ***The Wars of Shushan*** (蜀山戰記) and ***Daybreak*** (黎明之光) , including British, U.S., Australia, Canada and Sweden version, are released in Thailand, commencing our global distribution work. In 2018, we will continue to endeavor in the overseas market and to cultivate our advantage in more overseas market.

2. In 2018, we will increase the variety and quantity of game products and plan to commercialise 9-10 new games, among which, our self-developed ***Uproar in Heaven*** (鬧鬧天宮) is a mobile competing games combined with elements of MOBA and IO. The game brings brand new experiences to players with its beautiful characters at animation level, horizontal version of fierce air combat, red-hot battle with novel characters, and fast-paced confrontation group battle. There have been thousands of players experiencing the trial play on voluntary basis during the initial technical test, and the game scored an average of 9.8 out of 10 from those players. ***The Legend of Jade Sword*** (莽荒紀), a movie-and-game integration mobile game jointly released with iQIYI, will be launched simultaneously with its TV drama in 2018 and classic scenes can be presented once again in the game. We will keep accelerating our pace of development in the distribution agency sector in China game market, by launching high quality games such as ***Kung Fu Beans*** (功夫大黃豆), ***Cute Pet Alliance*** (萌寵聯盟), ***My Guardian World*** (我守護的世界) in 2018.

3. We will actively explore the blockchain advanced technology and consider integrating such blockchain technology into gaming business. We will work closely with the blockchain pioneer, 火星財經, to plan the distribution strategy of blockchain games and accelerate the implementation of blockchain game projects.

Chairman's Statement

Through investing our efforts in the above aspects of business, we will focus on our main gaming business as always in 2018, and enhance the brand value of Linekong game based on our celebrity game products in stock. Meanwhile, being in the torrent of the times, Linekong Interactive will make prospective arrangements for important areas such as artificial intelligence and blockchain. I believe that such act will have a positive and profound impact on the development of the main gaming business.

In 2018, the Group will embark its entrepreneurial journey for the 11th anniversary. Having stood against high tides and still standing, we always get ourselves well prepared and feel that the brand value of Linekong Interactive is bearing company responsibility for shareholders, employees and communities. I would like to take this opportunity to express my gratitude to our shareholders and investors for their long-term support and trust, and I also want to thank all employees for their valuable contributions to Linekong Group during the period full of challenges and opportunities. In the year 2018, we will get well prepared to strive for a better growth.

Biographical details of the Directors and Senior Management

Biographical details of the Directors of the Company and the senior management of the Group are set out as follows:

EXECUTIVE DIRECTORS

Mr. Wang Feng, aged 49, is the chairman of the Board, chief executive officer and an executive Director. He is also the chairman of the nomination committee of the Board (the "**Nomination Committee**") and a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Mr. Wang is the founder of the Group and is primarily responsible for formulating and implementing the overall strategy as well as products and business plans of the Group. He was appointed as a Director on May 24, 2007. Prior to joining the Group, Mr. Wang worked at Beijing Kingsoft Software Co., Ltd. ("**Beijing Kingsoft**"), a subsidiary of Kingsoft Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3888), in various senior positions successively as product manager, vice president in charge of anti-virus software department, and vice president in charge of digital entertainment business from March 1997 to December 2005, and served as senior vice president in charge of digital entertainment and sales and marketing from January 2006 to March 2007. Mr. Wang has over 17 years of experience in the Internet industry and was awarded several honours, including "Individual Award for Outstanding Contributions to 20 Years of Development in Zhongguancun" granted by Beijing municipal government in 2009, "New Elite in China Game Industry" in 2007 and "the Top-Ten Most Influential People in China Game Industry" granted by China Game Industry Annual Conference ("**GIAC**") in 2008, 2009 and 2011. Mr. Wang was also awarded "Outstanding Entrepreneur" in both 2011 and 2013 by China Game Trade Annual Conference. Mr. Wang graduated from Peking University with a master of business administration degree in June 2005.

Ms. Liao Mingxiang, aged 44, is our president and an executive Director. She is also a member of the Remuneration Committee and the Nomination Committee. Ms. Liao serves as a Director of the Group since May 24, 2007. As, the co-founder of the Group, Ms. Liao is primarily responsible for overseeing the business operations, human resources and legal functions of our Group. Ms. Liao has over 16 years of experience in the Internet industry. Prior to joining our Group, Ms. Liao worked at Beijing Kingsoft from August 1999 to March 2007, as the deputy manager of the digital entertainment department, mainly responsible for managing sales and marketing channels in China, regional offices, regional promotional activities and game operations. Ms. Liao was awarded "the Top-Ten Most Influential People in China Game Industry" granted by GIAC for many years. Ms. Liao received a bachelor's degree in marketing from Jiangxi Gannan Normal University in July 2005 and a master degree in project management from Changchun University of Technology in April 2014.

Biographical details of the Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Pan Donghui, aged 47, has been a non-executive director, a member of the Audit Committee and a member of the Nomination Committee since February 3, 2017. Mr. Pan is the vice president of Fosun International Limited ("**Fosun International**") (a company listed on The Stock Exchange of Hong Kong Limited on July 16, 2007 (Stock Code: 00656)) and the president of Fosun Cultural Industry Group (復星文化產業集團) and Fosun Internet Investments Group (復星互聯網投資集團). Mr. Pan joined Shanghai Fosun High Technology (Group) Co., Ltd. ("**Fosun High Technology**") in 1994. For the past twenty years, he served as project manager of Shanghai Forte Land Co., Ltd., the chief representative of Hong Kong office of Fosun International, the general manager of Investor Relations Department of Fosun International and senior assistant to president of Fosun High Technology. Mr. Pan has helped Fosun International and its subsidiaries achieve exponential growth and high turnarounds by managing investment in telecom, media and technology, venture capital and secondary market investment, directing investor relations affairs, and leading several large real estate development projects as well as pharmaceutical projects. Mr. Pan has rich experience in effective execution and value creation in respect of leverage buyout and initial public offerings. Mr. Pan received a bachelor's degree in 1991 from Shanghai Jiao Tong University and graduated from University of Southern California with a master's degree in business administration in 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ma Ji, aged 40, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee. Mr. Ma has over 15 years of experience in accounting and corporate finance. From July 2000 to June 2011, Mr. Ma worked at Deloitte Touche Tohmatsu CPA Ltd., and served as a senior manager before he left. He then served as a vice president at Vancl Corporation from June 2011 to August 2013. Between August 2013 and October 2014, he served as the chief financial officer at Autonavi Holdings Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: AMAP) before it was delisted as a result of a recent acquisition in July 2014 by Alibaba Group Holding Limited, a company listed on the New York Stock Exchange (NYSE: BABA). Mr. Ma ceased to hold any position in Alibaba group since July 30, 2015. He formally joined JD Group in February 2016 and has been serving as the secretary to the board of directors of JD Finance Group. Mr. Ma is a U.S. certified public accountant, licensed in the state of New Hampshire. Mr. Ma is also a member of the Chinese Institute of Certified Public Accountants. Mr. Ma obtained a bachelor's degree of economics from Peking University in July 2000.

Mr. Wang Xiaodong, aged 50, is an independent non-executive Director. He was appointed to the Board on June 11, 2015. He is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Mr. Wang has various working experience in information technology companies. He previously served as senior director of Aruba Networks Inc. from August 2010 to November 2011.Mr. Wang is the founder of Dew Mobile Inc. and currently serving as chairman and chief executive officer. He is also the founder of Lindong Internet Technology (Beijing) Co., Ltd. and has been serving as chairman and chief executive officer since January 2012. He is also the chairman and chief executive officer and legal representative of Lindong (Beijing) Technology Co., Ltd.. Mr. Wang obtained a bachelor's degree in engineering specialising in radio technology and information system from Tsinghua University in July 1989 and a master's degree in electrical engineering from Colorado State University in May 1993. He obtained a degree of Master of Science in management science and engineering from The Leland Stanford Junior University in September 2002.

Mr. Zhang Xiangdong, aged 40, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. Zhang has over 16 years of experience in the Internet industry. In July 2003, Mr. Zhang founded Sungy Mobile Limited, a company listed on Nasdaq Stock Market (Nasdaq: GOMO), and served as a director and its president from 2003 until October 2014. On October 2014, Mr. Zhang resigned his positions as a director and president. On November 2014, he officially started to pursue his entrepreneurial endeavours in cycling business. Mr. Zhang joined 700Bike as a co-founder and the chief executive officer, devoting himself to promote the development of city bike and cycling culture in China. Mr. Zhang obtained a bachelor's degree in information management from Peking University in July 1999.

Ms. Zhao Yifang, aged 59, is an independent non-executive Director. She was appointed to the Board on June 11, 2015. She is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Ms. Zhao is currently serving as director and general manager of Zhejiang Huace Film &Tv Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300133). Ms. Zhao is currently the vice chairman of China Television Drama Production Industry Association. Ms. Zhao completed a postgraduate programme in modern and contemporary literature offered by Hangzhou University in September 1998.

Biographical details of the Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chen Hao, aged 32, is the vice president and general manager of the third game department (B3) of our Group. Mr. Chen obtained a master's degree in Huazhong University of Science and Technology in June 2010. In the same year, he joined the Group and began to work on the game operating system. He successfully issued key mobile game works including ***Sword of God*** (神之刃), ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話) and ***Daybreak*** (黎明之光).

Mr. Zhang Hongliang, aged 34, is the vice president of the Group. Mr. Zhang is assuming the role as a gaming producer in the gaming research and design team. Mr. Zhang joined the Group on April 25, 2008 as a programming engineer, and was mainly responsible for designing and developing the server of our online game ***Journey to the West*** (西遊記). Since June 2011, he started to serve as the technical director of our research and development department and is primarily in charge of the development and optimisation of our mobile game ***Sword of Heaven*** (蒼穹之劍) and was promoted as our co-chief technology officer in February 2013. Mr. Zhang has over 10 years of experience in the Internet and online game industry. Prior to joining the Group, he worked at Tencent Technology (Shenzhen) Co., Ltd., a subsidiary of Tencent Holdings Ltd, a company listed on the Main Board of the Stock Exchange, (Stock Code: 700), from July 2006 to April 2008. Mr. Zhang received a bachelor's degree in software engineering from Sichuan University in July 2006.

Mr. Liu Xinyun, aged 34, is the vice president of our Group and the president of Linekong US Inc., a subsidiary of the Group being founded in the U.S. on June 12, 2015. Mr. Liu is primarily responsible for the business relating to Linekong US Inc., including game development and issuance. Mr. Liu joined the Group on July 16, 2015 and has over 10 years of experience in overseas game development and issuance. Prior to joining the Group, he worked at PopCap Games International in Dublin, Ireland as software engineer and early member of the mobile team from June 2006 to April 2011, and contributed as a team member to some award winning mobile games, including ***Plants VS Zombies*** (植物大戰殭屍), etc.. He worked at GimmieWorld in Burlingame at California, USA, as chief technology officer from October 2011 to August 2012, being responsible for overall product and technical architecture and also heavily involved in the fund raising and business development. He worked at Chartboost, San Francisco, CA, USA as head of Greater China from September 2012 to April 2014, being responsible for the overall APAC strategy, business expansion and marketing development. He also worked at Forgame US Corp in Burlingame at California, USA as chief executive officer from April 2014 to July 2015, being responsible for the US office for Forgame Holdings Ltd., a publicly traded company in the Stock Exchange (Stock Code: 484) and in charge of international strategy, and US studio general management. Mr. Liu received a master's degree in mobile computing and networking from University College Cork, Ireland and a bachelor's degree in software engineering from East China Normal University in July 2005.

Biographical details of the Directors and Senior Management

Mr. Ren Zhaonian, aged 54, is the vice president of our Group and the chief executive officer of Linekong Pictures. Mr. Ren is responsible for the overall strategy, business plan and management of Linekong Pictures. Mr. Ren joined the Group on March 16, 2016 and has nearly 11 years of experience in internet industry. Prior to joining the Group, he worked in United Parcel Service International Inc, Taiwan Branch from January 1991 to December 1997 and was in charge of the development of local business. He successively served as the general manager of pan-China operations division and the managing director of pan-China of BMG from January 1998 to December 2004, being responsible for the operations of the three BMG subsidiaries in Taiwan, Hong Kong and China. He served as the chief executive officer of Wayi Intl Digital Entertainment Co., Ltd. (Taiwan Stock Exchange: 3086) from April 2005 to January 2008, being responsible for the on line game operations and research and development in greater China. He served as the vice president and E-commerce chief executive director of Daphne International Holdings Limited (Stock Exchange: 210) from June 2008 to July 2009, being responsible for starting up the Daphne E-commerce site. He participated in the setting up of E Fun Technology Entertainment Co., Ltd., being the first web game platform operations in Taiwan, and acted as the director from March 2008 to 2012. He served as general manager of YY Inc. (NASDAQ: YY) from February 2011 to February 2016, being responsible for developing new business model for the platform. Mr. Ren received a master's degree in industrial and system engineering from Rutgers University, New Jersey, USA in 1991 and a bachelor's degree in industrial engineering from Chung-Yuan University, Taiwan in 1985.

Mr. Wang Jin (also known as Mr. Yan Yusong), aged 44, is the vice president of our Group and the president of Linekong Pictures. Mr. Wang is primarily responsible for the planning, production, promotion, launch and marketing of products of Linekong Pictures. Mr. Wang joined the Group on January 11, 2016 and has over 19 years of experience in the film and television entertainment Industry. Prior to joining the Group, Mr. Wang worked at Film, Television and Literature Channel of Sichuan TV Station as host and producer from September 1997 to May 2000, and at Taiwan Azio TV as director from May 2000 to June 2003. He worked at Shanghai Dragon TV as producer from August 2003 to August 2007, during which he was involved in the planning and production of TV programs such as "My Show" and "My Hero". He worked at Star International Medio Co., Ltd. as vice president from September 2009 to April 2012, during which he was responsible for the business of the artist manager company, the music company and the film company of the group and involved in the production and issuance of films such as "Mulan". He worked at TVB China Company as the general manager of Beijing branch office from November 2012 to February 2015, during which he was responsible for the investment, production and issuance of TVB China Company's film and television drama, the purchase of copyright and artist manager business for TVB artists in Mainland China. He also worked at Beijing Yurui International Culture Media Co., Ltd. as chief executive officer from March 2015 to December 2015, being responsible for film and television planning and entertainment marketing. Mr. Wang graduated in business arts from Chengdu University in July 2015.

Ms. Qi Yunxiao, aged 35, is our vice president of the Group and the chief operating officer of Linekong Pictures. Ms. Qi is primarily responsible for normal operation and management of Linekong Pictures. Ms. Qi joined the Group on April 10, 2007 as the head of our advertising department and procurement department, in charge of formulating our advertising strategies and implementing our advertising monitoring system. Ms. Qi was further promoted as our vice president in charge of our Company's marketing and promotion business in October 2012. Ms. Qi has over 12 years of experience in the Internet industry. Prior to joining the Group, Ms. Qi worked at Kingsoft Digital from May 2003 to April 2007, as sales manager in charge of cooperation with distribution and payment channels. Ms. Qi received an associate degree in administration management from the Open University of China in July 2010.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Review

During the reporting period, the Group continued to practice the "pan-entertainment, globalization, and platform-based" strategy and focused on the main business of games to expand its advantages in game development and distribution by introducing more interesting games for players around the world. Meanwhile, we were establishing presence in a variety of spheres including movies and intelligent hardware in an effort to develop diversified business segments. In addition, the Group will embrace blockchain technology and actively explore cutting-edge technologies in this regard to integrate blockchain technology into its game business.

I. Breakthroughs in overseas markets including Korea and Southeast Asia

In 2017, the Group vigorously developed overseas markets and achieved great results in Korea and other markets. The Korean version of the mobile game ***Daybreak*** (黎明之光) ranked first in the free download list and third in the best seller list on App Store; first in the most popular list and third in the best seller list on Google Play; first in the most popular list of Kakao Talk; and second on the ONE Store, a local app store of Korea. The mobile game ***Nueva Salida*** (大航海之路) came in third in the best seller list on Google Play. Our commercial success in Korea has greatly enhanced the brand value of Linekong.

The Southeast Asia team of Linekong released the Thai version of ***The Wars of Shushan*** (蜀山戰紀) which was among the top 10 games in Thailand's game revenue ranking, and will continue to issue self-developed game products such as ***The Legend of Jade Sword HD*** (莽荒紀HD) and ***Sword of Heaven 2*** (蒼穹之劍2).

The global distribution team of ***Daybreak*** (黎明之光) achieved remarkable results. The game has been launched in U.S., Canada, Australia and New Zealand etc. and entered the Top 10 chart of App Store of 6 different countries accumulatively.

II. Integrating MOBA with IO to develop popular leisure competitive games

The Group has been actively developing an air combat-themed mobile MOBA game called ***Uproar in Heaven*** (鬧鬧天宮) with Chinese characteristics. It features cartoon characters of Journey to the West and novel methods of battle. The game combines the most popular horizontal MOBA and IO elements of the day to create exquisite animated personae, horizontal fierce air battles among mythological characters and fast-paced group confrontation, enabling the players to find themselves in an entirely new world. The first technical test of the game was conducted on TapTap for 2.5 days during which 41,999 players spontaneously posted their trial playing experience with a comprehensive score of 9.8 (out of 10 points). The game was recommended in an official article edited by TapTap and was spontaneously live-streamed by anchors on a number of live broadcasting platforms.

III. Energetic development of global products with unique gaming experience

The American subsidiary of the Group independently developed the leisure competitive game Supercharged: ***Championship*** (極限車球) which integrates leisure, sports and socializing, and has gained popularity during the trial period by virtue of its smooth playing experience and diverse gameplay. The product has been tested online in Brazil. During the first week of testing, the game was downloaded 100,000 times. Later we will commercialize the game in the global market.

IV. Emphasizing accumulation of game culture and always promoting movie-game synergy

In respect of self-owned IP products, ***Sword of Heaven*** (蒼穹之劍) is the Group's first original IP for "movie-animation-game" synergy, with Bai Yicong serving as the chief screenwriter for the movie of the same name. The self-developed MMORPG mobile game ***Sword of Heaven 2*** (蒼穹之劍2) with Chinese characteristics has been officially launched on Android. The game has original core gameplay including constellation-based love, league of legends, big escape and carrier siege that break from boring common gameplay and create immersive scene interaction multi-dimensional socializing experience. The game serves as a great weapon in the post-Xianxia era.

In terms of adapted IP products, ***Rouge Queen*** (胭脂妃) (also known as "***Legendary Beauty of the Legend of Mi Yue***") as officially licensed by the owner of ***Legend of Mi Yue*** (羋月傳) is the Group's first 3D mobile game featuring ancient palace fighting. The product not only accurately reproduces the storyline of the TV drama and incorporates classic ancient palace fighting into a mobile game, but also provides colorful fashion gameplay including fashion legends and scoring of theme dance in keeping up with market trends. As such, the game is well-received among female players. In addition, the oriental fantasy mobile game ***Monster Hunt*** (捉妖記) licensed by the owner of the movie of the same name has been launched online. Meanwhile, the Group continued to promote the strategic development of "movie-animation-game" business. It partnered with iQIYI to jointly launch the mobile game ***The Legend of Jade Sword*** (莽荒紀) for movie-game synergy. The product has a characteristic battle system and reproduces the classic storyline of the novel, and will be launched in 2018 in tandem with the TV drama of the same name. Furthermore, the Group is about to release its first cute mobile game with Chinese characteristics, namely ***Kung Fu Beans*** (功夫大黃豆) which is adapted from the well-known animation movie Tofu (豆福傳) (2017).

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Review *(Continued)*

V. Continued to speed up the release of licensed games in China's game market

As for game releases, the Group gives priority to "product selection, category selection and long product lifespan", and lines up its advantageous resources to secure the top-quality third-party games for marketing.

The 3D action adventure mobile game ***Daybreak*** (黎明之光) has not only achieved great results abroad, but also performed well in China. The new version of Daybreak (黎明之光) with King Kong mount and the officially licensed outfits from ***Assassin's Creed by Ubisoft (Ubisoft China)*** (育碧中國) climbed to the top 10 of the best seller list on App Store soon after its release. It remained among the top 15 of the list and once jumped to the top 3. ***Ultimate Sea Battle*** (終極海戰), a new expansion set of ***Daybreak*** (黎明之光), secured the 11th position in the best seller list on App Store soon after it was launched. ***Kung Fu Beans*** (功夫大黃豆), being the first cute mobile game with Chinese characteristics released by the Group, features an innovative combination of Chinese aesthetics and cartoon rendering and brings players interesting adventure experience of Cultivating Immortality and enlightenment. ***Cute Pet Alliance*** (萌寵聯盟), the first innovative 3D pet-keeping mobile game to be released by the Group, is full of fun as it combines cartoon style and the cuteness of animals. ***The World Guarded by Me*** (我守護的世界), an infinite horizontal ACT mobile game, enables players to explore different spaces and time in the vast world of the game and enjoy exhilarating fighting and exquisite tableaux. As such, during the first trial period, the game attracted a lot of fans.

In Taiwan, ***Twilight World*** (暮光世界) remained among the top 30 of the best seller list on App Store, and once jumped to the top 5 of the best seller list and ranked second in the free download list. ***The Legend of Mi Yue*** (羋月傳), after its launch, secured the first position in the download rankings of both App Store and Google Play, and was recommended by Google Play.

VI. A new Internet television company for "movie-animation-game" synergy

Linekong Pictures was established in March 2016, mainly providing new-generation online drama and online variety content. In February 2017, its first Internet drama Long For You (我與你的光年距離) achieved initial success with over 1.1 billion views in total. It ranked among the top 3 Internet dramas in terms of views in the first quarter of 2017. In June 2017, it released 16 new dramas and movies in a great effort to engage in Internet dramas and Internet-TV business. In September 2017, it finished the shooting process of its second Internet drama Unexpected (來到你的世界) whose copyright was purchased by Tencent Video prior to the shooting and will be launched in the second quarter of 2018. In 2018, we will shoot a series of outstanding works that have attracted much attention, including ***Long For You 2*** (我與你的光年距離2) and ***Tomb Guardian*** (鎮墓獸). ***Sword of Heaven*** (蒼穹之劍) is incubated from the self-developed game of Linekong, and produced by the golden screenwriter Yicong Bai with all his might. Tomb Guardian (鎮墓獸) is the first co-production of 天下霸唱 and Cai Jun. It is also the first online drama with anti-tomb robbing theme. Ancient Music Records (古樂風華錄) has entered the 2017 List of National Items for Reforms and Development (國家2017改革發展項目庫). It is a highlight of the ritual and musical culture written by 500 comic writers with ancient style. Long For You (我與你的光年距離) was produced by the most valuable teenage director in Taiwan, Raymond Chiang (江金霖) (You're The Apple Of My Eye (那些年，我們一起追的女孩)) and his film making team who have spared no efforts.

VII. Leveraging technology to launch AI products

Baidu's DuerOS and Linekong Technology, a subsidiary of the Group, jointly announced the "Xiaoqing Intelligence Plan" to develop Q&A voice game content. Xiaoqing AI Speaker is an intelligent distant interactive speaker with high quality sound introduced by Linekong Technology. With art-like aesthetic design, the product is elaborately developed by world-class acoustic experts.

Prospects

In 2018, the Group will continue to focus on its main business of games and put great efforts in self-development and global distribution of games. The Group has launched ***Monster Hunt*** (捉妖記) and ***Sword of Heaven 2*** (蒼穹之劍2) at the beginning of 2018, and will soon introduce a series of games including ***The Legend of Jade Sword*** (莽荒紀), ***Kung Fu Beans*** (功夫大黃豆), ***The World Guarded by Me*** (我守護的世界), ***Cute Pet Alliance*** (萌寵聯盟), ***Uproar in Heaven*** (鬧鬧天宮) and Supercharged: ***Championship*** (極限車球). Besides, the Groups will release such works as ***Supercharged: Championship, Sword of Heaven 2*** (蒼穹之劍2) and ***The Legend of Jade Sword*** (莽荒紀) overseas. The Group will further focus on the core player communities to improve its product operation capabilities, enhance the core competitiveness of its products with data analysis, and accelerate diversified expansion. Meanwhile, the Group will pick up the pace of global distribution of games and continue to develop game business in overseas markets while maintaining the first-mover advantages in Korea and Southeast Asia. In addition, the Group has set up a blockchain game division to explore cutting-edge blockchain technology and develop strategies for distribution of blockchain games.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Overview of Main Games

1. Self-developed games

Name	Type	Region	Features
Sword of Heaven 2 (蒼穹之劍2)	MMORPG	Global	Original core gameplay including constellation-based love, league of legends, big escape and carrier siege with immersive scene interaction
Monster Hunt (捉妖記)	MMORPG	Global	A fantastic oriental monster hunt world with scenes, plots and main characters reproduced from the movie of the same name
The Legend of Jade Sword (莽荒紀)	MMORPG	Global	An epic, large-scale 3D fantasy mobile game with exquisite pictures and classic storyline from the novel of the same name
Supercharged: Championship (極限車球)	Competitive	Global	A perfect combination of football and racing featuring leisure, competition and socializing and with strong visual impact
Uproar in Heaven (鬧鬧天宮)	Competitive	China	MOBA+IO, novel battle gameplay with unique Chinese style

2. Licensed games

Name	Type	Region	Developer	Features
Nueva Salida (大航海之路)	MMORPG	Korea	Netease	3D navigation; magnificent scenes; realistic exploration, trade and war
Rouge Queen (胭脂妃) (Legendary Beauty of the Legend of Mi Yue)	3D cards	China	UTGAME	Ancient palace culture; 3D dressing to reproduce the classic storyline
Kung Fu Beans (功夫大黃豆)	3D ARPG	China	Joy Zion	Cute 3D edition with fine Chinese style
Cute Pet Alliance (萌寵聯盟)	3D simulated pet-keeping	China	MyJoy	3D simulated cartoon pet-keeping
The World Guarded by Me (我守護的世界)	ACT	China	Lucky Information Technology	Realistic physical fighting, horizontal ACT, exquisite style, open world view

Breakdown of revenue by game form and source

The following table sets forth the breakdown of revenue by game form and source for the years ended December 31, 2016 and 2017, respectively:

	Year ended December 31,			
	2017		2016	
	RMB'000	***Approximate %***	*RMB'000*	*Approximate %*
Mobile games	**458,359**	**97.1**	635,555	96.5
Web-page games	**2,841**	**0.6**	3,756	0.6
Client-based games	**10,841**	**2.3**	19,131	2.9
Total	**472,041**	**100.0**	658,442	100.0

	Year ended December 31,			
	2017		2016	
	RMB'000	***Approximate %***	*RMB'000*	*Approximate %*
Self-developed games	**139,376**	**29.5**	362,585	55.1
Licensed games	**332,665**	**70.5**	295,857	44.9
Total	**472,041**	**100.0**	658,442	100.0

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS *(Continued)*

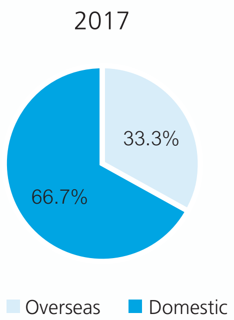
Breakdown of revenue by game form and source *(Continued)*

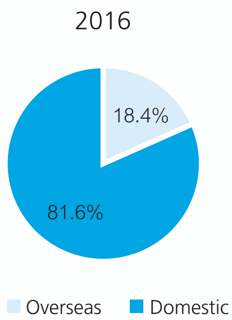
The table below sets out the breakdown of revenue by game business and movie business:

	Year ended December 31,			
	2017		2016	
	RMB'000	***Approximate %***	*RMB'000*	*Approximate %*
Development and operations of online game	**472,041**	**95.4**	658,442	100.0
Movie business	**22,692**	**4.6**	–	–
Total	**494,733**	**100.0**	658,442	100.0

International markets

We have generally granted licenses of our games to third-party publishers in the international markets while we have attempted self-developing games in key regions. Games include our self-developed and our globally exclusively licensed games. As of December 31, 2017, our games are published in 47 countries and regions in addition to China. The Group established subsidiaries in San Francisco, the U.S.A. and Seoul, Korea. In 2017, the subsidiary of the Group in Korea successfully rolled out the mobile games, namely ***Daybreak*** (黎明之光) Korean Edition and ***Nueva Salida*** (大航海之路) and achieved successful performance of commercialization in Korea market. In December 2017, our team of the Group in South East Asia launched ***The Wars of Shushan*** (蜀山戰紀) Thai Edition, and attained top 10 ranking on the Game Revenue Chart in Thailand. Our team will continue to distribute the Group's self-developed game products such as ***The Legend of Jade Sword HD*** (莽荒紀HD) and ***Sword of Heaven 2*** (蒼穹之劍2). For the year ended December 31, 2017, the revenue from overseas markets was approximately RMB164.7 million, representing a significant increase by approximately 36.0% as compared to approximately RMB121.1 million from overseas markets in 2016. The revenue from overseas markets accounts for approximately 33.3% of our total revenue as the Group expanded its business to overseas markets in 2017.





Our players

Player data for 2017: The total number of registered players of our games increased from approximately 220.6 million as at December 31, 2016 to approximately 232.6 million as at December 31, 2017. As at December 31, 2017, the number of monthly average users (MAU) reached approximately 1.6 million and the number of daily average users (DAU) reached approximately 0.3 million, with an average monthly revenue per paying users (ARPPU) of approximately RMB443.

Management Discussion and Analysis

FINANCIAL REVIEW

The following table is a summary of our consolidated statement of loss for the years ended December 31, 2016 and 2017, together with changes (expressed in approximate percentages) from 2016 to 2017:

	For the year ended December 31,				
	2017		2016		Change
	RMB'000	***approximate %***	*RMB'000*	*approximate %*	*approximate %*
Revenue	**494,733**	**100.0**	658,442	100.0	(24.9)
Cost of revenue	**(294,610)**	**(59.5)**	(367,837)	(55.9)	(19.9)
Gross profit	**200,123**	**40.5**	290,605	44.1	(31.1)
Selling and marketing expenses	**(186,344)**	**(35.9)**	(201,129)	(30.5)	(7.4)
Administrative expenses	**(105,377)**	**(23.0)**	(102,054)	(15.5)	3.2
Research and development expenses	**(132,407)**	**(26.8)**	(139,496)	(21.2)	(5.1)
Other gains — net	**30,979**	**6.3**	35,558	5.4	(12.9)
Operating loss	**(193,026)**	**(39.0)**	(116,516)	(17.7)	65.7
Finance income — net	**3,334**	**0.7**	4,225	0.6	(21.1)
Share of loss of investments using equity accounting	**(45,780)**	**(9.3)**	(28,621)	(4.3)	60.0
Impairment of investments using equity accounting	**(69,300)**	**(14.0)**	–	–	100.0
Loss before income tax	**(304,772)**	**(61.6)**	(140,912)	(21.4)	116.3
Income tax expense	**10,009**	**2.0**	(16,462)	(2.5)	(160.8)
Loss for the year	**(294,763)**	**(59.6)**	(157,374)	(23.9)	87.3
Non-IFRSs Measure:					
Adjusted net loss (unaudited)	**(212,656)**	**(43.0)**	(124,213)	(18.9)	71.2

Revenue

The Group's revenue for the year ended December 31, 2017 was approximately RMB494.7 million, representing a decrease of approximately 24.9% from RMB658.4 million for the year ended December 31, 2016. The decrease in revenue is primarily attributable to less new games released during 2017 than that of 2016, mainly due to the strategy implemented by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of the movie business of the Group, the Group recognized revenue of approximately RMB22.7 million from licensing of film rights during the year ended December 31, 2017.

Cost of revenue

The Group's cost of revenue for the year ended December 31, 2017 was approximately RMB294.6 million, representing a decrease of approximately 19.9% from approximately RMB367.8 million for the year ended December 31, 2016. Excluding share-based compensation expenses, the Group's cost of revenue for the year ended December 31, 2017 was approximately RMB292.5 million, representing a decrease of approximately 20% from approximately RMB365.8 million for the year ended December 31, 2016. The lower cost of revenue is attributable to the decrease in revenue from the game business.

In respect of the movie business of the Group, the cost incurred by our movie business was approximately RMB23.4 million for the year ended December 31, 2017.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2017 was approximately RMB200.1 million, representing a decrease of approximately 31.1% from approximately RMB290.6 million for the year ended December 31, 2016. Excluding share-based compensation expenses, the Group's gross profit for the year ended December 31, 2017 was approximately RMB202.2 million, representing a decrease of approximately 30.9% from approximately RMB292.6 million for the year ended December 31, 2016. The decrease in the Group's gross profit is primarily due to (1) the decrease in revenue generated from our game business for the year ended December 31, 2017 as compared with that of the corresponding period of 2016; and (2) the additional production cost incurred by our movie business for the year ended December 31, 2017.

The Group's gross profit margin for the year ended December 31, 2017 was approximately 40.5%, representing a decrease of approximately 3.6 percentage points as compared to approximately 44.1% for the year ended December 31, 2016. Excluding share-based compensation expenses, the Group's gross profit margin for the year ended December 31, 2017 was approximately 40.9%, representing a decrease of approximately 3.5 percentage points as compared to approximately 44.4% for the year ended December 31, 2016.

The decrease in gross profit margin of the Group is mainly due to (1) the increase in proportion of revenue from licensed mobile games to the overall revenue; and (2) the lower gross profit margin of -3.0% of our movie business.

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended December 31, 2017 were approximately RMB186.3 million, representing a decrease of approximately 7.4% from approximately RMB201.1 million for the year ended December 31, 2016. Excluding share-based compensation expenses, the Group's selling and marketing expenses for the year ended December 31, 2017 were approximately RMB185.4 million, representing a decrease of approximately 7.0% from approximately RMB199.4 million for the year ended December 31, 2016. The decrease in selling and marketing expenses is primarily due to the reduction of our advertising and promotion expenses for publishing less new games during the year.

Administrative expenses

The Group's administrative expenses for the year ended December 31, 2017 were approximately RMB105.4 million, representing an increase of approximately 3.2% from approximately RMB102.1 million for the year ended December 31, 2016. Excluding share-based compensation expenses, the Group's administrative expenses for the year ended December 31, 2017 were approximately RMB100.8 million, representing an increase of approximately 19.7% from approximately RMB84.2 million for the year ended December 31, 2016. The increase in the Group's administrative expenses is primarily due to the provision for impairment of prepaid game license fees and profit-sharing being made for the year ended December 31, 2017 as a result of the unsatisfactory operation as well as research and development of certain games.

Research and development expenses

The Group's research and development expenses for the year ended December 31, 2017 were approximately RMB132.4 million, representing a decrease of approximately 5.1% from approximately RMB139.5 million for the year ended December 31, 2016. Excluding share-based compensation expenses, the Group's research and development expenses for the year ended December 31, 2017 were approximately RMB127.2 million, representing a decrease of approximately 0.5% from approximately RMB127.9 million for the year ended December 31,2016. The decrease in the Group's research and development expenses is primarily due to the decrease in expenditures from outsourcing animation and art design.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Other gains — net

The Group's other gains for the year ended December 31, 2017 were approximately RMB31.0 million, representing a decrease of approximately 12.9% from approximately RMB35.6 million for the year ended December 31, 2016. The decrease in the Group's other gains is primarily due to the decrease in realised and unrealised gain in fair value of certain investments held by the Company as well as the amount of government grant received.

Finance income — net

The Group's finance income for the year ended December 31, 2017 was approximately RMB3.3 million, representing a decrease of approximately 21.1% from approximately RMB4.2 million for the year ended December 31, 2016. The decrease in financial income is mainly due to two factors: (i) the exchange rate of Hong Kong dollar ("**HKD**") against U.S. dollar ("**USD**") decreased, which led to the increase of unrealised exchange loss; and (ii) the interest cost incurred by the loan borrowed by the Group to finance its operating activities being higher than that of the previous year. No interest was capitalized for the year ended December 31, 2017 (the year ended December 31, 2016: Nil).

Share of loss of investments using equity accounting

The Group's share of loss of Investments using equity accounting for the year ended December 31, 2017 was approximately RMB45.8 million, representing an increase of approximately 60.1% from approximately RMB28.6 million for the year ended December 31, 2016. Such increase is mainly due to the increase in the loss incurred by an investee, the Fuze Entertainment Co., Ltd ("**Fuze**") as a result of increasing operation losses of Fuze.

Impairment of investments using equity accounting

The Group's impairment of investments using equity accounting for the year ended December 31, 2017 was approximately RMB69.3 million (the year ended December 31, 2016: Nil), representing the impairment provided for the investment in Fuze.

Income tax credit/(expense)

The Group's income tax credit for the year ended December 31, 2017 was approximately RMB10.0 million, representing a decrease of approximately 160.6% as compared to the Group's income tax expense of approximately RMB16.5 million for the year ended December 31, 2016. The income tax credit arose as a result of the accreditation of a subsidiary of our Group as a software enterprise in 2017, that makes it enjoy preferential tax treatment and thus the income tax payable for 2016 was exempted and reversed.

Loss for the year

As a result of the foregoing, loss attributable to owners of the Company for the year ended December 31, 2017 was approximately RMB294.1 million, representing an increase of approximately 86.9% from approximately RMB157.4 million for the year ended December 31, 2016.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Non-IFRSs Measure — Adjusted net loss

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted net loss as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted net loss was derived from our net loss for the respective year excluding share-based compensation expenses and impairment of investments using equity accounting. The adjusted net loss is an unaudited figure.

The following table reconciles our adjusted net loss for the years presented to the audited loss under IFRSs for the years presented:

	For the year ended December 31,		
	2017	2016	Change
	RMB'000	*RMB'000*	*approximate %*
Loss for the year	**(294,763)**	(157,374)	87.3
Add:			
Share-based compensation expenses	**12,807**	33,161	(61.4)
Impairment of investments using equity accounting	**69,300**	–	100.0
Adjusted net loss (unaudited)	**(212,656)**	(124,213)	71.2

The Group's adjusted net loss for the year ended December 31, 2017 was approximately RMB212.7 million, representing an increase of 71.2% from the adjusted net loss of approximately RMB124.2 million for the year ended December 31, 2016. The adjusted net loss is due to the combined effect of (1) decrease in revenue from our game business due to less games being released during the year; and (2) increasing operation losses of an investee, Fuze. We have presented adjusted net loss in this report as we believe that the adjusted loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses and impairment of investments using equity accounting. However, adjusted net loss for the year should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss presented in this report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

LIQUIDITY AND FINANCIAL RESOURCES

In 2017, we financed our operations primarily through cash generated from our operating activities. The Group has maintained a solid cash position since the IPO which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the year ended December 31, 2017, the majority of the Group's idle capital was invested in short-term wealth management products which are issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or speculative derivative instruments.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

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

As at December 31, 2017, we had cash and cash equivalents of approximately RMB349.6 million (December 31, 2016: approximately RMB338.7 million), which primarily consisted of cash at bank and other financial institution and cash in hand which were mainly denominated in RMB (as to approximately 13.6%), HKD (as to approximately 69.9%), USD (as to approximately 11.2%) and other currencies (as to approximately 5.3%).

As at December 31, 2017,the short-term bank deposit held by us was Nil (December 31, 2016: approximately RMB313.0 million).

As at December 31, 2017, approximately RMB188.2 million (December 31, 2016: RMB106.1 million) are restricted deposits held at bank as reserve for serving of loans facility with total a credit line of RMB180.0 million provided by the bank, and which will expire in 2018.

Net proceeds received by the Company from the Listing amounted to approximately HKD686.2 million (after deducting the underwriting commission and other expenses in connection with the Listing). As at the date of this report, some of the net proceeds (see section "Use of IPO Proceeds") from our Listing had been utilised and the rest has been deposited into short-term demand deposits in a bank account maintained by the Group. In 2018, we will continue to utilise the net proceeds from our Listing in accordance with the proposed use of proceeds as set out in the "Change in Use of Proceeds" announcement dated March 29, 2016.

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the year ended December 31, 2017, our total capital expenditure amounted to approximately RMB20.3 million (2016: approximately RMB37.3 million), comprising the purchase of furniture and office equipment of approximately RMB2.0 million (2016: approximately RMB1.9 million), server and other equipment of approximately RMB1.6 million (2016: approximately RMB0.3 million), motor vehicles of approximately RMB0.3 million (2016: approximately RMB0.7 million), leasehold improvements of approximately RMB0.1 million (2016: approximately RMB4.2 million), trademarks and licenses of approximately RMB15.6 million (2016: approximately RMB29.2 million) and computer software of approximately RMB0.7 million (2016: approximately RMB1.0 million). We fund our capital expenditure by our cash flow generated from our operations.

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

As at December 31, 2017, bank loans borrowed by the Group amounted to RMB136.7 million (December 31, 2016: RMB100.0 million). As at December 31, 2017, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 34.6% (December 31, 2016: approximately 27.4%).

CHARGE ON GROUP ASSETS

As at December 31, 2017, restricted deposits of approximately RMB188.2 million of the Group were pledged to secure bank borrowing (as at December 31, 2016: RMB106.1 million).

Management Discussion and Analysis

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2017, the Group had 720 employees (December 31, 2016: 708), mainly employed and stationed in the PRC. The table below sets forth the number of employees by function as at December 31, 2017 and December 31, 2016 respectively:

	As at December 31,			
	2017		2016	
Function	***Number of Employees***	***approximate % of total employees***	*Number of Employees*	*approximate % of total employees*
Research and development	**375**	**52.0**	409	57.8
Game publishing	**200**	**27.8**	172	24.2
— Game licensing	**82**	**11.4**	56	7.9
— Customer service	**30**	**4.2**	47	6.6
— Sales and marketing	**88**	**12.2**	69	9.7
General and administrative	**102**	**14.2**	84	11.9
Movie business	**43**	**6.0**	43	6.1
Total	**720**	**100.0**	708	100

The total remuneration of the employees of the Group for the year ended December 31, 2017 was approximately RMB203.6 million (2016: approximately RMB205.2 million).

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

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

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

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

The Company has adopted a share option scheme (the "**Share Option Scheme**") as incentive to the Directors and eligible persons, details of which are set out in the paragraph headed "Share Incentive Scheme and Share Option Scheme" of this annual report.

In addition, the Company adopted a restricted share unit scheme (the "**RSU Scheme**") on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based payment expenses in connection with the RSU Scheme and the Share Option Scheme for the year ended December 31, 2017 were approximately RMB12.8 million, representing a decrease of approximately 61.4% from approximately RMB33.2 million for the year ended December 31, 2016. The decrease in share-based payment expenses is attributable to less RSU being issued in 2017.

The Directors believe that maintaining a stable and motivated workforce is essential 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 options and opportunities of advancement. The Company organises various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building. The Company also provides various incentives to motivate its employees. In addition to providing performance-based bonuses and share-based awards, the Company offers unsecured, interest-free housing loans to employees with good performance.

Management Discussion and Analysis

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

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended December 31, 2017.

CONTINGENT LIABILITIES

As at December 31, 2017, the Group did not have any significant contingent liabilities (December 31, 2016: Nil).

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, namely USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss for the year ended December 31, 2017 would have been approximately RMB9,225,000 lower/higher (2016: RMB23,387,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperating counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss for the year ended December 31, 2017 would have been approximately RMB567,000 lower/higher (2016: RMB1,516,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. The Group does not hedge against any fluctuation in foreign currency.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended December 31, 2017.

Corporate Governance Report

INTRODUCTION

We are committed to achieving and maintaining high standards of corporate governance, as our Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of the shareholders of the Company and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company has complied with the Code for the year ended December 31, 2017, except for the deviation from code provisions A.2.1 and A.5.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended December 31, 2017, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-caliber individuals. The Board currently comprises two executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Code provision A.5.1 of Code provides that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. Until the resignation of Mr. Mei Song on June 16, 2017, the Nomination Committee of the Company comprised Mr. Wang Feng (Chairman of Nomination Committee), Ms. Liao Mingxiang, Mr. Mei Song (resigned with effect from June 16, 2017) as executive Directors; Mr. Qian Zhonghua (re-designated as executive Director and resigned as executive Director with effect from February 3, 2017 and February 15, 2018 respectively) and Mr. Pan Donghui (appointed with effect from February 3, 2017) as non-executive Director; and Mr. Ma Ji, Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang as independent non-executive Directors, the independent non-executive Directors only accounted for half of the members, the Company considers that this composition can operate more effectively and the overall independence will not be affected. The Company has complied with the requirements in relation to the composition of the Nomination Committee as required under code provision A.5.1 of the Code since June 16, 2017.

BOARD OF DIRECTORS

The Board supervises the management of the business and affairs of the Company and ensures that it is managed in the best interests of the shareholders as a whole while taking into account the interest of other stakeholders. The Board is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. The Board is regularly provided with management update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group in sufficient details.

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Composition

The composition of the Board for the year ended December 31, 2017 is set out as follows:

Executive Directors

Mr. Wang Feng *(Chairman and chief executive officer)*
Ms. Liao Mingxiang *(President)*
Mr. Qian Zhonghua *(re-designated from non-executive Director to executive Director with effect from February 3, 2017 and resigned as executive Director with effect from February 15, 2018)*
Mr. Zhao Jun *(resigned with effect from February 15, 2018)*
Mr. Mei Song *(resigned with effect from June 16, 2017)*

Non-executive Director

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

Independent non-executive Directors

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

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 7 to 10 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers all the independent non-executive Directors independence in accordance with each of the various guidelines set out in Rule 5.09 of the GEM Listing Rules. None of the independent non-executive Directors has served the Company for more than 9 years.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company and we have issued letters of appointment to our non-executive Director and each of our independent non-executive Directors. The service contracts with Mr. Wang Feng and Ms. Liao Mingxiang, being our executive Directors are for an initial term of three years commencing from August 22, 2014 and have been renewed for another term of three years on August 22, 2017. The letter of appointment with Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017 and resigned with effect from February 15, 2018), being our non-executive Director, is for an initial term of three years commencing from August 22, 2014. Such letter of appointment was superseded by a service contract entered between the Company and Mr. Qian Zhonghua which is for an initial term of three years commencing from February 3, 2017, being the date of re-designating Mr. Qian Zhonghua as executive Director. The letter of appointment with Mr. Pan Donghui, being our non-executive Director, is for an initial term of three years commenced from February 3, 2017. The letters of appointment with Mr. Ma Ji and Mr. Zhang Xiangdong, being our independent non-executive Directors, are for an initial term of three years commencing from April 24, 2014 and have been renewed for another term of three years on April 24, 2017 and April 23, 2017 respectively and the letters of appointment with Mr. Wang Xiaodong and Ms. Zhao Yifang, being our independent non-executive Directors, are for an initial term of three years commencing from June 11, 2015. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

Corporate Governance Report

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS *(Continued)*

According to our articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at annual general meeting at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company.

The Board will make separate announcement(s) with regard to the arrangement of re-election of directors at the forthcoming annual meeting of the Company which is expected to be held on June 15, 2018.

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the year ended December 31, 2017.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each of the Directors attended various trainings in 2017, including the trainings for the amendment of the GEM Listing Rules, for Directors' responsibilities and continuous obligations and for enforcement of the GEM Listing Rules, etc. The Company will arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

BOARD COMMITTEE

The Board has established three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website www.hkgem.com and the Company's website at www.linekong.com. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the board meetings set out above.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

The Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the Code and disclosures in this annual report.

Corporate Governance Report

BOARD COMMITTEE *(Continued)*

REMUNERATION COMMITTEE

The Remuneration Committee was established on April 24, 2014. The chairman of the Remuneration Committee is Mr. Zhang Xiangdong, our independent non-executive Director, and other members include Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhao Jun (resigned with effect from February 15, 2018), our executive Directors, Mr. Ma Ji, Mr. Wang Xiaodong and Ms. Zhao Yifang, our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the GEM website and the Company's website.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended December 31, 2017.

NOMINATION COMMITTEE

The Nomination Committee was established on April 24, 2014. The chairman of the Nomination Committee is Mr. Wang Feng, our chairman, executive Director and chief executive officer, and other members include Ms. Liao Mingxiang and Mr. Mei Song (resigned with effect from June 16, 2017), our executive Directors, Mr. Qian Zhonghua (resigned with effect from February 3, 2017) and Mr. Pan Donghui (appointed with effect from February 3, 2017), our non-executive Directors, Mr. Ma Ji, Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang, our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the GEM website and on the Company's website.

The primary duties of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and makes recommendations to the Board on appointment of new directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board.

In designing the Board's composition, board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

AUDIT COMMITTEE

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

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

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

The Group's consolidated financial statements for the year ended December 31, 2017 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended December 31, 2017 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS

The Board is scheduled to meet regularly at least four times a year, and Directors will receive at least 14 days prior written notice of such meetings in compliance with Code Provision A.1.1 of the Code. Agendas and accompanying papers are sent not less than 3 days before the date of Board meetings to ensure that the Directors are given sufficient time to review the same.

Board Meeting and General Meeting

For the year ended December 31, 2017, 5 Board meetings were held and attendance of each Director is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng *(Chairman)*	5	5[Note]
Ms. Liao Mingxiang	5	5[Note]
Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017 and resigned as executive Director with effect from February 15, 2018)	5	5[Note]
Mr. Mei Song (resigned with effect from June 16, 2017)	2	2[Note]
Mr. Zhao Jun (resigned with effect from February 15, 2018)	5	5[Note]
Non-executive Director		
Mr. Pan Donghui (appointed with effect from February 3, 2017)	5	5[Note]
Independent Non-executive Directors		
Mr. Ma Ji	5	5[Note]
Mr. Wang Xiaodong	5	5[Note]
Mr. Zhang Xiangdong	5	5[Note]
Ms. Zhao Yifang	5	5[Note]

Note: Among the relevant number of meetings held during term of office, none of the meeting was conducted through resolutions in writing signed by each and every one of the Directors.

For the year ended December 31, 2017, the Company convened and held one general meeting, namely the 2016 annual general meeting held on June 16, 2017, which was attended by all our then Directors, namely Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Zhao Jun, Mr. Qian Zhonghua, Mr. Ma Ji, Mr. Zhang Xiangdong, Mr. Wang Xiaodong and Ms. Zhao Yifang.

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Audit Committee Meeting

For the year ended December 31, 2017, 4 Audit Committee meetings were held for the purpose of reviewing the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and providing advice and recommendations to the Board. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Non-executive Director		
Mr. Qian Zhonghua (resigned with effect from February 3, 2017)	4	4
Mr. Pan Donghui (appointed with effect from February 3, 2017)	4	4
Independent Non-executive Directors		
Mr. Ma Ji *(Chairman of Audit Committee)*	4	4
Mr. Wang Xiaodong	4	4
Mr. Zhang Xiangdong	4	4
Ms. Zhao Yifang	4	4

Nomination Committee Meeting

For the year ended December 31, 2017, one Nomination Committee meeting was held for the purpose of making recommendations to the Board on appointment of new directors of the Company. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng *(Chairman of Nomination Committee)*	1	1
Ms. Liao Mingxiang	1	1
Mr. Mei Song (resigned with effect from June 16, 2017)	1	1
Non-executive Director		
Mr. Qian Zhonghua (resigned with effect from February 3, 2017)	1	1
Mr. Pan Donghui (appointed with effect from February 3, 2017)	1	1
Independent Non-executive Directors		
Mr. Ma Ji	1	1
Mr. Wang Xiaodong	1	1
Mr. Zhang Xiangdong	1	1
Ms. Zhao Yifang	1	1

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Remuneration Committee Meeting

For the year ended December 31, 2017, one Remuneration Committee meeting was held for the purpose of reviewing and considering the specific remuneration packages for the Company's Directors and senior management. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng	1	1
Ms. Liao Mingxiang	1	1
Mr. Zhao Jun (resigned with effect from February 15, 2018)	1	1
Independent Non-executive Directors		
Mr. Ma Ji	1	1
Mr. Wang Xiaodong	1	1
Mr. Zhang Xiangdong *(Chairman of Remuneration Committee)*	1	1
Ms. Zhao Yifang	1	1

Minutes of Board meetings and meetings of Board committees are kept by the company secretary or other duly authorised person. All minutes are open for inspection by any Director on reasonable notice. Such minutes are recorded in sufficient detail of the matters considered and decisions reached. Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management (exclude executive Directors) by band for the year ended December 31, 2017 is set out below:

Remuneration band	Number of persons
HKD500,001 to HKD1,000,000	1
HKD1,500,001 to HKD2,000,000	1
HKD2,500,001 to HKD3,000,000	1
HKD3,500,001 to HKD4,000,000	2
HKD4,000,001 to HKD4,500,000	1
HKD4,500,001 to HKD5,000,000	1

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in note 37 and note 27 to the consolidated financial statements in this annual report.

COMPANY SECRETARY

The Company Secretary of the Company is Ms. Leung Wing Han Sharon. Ms. Leung is the vice president of SW Corporate Services Group Limited engaged by the Company as its company secretary. Her primary contact person at the Company is Ms. Liao Mingxiang. The Company is of the view that Ms. Leung has compiled with Rule 5.15 of the GEM Listing Rules. During the year ended December 31, 2017, Ms. Leung undertook over 15 hours of relevant professional training to update her skill and knowledge in compliance with the Code.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the GEM Listing Rules. The Directors have selected appropriate accounting policies and applied them consistently; made judgment and estimate that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Auditors' Report in this annual report.

INDEPENDENT AUDITORS' REMUNERATION

For the year ended 31 December 2017, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were approximately RMB4.36 million.

For the year ended December 31, 2017, the fee paid/payable to PricewaterhouseCoopers for non-audit services was approximately RMB0.42 million, which was for consultancy services of the Environmental, Social and Governance Reporting and other non-assurance services.

INTERNAL CONTROL

The Board has the overall responsibility for the Group's internal control system, risks assessment and risks management. To fulfil its responsibility, the Board has set up policies and procedures which provide a framework for the identification and management of risks. The risk management and internal control system are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The operation departments would be entrusted to their respective business departments which are accountable for their own conduct and performance and are required to operate their own departments' business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

Based on the framework of the COSO (Committee of Sponsoring Organizations of the Treadway Commission), the Group has preliminarily established and improved the internal control system. It also clarified that the management is mainly responsible for the design, implementation and supervision of the internal control system, while the Board and the Audit Committee are responsible for supervising the measures adopted by the management and the effectiveness of the implementation of monitoring measures on a going concern. The principles for effective internal control of the system are as follows:

1. Clear definition of responsibilities: The Board is independent of the management and continuously supervises the development and effectiveness of the internal control system. Under the supervision of the Board, the management is responsible for establishing the organizational structure, reporting relationships, designing, implementing and monitoring the risk management and the internal control system.

2. Risk management: Identify clear objectives, identify and analyse the risks that may arise in meeting the objectives, assess the affordability of the enterprise, consider potential fraudulent practices, and establish and maintain an effective risk management system.

3. Control measures: Select and formulate effective control measures to reduce the risks that may arise in meeting the objectives to an acceptable level.

4. Internal Audit: Analyse and assess the effectiveness of risk management and internal control system to guarantee the achievement of the Group's objectives.

5. Communication: The internal control department promotes the purpose and responsibility of risk management and internal control among the management and employees of the Group.

Corporate Governance Report

INTERNAL CONTROL *(Continued)*

The Group fully implemented and improved the above principles in 2017. From the perspective of risk management, our internal control department consistently formulated and optimised internal control measures and procedures for the Company, supervised the implementation of such internal control procedures, tested and evaluated such internal control measures on one hand. On the other hand, through performing internal audit which forms a major part of the supervision function, our internal control department could identify and resolve problems proactively and effectively. It was able to oversee the implementation of improved plans continuously, so as to enhance the efficiency and effectiveness of internal control.

During the year under review, the internal control department continued to rationalise the key processes of the Group, identified and evaluated the risks arisen in the process, optimised and designed the key control measures in respect of procurement management, examination and acceptance of physical assets, inventory and scrap management, game project management, etc., to complement and complete the related system on a timely basis and supervised the implementation of such system at the same time. During the year under review, the internal control department performed internal audit according to the scope of risk warning, supervision and evaluation, and value-added management, and was able to identify the source and trend of risks timely. It worked with related departments for internal audit of releasing game token, management of vehicles and the related fees, which enhanced the coverage of our audit. The internal control department also proposed to implement improving plans to keep raising the quality, efficiency and effectiveness of our auditing work.

Management Rules on the Insider Information is also in place to provide guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing restrictions.

For the year ended December 31, 2017, on behalf of the Board, the Audit Committee reviewed the risk management and internal control systems of the Group on an annual basis, and assessed on the resources for accounting, financial reporting and internal audit of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The review was made by discussions with the management of the Company, its external and internal auditors and the assessment conducted by the Audit Committee. For the year ended December 31, 2017, the Audit Committee reviewed the risk management and internal control systems of the Group and believed that such systems are adequate and effective, especially in the areas of financial reporting and GEM Listing Rules compliance. During the year under review, no significant events that might have an impact on the shareholders were identified, and resources for accounts, financial reports and internal audit of the Group, as well as qualifications, experience and training programs of our employees and the adequacy of relevant budgets were also evaluated. The Audit Committee has reported their findings to the Board. The Audit Committee will continue to identify, evaluate and manage the significant risks faced by the Group, and to enhance the internal control system of the Group with the assistance of the internal control department on an ongoing basis.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the year ended December 31, 2017.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted a shareholder communication policy with the objective of ensuring that the shareholders of the Company and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the shareholders as follows:

(i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued in printed form and are available on the GEM website "www.hkgem.com" and the Company's website at "www.linekong.com";

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, shareholders and the public. Enquiries to the Board or the Company may be sent by post to the Company Secretary at the Company's principal place of business in Hong Kong as follows:

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

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "**Requisitionists**") (as the case may be) pursuant to our articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

Environmental, Social and Governance Report

INTRODUCTION

Linekong Interactive Group Co., Ltd. ("**Linekong Interactive**" or "**the Company**") released the Environmental, Social and Governance Report ("**the Report**") in accordance with our environmental, social and governance ("**ESG**") performance.

This report is prepared mainly with reference to the Environmental, Social and Governance Reporting Guide ("**the Guide**") contained in Appendix 20 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("**SEHK**"), covering the ESG related information of the Company at the main operating locations in China; and the reporting period is the same as the fiscal year of the Company. The Company analyses and evaluates the materiality level of environmental and social issues in the Guide for Linekong Interactive as well as the concerns of stakeholders. The purpose is to disclose to stakeholders the management measures and performance of the Company in 2017 in terms of the environment, society and governance.

If you have any opinions or suggestions on the Company's sustainable development management, please contact us through the following e-mail:

ir@linekong.com

We look forward to your valuable opinions.

1. ESG MANAGEMENT SYSTEM

1.1 ESG Concept and Management

In the past years of business practice, the Company has combined the concept of social responsibility and our own development strategy, and to become a widely respected interactive entertainment company, the Company has been committed to implementing sustainable and responsible development model, and paying attention to the communication and exchange with the stakeholders such as customers, partners and employees to improve our ESG management.

Environmental, Social and Governance Report

1. ESG MANAGEMENT SYSTEM *(Continued)*

1.2 Stakeholder Engagement

In daily business activities, Linekong Interactive maintains good communication with all stakeholders through various channels, values and pays active attention to the expectations and demands of all stakeholders regarding the environment, society and governance of the Company. The major stakeholders identified by the Company include the government and regulators, shareholders and investors, employees, customers, suppliers, media and neighbouring communities. ESG stakeholders focus on issues covering product responsibility, employee care, supply chain management, resource use, emissions, etc.

Major Stakeholders	Communication Channel	Top Concerns
Governments and Regulators	Official documents, related meetings, on-site supervision, information disclosure, etc.	Compliance operation, corporate governance, and product responsibility
Shareholders and Investors	Shareholders' general meetings, annual reports, interim and quarterly reports, results announcements, company announcements, etc.	Profitability, business strategy, and transparency of information disclosure
Employees	Communication meetings, internal announcements, feedback mechanism for employee comments, company activities, etc.	Employee remuneration and benefits, development and training, occupational health and safety
Customers	Customer satisfaction survey, customer feedback activities, member services, exhibition activities, etc.	Product quality, after-sales service, and privacy protection
Suppliers	Supplier strategic cooperation negotiation, cooperation agreements, regular communication meetings, etc.	Fair cooperation, integrity and fulfillment and common development
Media	Media conferences, interviews, advertising activities, etc.	Compliance operation, corporate influence, and corporate social responsibility
Neighbouring Community	Promotion of employment, community activities, etc.	Social welfare, charitable donations, and community relations

2. GREEN OPERATION

In 2017, Linekong Interactive continued to actively fulfil our social responsibility of environmental protection, and complied with relevant national laws and regulations such as the *Environmental Protection Law of the People's Republic of China* and the *Energy Conservation Law of the People's Republic of China*. We vigorously advocated green office, and strived to continually enhance resource utilisation rate and improve pollution emission management.

Unless otherwise stated, the environmental data covers the business activities of Linekong Interactive in Beijing offices and those in other areas are not included in the statistics due to their relatively small impact on the environment.

2.1 Resource Saving

As a non-manufacturing enterprise, the Company's resource consumption mainly concentrates on the electricity consumed during operations, fuel consumed by the official vehicles and water consumption. In 2017, on the basis of continuous implementation of the *Rules for Energy Management in Linekong Interactive Group Office Area* and the *Employees' Handbook*, the Company continued to implement the concept of green paperless office and reutilisation of paper, and strived to strengthen the employees' awareness through daily publicity to maximise resource utilisation efficiency. The Company's major initiatives in resource saving include:

- Green equipment: Most of the office lighting and electrical equipment are energy-saving and environmentally-friendly products;

- Electricity regulation: The Company encourages employees to use electrical appliances as needed and turn off the power when leaving, and asks them not to transform or damage circuits without authorisation. In addition, the Company also arranges for special staff to check the situation of office electricity, and solve the problems found in a timely manner;

- Awareness sensitivity: The Company, through conferences, further enhances the staff's sensitivity to resource conservation and standardises employee behaviours according to the *Employees' Handbook*;

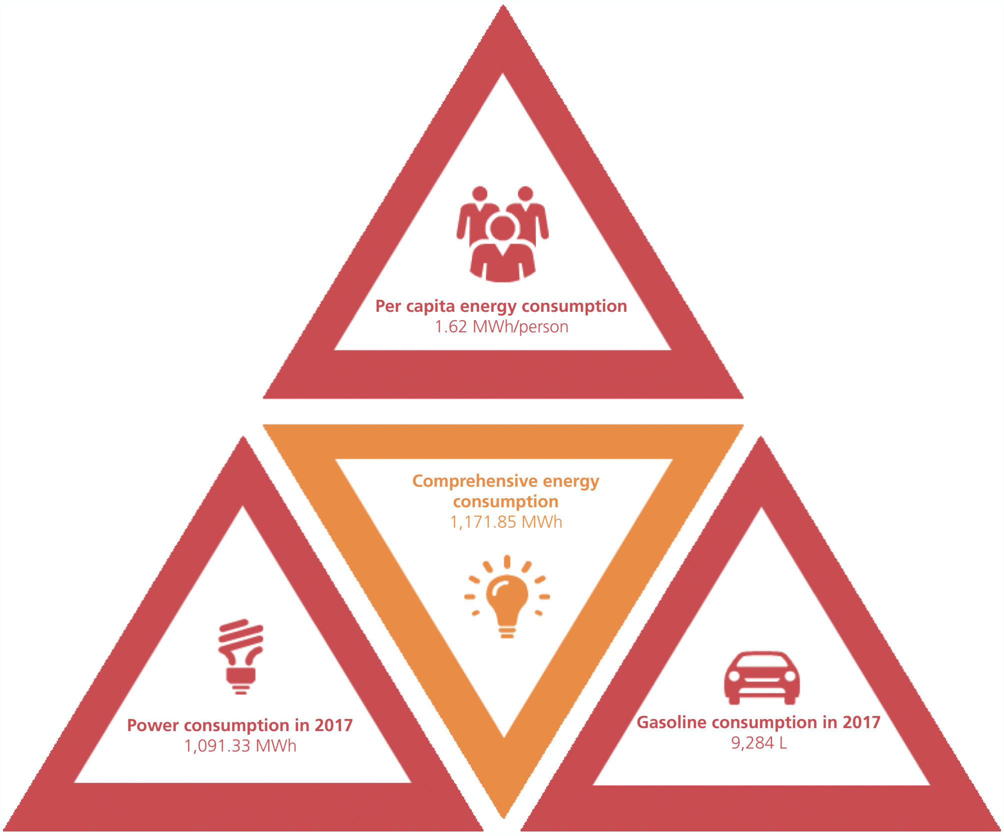
- Water conservation: The Company encourages employees to save water, shut off the taps after use, etc.

Environmental, Social and Governance Report

2. GREEN OPERATION *(Continued)*

2.1 Resource Saving *(Continued)*

In 2017, the Company's main energy consumption and per capita energy consumption are as follows:



(1) Comprehensive energy consumption is calculated based on the direct and indirect energy consumption, by the conversion factors in the General Principles for Calculation of Total Production Energy Consumption (GB/T 2589-2008) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardisation Administration of the People's Republic of China.

As regards the use of water resources, office and domestic water consumed in daily operations cannot be calculated separately because the Company's office space is rented which is part of the office building and the sanitary facilities are used jointly with other companies. According to the statistics of the Company, the amount of bottled drinking water purchased in 2017 was up to 132 tonnes.

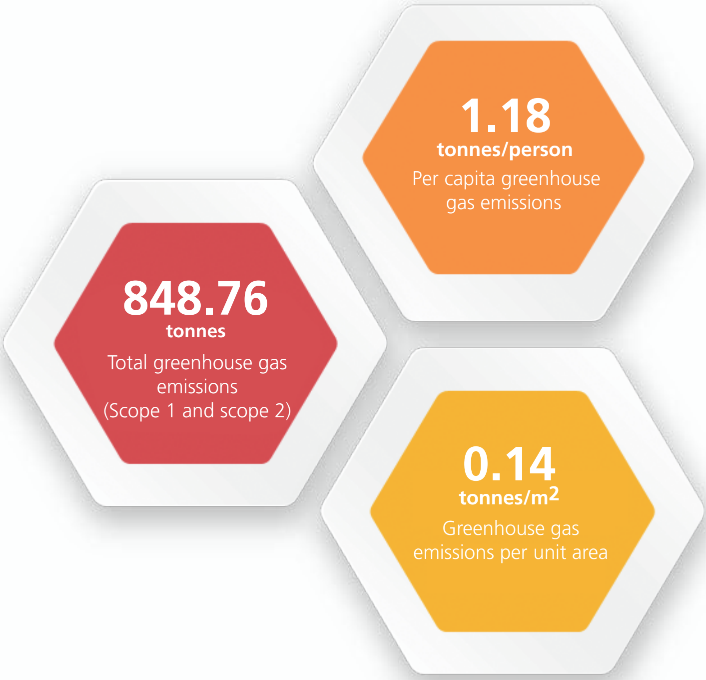
According to the property of Linekong's operation, there is no physical product producted. Therefore, the Key Performance Indicators, A2.5-Packing Materials used for Finished Products is not applicable to this report.

Environmental, Social and Governance Report

2. GREEN OPERATION *(Continued)*

2.2 Emission Reduction

The Company has conducted a full range of identification of the pollutants generated during our operations, including the greenhouse gases directly (scope 1) and indirectly (scope 2) generated during operation, exhaust gases (nitrogen oxides and sulphur dioxide) from the fuel consumption of official vehicles, domestic waste, office waste and waste electronic products. In addition, for the purpose of green operation, Linekong Interactive intends to reduce direct and indirect greenhouse gas emissions through such measures as green office and control of official vehicles fuel.



(2) Due to the nature of the business of Linekong Interactive, our major gas emissions are greenhouse gases, mainly resulting from the use of electricity and fuels converted from fossil fuels.

(3) The Company's greenhouse gases that are measured mainly cover carbon dioxide, methane and nitrous oxide. Greenhouse gas emission data are presented based on carbon dioxide equivalent and are calculated according to the *2006 IPCC Guidelines for National Greenhouse Gas Inventories*.

(4) Greenhouse Gas Scope 1 covers greenhouse gas emissions that are directly generated during the operation of the Company; Greenhouse Gas Scope 2 covers indirect greenhouse gas emissions from electricity, heat and steam (purchased or acquired) consumed internally by the Company.

Environmental, Social and Governance Report

2. GREEN OPERATION *(Continued)*

2.2 Emission Reduction *(Continued)*

During the operation of the Company, Linekong Interactive strengthens the solid waste management, and pays attention to the comprehensive utilisation of wastes in order to achieve the goal of maximising the resource utilisation efficiency. Meanwhile, the Company vigorously promotes the concept of paperless office by encouraging employees to transfer information by e-mail instead of unnecessary paper documents and adopt the used paper as far as possible in need of papers, choose reusable materials for the office decoration on holidays, and recycle office supplies available for reuse from employees resigned. In 2017, the Company handed over the domestic garbage generated from daily office work to the third-party property company and waste handler for collection and disposal, which reduced costs and, at the same time, reduced the damage to the environment. In 2017, the Company generated approximately 29.2 tonnes of office waste.

For non-recyclable but still valuable waste items (such as waste host and keyboards), the Company arranges special staff to sort them according to the operational needs of the Company and reuses the reusable parts therein. For daily waste electronic consumables and office computer products, the Company entrusts a professional recycling company for reutilisation and environment-friendly disposal of them. The partner company will deal with the recycled waste equipment through classification, decomposition, cleaning and testing, to find components suitable for reuse as spare parts for reutilisation, so as to extend the actual use cycle of related electronic equipment and reduce the damage to the environment due to the manufacturing of electronic products. The wastes generated in the computer room in the process of daily operation are also transferred by the Company to a specialised third-party agency for comprehensive recovery and disposal so as to effectively improve the recycling utilisation rate of articles and reduce the generation of waste.

A large number of compatibility tests and functional tests are required using different models of mobile phones for the Company's mobile game business. In order to meet the requirements for equipment while taking into account the requirements of intensive development, the Company did not purchase a large amount of equipment. Instead, we outsourced the testing activities and opted for cooperation with third-party testing organisations to reduce the consumption of electronic equipment.

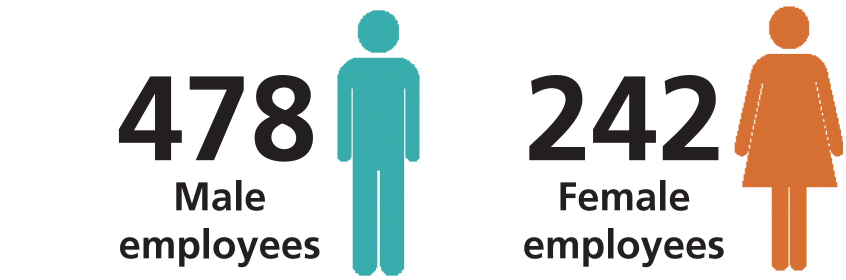
For hazardous wastes (mainly waste toner cartridges) generated during operation, the Company arranges for special person to collect them and safekeep them in the designated regulatory areas. In addition, the Company also entrust a qualified processing organisation to handle the hazardous wastes in accordance with national regulations. Due to the limited amount of hazardous wastes generated during the operation of the Company, in order to enhance the treatment efficiency and save the resources consumed in the treatment process, in 2017, the Company did not treat the hazardous wastes and all hazardous wastes generated were stored in the regulatory areas and properly managed, which will be treated in a unified manner when they are accumulated to a certain amount in the future.

Environmental, Social and Governance Report

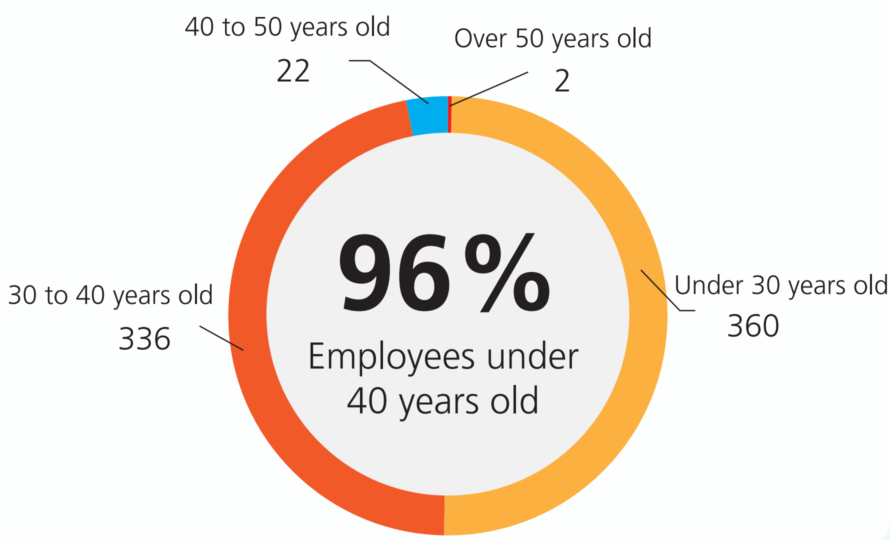
3. EMPLOYEE CARE

A successful enterprise, in addition to its core competitiveness, also needs a united loyalty team. To build such a team, we are required to care for each of our employees and protect their rights and interests. Moreover, the leading role of managers and the full communication between staff at all levels are also required which has always been an excellent tradition of the Company. In line with the management principles of "managers play a leading role/understand the level you manage/focus on full communication", the Company will grow together with our employees and move forward.

By the end of 2017, Linekong Interactive had:



Of whom:



674 employees in Beijing and 46 employees overseas.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.1. Employee Rights and Interests

In accordance with the laws and regulations including the *Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Provisions of Beijing Municipality on Labour Contracts, the Regulation of Beijing Municipality on Payment of Wages, the Regulations of Beijing Municipality on Population and Family Planning, the Individual Tax Policy, and the Administrative Regulations of Beijing Municipality on Five Social Insurances and Housing Fund*, the Company adopts the labour contract system and is in strict compliance with the national regulations and standards regarding labour safety, health system, social security and other aspects. All employees shall sign *Labour Contract* with the Company, covering labour remuneration, working hours and rest and vacations, social insurance and employee benefits, labour protection and labour conditions, and other details, thereby effectively protecting the life and health of employees, their property and personal privacy and other legitimate rights and interests.

Overall policy: The Company is convinced that a successful business needs a dedicated attitude, self-denial and a loyal team. Therefore, the Company has developed relevant rules and regulations (such as *Employees' Handbook*) on aspects of environment, employment, remuneration, welfare, holidays and other benefits, and is committed to providing employees with a good working environment, and reasonable and competitive remuneration packages, creating a working environment that is fair, impartial and non-discriminatory, while ensuring that opportunities for employment and promotion within the Company do not vary by gender.

Remuneration and assessment: Employee performance assessment is not only a necessary condition for staff salary adjustment and position adjustment, but also the basic basis for assessing their working achievements. The Company assesses an employee's work objectives, job responsibilities and other items on a quarterly and yearly basis as well as upon project closeout. In order to effectively mobilise the enthusiasm of senior management, middle management and core technical (business) staff, the Company has also developed a stock incentive plan. As at 31 December 2017, the Company granted 35,471,879 restricted shares to 461 incentive grantees and granted 18,964,192 share options to 211 incentive grantees so that employees could share the earnings of the capital market. In addition, based on the three-year interest-free loan policy on house purchasing, the Company provided 34 eligible employees with three-year interest-free loans to help them purchase houses and settle down.

Diversification and equal treatment: The Company is committed to promoting a diverse and inclusive working environment so that employees can feel warm and fully realise their potential. To realise this goal and to ensure that the Company's principles and practices are in compliance with legal and regulatory requirements, market trends and best practices in the industry, the Company regularly reviews the policy of diversity and integration and revises it as appropriate. In addition, based on the principle of equal pay for equal work, the Company has developed an employee payroll distribution system on the basis of position value to ensure that employees enjoy equal treatment in remuneration and promotion.

Protection of employees' rights and interests: Building a harmonious and stable relationship between employers and employees on the basis of safeguarding the rights and interests of employees is one of the directions that Linekong Interactive is working on. We focus on the health, safety and satisfaction of our employees and pays attention to bringing our development achievements to all the employees in order to realise the common growth of employees and enterprise. For purpose of encouraging employees to actively express their opinions and suggestions on the Company, the Company has set up complaint mailboxes to focus on the matters concerning employees' personal interests such as wages, benefits, labour safety and hygiene, and social insurance, so as to safeguard the legitimate rights and interests of employees and establish their corporate responsibility and sense of ownership.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.1. Employee Rights and Interests *(Continued)*

Campus recruitment: In order to infuse fresh blood into the Company and promote our further development, in 2017, the top management of the Company led the recruitment team to conduct off-line campus recruitment activities in a number of key universities across China, which achieved good results. At the recruitment talk, the top management of the Company introduced the corporate culture, business status quo, development planning and employee benefits of Linekong Interactive, and promised to build a good working platform for the graduates with the best resources, providing them with adequate development and promotion space. After the recruitment talk, the team of the Company conducted off-line written examination at the site. The students who passed the written examination successively received the interview notices. In 2018, the Company will continue to provide well-qualified positions to attract more talents from universities and colleges.

Staff Benefits: In accordance with the labour contract, the Company provides employees with multiple guarantees on benefits. In addition to social insurance and legal holidays, annual leave, marital leave, bereavement leave, maternity leave and other paid holidays, we also provide additional benefits for our employees, including commercial insurance, birthday leave, department activity budget and interest-free loans. The Company focuses on what the employees think and are worried about, and offers sweet gifts for employees on major holidays in addition to usual free meals and labour protection appliance, in order to make employees always feel the care from the enterprise. The Company also provides both material and emotional support and help for employees who have difficulties with their families. Meanwhile, in order to enrich employee benefits, the Company has introduced special care policies for female employees during pregnancy and breast-feeding period regarding remuneration, working hours, labour protection and other aspects and has set up baby care rooms, direct drinking water systems, air purification systems, etc.

The Company continues to pay attention to the physical and mental health of employees. The open lounge and working area allows employees to relax while working. The Company regularly carries out a variety of employee activities, such as guessing lantern riddles, June 1 Carnival, novice childcare, eyesight test, thanksgiving bread, business haircut, massage and inquiry, etc., so as to enrich the sparetime life of employees. Besides, the Company also sets up various types of interest clubs including basketball, football, badminton and board games, enriching employees' leisure time. Such employees exchange activities greatly enrich the spiritual and cultural lives of employees, enhance their cohesive force and teamwork capabilities, and also allow the Company to have a deep understanding of the employees' work and life conditions.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.1. Employee Rights and Interests *(Continued)*

Example: the 10th Anniversary Celebration of Linekong Interactive

At the 10th Anniversary Celebration of Linekong Interactive on 30 March 2017, the Company's employees dressed themselves up as their favourite virtual characters and appeared on the Cos Show. Then, Wang Feng, Chairman of Board of Directors of Linekong Interactive, and Liao Mingxiang, President of the Company sang the theme song for the tenth anniversary — *Carve Your Name* together with all the staff, hoping that Linekong Interactive still can keep the perseverance of the past ten years in the future to realise our future ideal beyond imagination. At lunchtime, the employees who participated in the celebration enjoyed a wide range of cuisines, while the top management also appeared as chefs and waiters to surprise everyone, making the employees feel warm. After dinner, the Company also prepared a variety of game facilities for everyone, so that all the employees felt happy.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.2 Health and Safety

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.2 Health and Safety *(Continued)*

(1) Compliance with the relevant major laws and regulations

Linekong Interactive implements unified guidance and supervision of the Group's safe operation in accordance with China's laws and regulations on occupational health and safety and industry standards. Linekong Interactive did not have any material non-compliance with the relevant standards, rules and regulations in 2017.

(2) Existing policies, systems and work plans

In daily operation, Linekong Interactive fully implements safety management, and keeps a close watch on employees' health and safety, creating a safe and comfortable working environment for employees. Meanwhile, the Company provides free medical examination and establishes employee health records for all employees every year, distributes anti-haze masks to the employees in hazy weather and offers high-performance air purifiers in office areas to care for employees' health and safety with practical actions.

In addition to the workplace safety of employees, the Company also focuses on traffic safety for employees on their way to and from work. Three shuttle bus lines are specially arranged to transport the employees to and from work, so as to prevent as much as possible the harm to employees resulting from potential commuting accidents.

(3) Relevant specific measures and inspection methods

Relevant measures to ensure employees safety: All employees of the Company are equipped with name badges, and they can only enter the office area with their badges. The external persons need to register with their ID cards at the reception desk and obtain temporary visitor cards before entering. The Company occasionally organises the employees to participate in safety knowledge training including fire safety and conducts safety inspections on the office environment so as to effectively enhance the self-protection ability of employees while fully guaranteeing the internal safety of the Company.

Treatment of accidentally injured employees: When an employee is injured unexpectedly, Linekong Interactive will submit an application for identification of work-related injury to the local human resources and social security department as soon as possible and assist the employee and relevant departments in follow-up processes. When such injury fails to be identified as a work-related injury, Linekong Interactive will take the initiative to provide material and mental compensation for the employee, putting the physical rehabilitation of the employee in the first place.

Fire drill: In order to test and improve the emergency response ability of the employees of the Company, fire evacuation drill was held at the office location by Linekong Interactive together with other related parties there. The drill simulated a fire in certain area of office and activated an emergency response program for emergency evacuation of all employees. The drill covered emergency start-up, rescue, evacuation and gathering, etc. It improved the employees' ability to cope with emergencies and the ability of the Company to cooperate with external organisations such as fire brigade, while examining the emergency response ability of the employees in various departments.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.2 Health and Safety *(Continued)*

(3) Relevant specific measures and inspection methods *(Continued)*

Safe office environment: Linekong Interactive implements a series of security measures to reduce the potential risks to employees and customers, and provide employees with a safe office environment. Clear and concise warnings are provided at the locations where there are potential risks, such as Caution, Wet Floor and Be Careful with Electricity, to warn the employees. In the meantime, the Company provides employees with ergonomically designed furniture and office facilities, as well as refrigerators, air conditioners and electric fans to create a comfortable and safe office environment.

Health benefits: The Company provides health consultation and traditional Chinese medicine consultation service for the employees to ensure the health of them. Health consultation service mainly includes daily disease drug management and other health physiotherapy services. Traditional Chinese medical consultation service refers to the face-to-face consultation services provided by the physiotherapy institutions regularly invited by the Company.

3.3 Development and Training

Linekong Interactive adheres to the people-oriented core concept, and has long focused on personnel training and development. We continued to increase our investment in education for the employees in 2017 and strived to make every employee participate in the training and benefit from it, so as to realise the overall improvement of the Company. In 2017, a total of 83% of male employees and 71% of female employees of Linekong Interactive participated in various trainings. Among them, 100% of senior management, 96% of middle management and 76% of other employees participated in the trainings. The average annual training duration for both male employees and female employees was 11 hours. The average annual training durations for senior management, middle management and other employees were 4.19 hours, 7.32 hours and 11.86 hours respectively.

Based on the characteristics of "The Orca", the mascot of Linekong Interactive, the training system of the Company was fully upgraded and updated in 2017. Under this training system, Linekong Interactive specially customised training programs for new employees from on-campus recruitment — "Youth Training Camp". Through a five-week course learning and practical operation and exercises, the program has conducted an all-around training in the basic industry knowledge, professional post competence, general skills and professional quality of new recruits from schools and effectively helped them to establish industry awareness, understand corporate culture and improve professional competence, thus completing the transformation from students to employees. In addition, Linekong Interactive also designed "Aoka Novice Village" training program for these new recruits. This program presents the new recruits with the course of enterprise development, core business modules, "Employees Survival Guide", etc. in the form of mobile game. Meanwhile, to help new employees adapt to their teams and work as quickly as possible, all employees have a mentor and can start their career in Linekong Interactive following the mentoring program of their mentors.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.3 Development and Training *(Continued)*

We also built an internal sharing and exchange platform for employees — "Orca School" according to our own development needs. The platform covers the experience sharing and industry trends in various specialised fields of the Company, which can help create an open and continuous learning atmosphere for employees while effectively solving their business problems, thus consolidating the learning-oriented corporate culture of the Company.

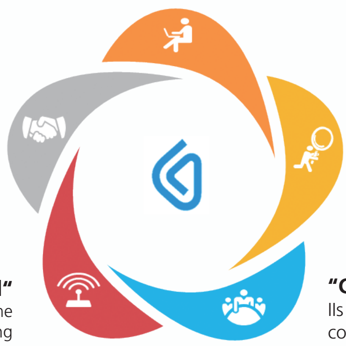
In addition to continuously strengthening internal knowledge communication, the Company also opened the "Linekong Interactive Open Class" for 9 times in 2017, and invited the senior management from related external industries to share knowledge in the Company. After learning from the open classes, the employees not only had a thorough understanding of the professional development and trends, but also expanded their industry perspectives and thinking. The Company also organised all open class materials into a text version and a video version for internal release, so that employees who missed the open classes can also learn the courses so as to truly realise full participation and common promotion.

In addition, the training provided by Linekong Interactive is not just conducted in the form of teaching. In line with the principle of training on demand, the Company has organised art personnel to the military museum to learn the ancient weapons knowledge from the experts, and organised the marketing staff to visit the partner companies.

"Swimming"
Is the basis of survival, corresponding to new employee orientation training. New employees can rapidly understand the Company's corporate culture, become familiar with the *Empoyees' Handbook*, and improve their collective behaviours and consciousness, through such activities as course shareing, team activities and knowledge contests.

"Society"
Determines the development of the individual, corresponding to the leadership improvement plan for managers. In 2017, the Company conducted the leadership improvement plan, proceeding from the Gallup Employee Engagement Survey to conduct a questionnaire survey, and according to the report interpretation, developing courses based on common demands, thus providing the first-line managers with specific management means and communication tools.

"Hunting"
Represents profession, corresponding to the internal and external professional sharing. In the process, employees can not only express themselves, share their ideas, and cummarise their knowledge, but also better understand cross-departmenta knowledge and draw on the experience of all stages in the professional field.



"Sound"
Is the symbol of Orcas, corresponding to the mentor and instructor team of Linekong Interactive sound. To acknowledge the mentor team, the Company produced a thank-you card for eash mentor on teachers' Day of 2017 so that each mentor's family could understand the tutor's working environment, and provided one-on-one course development and optimisation services for the professional instructors from the Youth Training Camp.

"Cluster"
Ils an important social platform for social life, corresponding to the horizontal training of all departments and the vertical infiltration of professions. The staff of the same positions in different departments can easily communicated with each other horizontally, in different forms and on flexible topics. The vertical communication is realised in the ways of mentoring system, reading activities, departmental sharing, etc., to help the team contnue to explore in the professional field.

"The Orca" Training and Development System

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.4 Labour Standards

(1) Compliance with the relevant major laws and regulations

All posts and employment provided by Linekong Interactive are in accordance with the relevant provisions of the *Labour Law of the People's Republic of China* and the *Labour Contract Law of the People's Republic of China*, and child labourer is not allowed in the Company. In 2017, neither did Linekong Interactive engage in any discrimination cases, nor did we infringe upon the human rights of any employee (including the security personnel of the administrative department); and we also did not force employees to work or infringe on their benefits.

(2) Existing policies, systems and work plans

The Company strictly follows the procedures to ensure that the recruitment process abides by the *Law of the People's Republic of China on the Protection on Minors*, so that child labourer is not allowed in the Company. We did not recruit any employee under the age of 16 for any position in 2017.

The Company also strictly abides by the relevant laws and regulations in different regions concerning fair employment opportunities, child labour prevention and forced labour. In the meantime, Linekong Interactive has conducted regular monitoring of employment related information and data to prevent irregularities such as employment of child labourer and forced labour.

Linekong Interactive fully protected our employees' rights to work and rest in accordance with the law in 2017. Our labour contract clearly stipulated such contents as working hours, rest and vacation, labour protection and working conditions. The Company did not force employees to work (overtime) in 2017.

4. OPERATING PRACTICES

As a well-known platform provider in the interactive entertainment industry in China, Linekong Interactive intends to enhance our customer experience and improve our internal management by adhering to the enterprise tenet of "Good Product is Good Business/ Good Service is Good Marketing/Good Reputation is Good Brand".

4.1 Supply Chain Management

The Company has strict requirements on the reputation and quality of supplies of the partner suppliers when selecting them, and therefore the qualified suppliers are usually the leading enterprises in the industry. In the selection of suppliers, we pay close attention to their performance in environmental and social responsibility. Meanwhile, according to the actual business requirements, the procurement and demand departments conduct field inspection of suppliers' qualification, technical experience and product quality. The Company had a total of 161 suppliers in 2017, including 118 in North China, 19 in East China, 12 in Southwest China, 5 in South China and 7 overseas.

The procurement department is required to confirm the supplier qualification (such as ISO9001 Authentication) before any procurement, and strictly check the factory quality inspection report of the products during acceptance check to ensure that the purchased products meet the applicable standards of Linekong Interactive.

For major procurement, the procurement and demand departments are required to jointly visit the supplier's production plant, third-party freight transport centre and the original place of raw materials for field investigation and research. During the research, apart from paying attention to the technical level and production operations of suppliers, the Company will also examine their production and operation conditions and the working conditions of the workers so as to select the satisfactory enterprises.

Environmental, Social and Governance Report

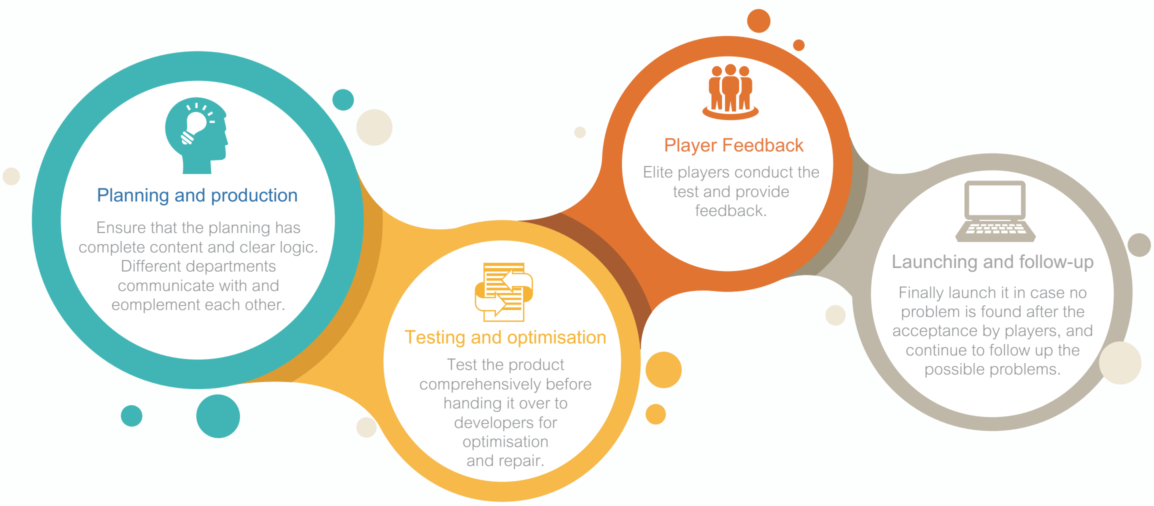
4. OPERATING PRACTICES *(Continued)*

4.2 Product Responsibility

As a leading interactive entertainment enterprise in China, the Company always values the quality of products and services and strictly controls our product responsibilities. In the nearly 10 years since our establishment, we have consistently adhered to various laws and regulations introduced by the government to protect the legitimate rights and interests of users and has been making steady progress under the guidance of the national policies.

(1) Product quality guarantee

The Company has improved the internal development and management system, developed appropriate standards and norms, covering planning, development, testing, operation and maintenance and platform processes. We ensured the safety of the network system, protected our confidential documents and guaranteed the safe operation of the server and database, by strengthening the management of our computer system, office network and server system.



Product Production Process

The Company has established an Internet content review mechanism to ensure the compliance of the game content. Regardless of game launching or application of version no., Linekong Interactive intends to provide users with compliant game content and a healthy gaming environment through self-review. The customer service staff will conduct a 24-hour seamless screening of the game. In case any gambling, pornographic content, abuse or defraudation activities are found, the involved account will be frozen immediately; in case of severe situation, the account will be permanently closed until it is reported to the Internet supervision department. We adopt the user real-name registration mechanism for all our games, including mobile games, web games and client games, reducing to a certain extent the occurrence of illegal incidents. Meanwhile, to protect the physical and mental health of under-age users, and in response to the request of government departments, we added parents guardianship program on the web page to facilitate parents to keep abreast of developments in their children. In the area of web game and client game, we established an anti-addiction system for the under-age players. Furthermore, the Company plans to respond to the requirements of government departments and will establish anti-addiction system in mobile games.

Environmental, Social and Governance Report

4. OPERATING PRACTICES *(Continued)*

4.2 Product Responsibility *(Continued)*

(2) Standardisation of advertising campaign

In respect of advertising, the Company strictly complies with the laws and regulations relating to products and customers such as the *Advertising Law of the People's Republic of China*, and has developed the *Linekong Interactive Advertising Process*. We regularly update the management system on advertisements and labels of products and services, and strictly adhere to the process during each advertising campaign. In the meantime, the Company invites third-party monitoring companies to conduct fair and impartial monitoring and analysis of the data put in for advertising so as to ensure the authenticity and validity of the data The Company has also developed the Standards for the *Auditing of Advertising in the Advertising Department* besides complying with the advertising standards required by the media, in order to standardise the cooperation with the media.

In 2017, the Company did not receive any events in breach of the regulations and voluntary code of conduct on marketing communications (including advertising, promotion and sponsorship).

(3) Protection of intellectual property

One of the key tasks of Linekong Interactive is applying for and protecting our own intellectual property. The Company strictly abides by relevant laws and regulations on intellectual property and at the same time gives full play to the role of incentive, guidance, protection and evaluation of intellectual property in the enterprise innovation, so as to gradually improve the intellectual property rights management mechanism of Linekong Interactive.

With the continuous development of our business, our demand for intellectual property is increasingly urgent. In early 2017, the Company emphasised the importance of intellectual property to the development of the Company at the middle and high-level meetings and required every employee to have the awareness of protecting the intellectual property rights of the Company. Meantime, we stressed the need to expand the application of trademark categories, and extended the core trademark categories to closely related derivative categories. By the end of 2017, the Company owned 720 different types of intellectual properties, including 610 trademarks and 110 copyrights.

We take active measures to protect intellectual property. The relevant business department will submit the application requirements for trademark, copyright and patent to the legal department, before release of games and films and TV plays. The legal department employs a professional organisation to make an initial assessment of whether the application infringes on the existing intellectual property rights of a third party and to complete the application to the relevant government departments. During the operation of the games and films and TV plays, the legal department will also commission a professional organisation to follow up the investigation and conduct continuous search of intellectual property rights in China and overseas markets to avoid potential infringement of existing trademarks, copyrights or patents of third parties while protecting the Company's intellectual property from infringement by a third party. While protecting the Company's own intellectual properties, the Company also fully respects the intellectual properties of others. Linekong Interactive will use the authorised work in strict accordance with the authorised content after obtaining the authorisation of the authoriser according to law, for use of those intellectual properties that need to be authorised by the holders.

Environmental, Social and Governance Report

4. OPERATING PRACTICES *(Continued)*

4.2 Product Responsibility *(Continued)*

(3) Protection of intellectual property *(Continued)*

In 2017, the Company continued to deal with the "The Legend of King" trademark case. The general information of the case is as follows: According to the adjudication of the Trademark Review and Adjudication Board (TRAB) in 2016, Linekong Interactive is entitled to use the trademark of "The Legend of King", the game of the Company. Shishou City Ditanke Electronic Business Office refused to accept the adjudication and then filed a lawsuit to Beijing Intellectual Property Court. But Beijing Intellectual Property Court issued an adjudication in August 2017 to uphold that determined by TRAB. Shishou City Ditanke Electronic Business Department refused to accept the adjudication issued by Beijing Intellectual Property Court and then filed a lawsuit to the Higher People's Court of Beijing Municipality. The Higher People's Court of Beijing Municipality issued its verdict on 19 December 2017, upholding the adjudication issued by Beijing Intellectual Property Court. Except for this incident, the Company was not involved in any incident in violation of the laws and regulations (including intellectual property) concerning the provision and use of the Company's products and services, which has a significant impact on the Company.

The Company manages the research and development system from such three aspects as physical isolation, network isolation and data isolation, and strictly controls the management and use of R&D information technology, thus protecting our own intellectual properties while avoiding leakage of customer information.

Physical isolation

The Company implements physical isolation measures for office computers of R&D system, that is, installing an external metal box on relevant computer equipment so as to prevent it from being embezzled and abused.

Network isolation

The Company adopts system for R&D network and office network, that is, R&D network is an independent office network and can not link the Internet, which is under strict anthority management.

Data isolation

Transmission and copying of all R&D data must be approved by the relevant manager before the data is copied using intermediate machine.

Management and Use of Information Technology

Environmental, Social and Governance Report

4. OPERATING PRACTICES *(Continued)*

4.2 Product Responsibility *(Continued)*

(4) Positive response to complaints

For the immediate handling of user complaints, we have set up a comprehensive service system including free customer service hotline, WeChat customer service and QQ customer service, and the complaints are handled following the principles of "The one who is in charge takes responsibilities, the first asking responsibility system, reporting level by level, handling within a limited time, business compliance, timely record and putting yourself in others' shoes". According to the *Complaint Handling Process of Linekong Interactive Customer Service Centre*, the Company will communicate with relevant business departments immediately after receiving the complaints, and resolve complaints within the time limit of three working days. After the investigation result is returned to the complainant, the investigation can be closed only when the complainant is satisfied with the solution. In order to minimise the impact, Linekong Interactive will analyse and solve in a uniform way the relatively common complaints in a certain stage. In 2017, customers' overall satisfaction with the Company was 89.92%. The Company received 12 complaints, and the handling rate was 91.5% and the re-visiting ratio was 100%.

(5) Respect for customer privacy

The Company attaches great importance to the protection of player information in daily operations. The management of customer information safety follows the principle of "the one who is in charge takes responsibilities and who uses the customer information will be held to account". The employees at all levels of the Company also strictly abide by the Company's relevant requirements, protect customer information safety, and are not allowed to disclose, trade or abuse customer information. Employees have the right and obligation to stop any action that may endanger the customer information safety and report it to the superior leaders or safety officer. For the customer service centre in frequent contact with the player information, the Company has prepared the *Service Quality Management System* and the *Confidential Work Management System* to strictly control the player information.

Risks and threats to player information safety mainly include: arbitrary disposal of customer information due to improper authority management and control; improper acquisition of customer information due to improper process design and management; theft of customer information due to inadequate implementation of safety control measures, etc. Therefore, when the life cycle of the player account is over, the departments at all levels of the Company have the obligation and authority to properly handle the customer information and the data and carriers related to their information as agreed by the relevant laws, regulations and contracts. The relevant departments also regularly organise assessment and inspection on players' information safety, and eliminate the hidden danger found in time.

In 2017, Linekong Interactive was not involved in any event related to the leakage of customer information.

Environmental, Social and Governance Report

4. OPERATING PRACTICES *(Continued)*

4.3 Anti-corruption

We further improved our discretionary power in 2017 on the basis of clarifying the organisational structure and sorted out various systems and relevant processes. In the same year, the internal control personnel participated in the practical training of cycle internal control of businesses and carried out special audits of the related businesses in accordance with the *Detailed Rules for Implementation of Internal Audit*, sorting out and optimising the problems identified in the audit.

The Company and our employees strictly abide by the relevant anti-corruption laws and codes of ethics. As far as the Company is concerned, there was no material breach of relevant standards, rules and regulations in 2017. In addition, there were no cases of corruption involving the Company or the employees.

The Company strives for mutual benefit, quality and win-win based on the long-term strategic cooperation with suppliers. Moreover, the Company also attaches great importance to the win-win relationship with customers and strictly observes the integrity principle. No managers violated the relevant provisions of incorruptible employment during the reporting period. The Company built an open and transparent procurement system for procurement process, based on a series of systems such as the *Procurement Management System* (including supplier management) and the *Reporting Management System* as the basic guarantees so as to prevent commercial bribery, creating a fair and incorruptible environment for suppliers or agents.

The *Reporting Management System* provides channels and guidelines for reporting any misconduct, improper conduct or illegal action in the Company. If an employee finds any misconduct, he or she can notify the relevant supervisor or report directly to the Chairman of the review committee. Meanwhile, the Company has set up an e-mail address and a hotline for reporting. All reports are handled in a prudent and confidential manner. The Chairman of the review committee will recheck the complaint and decide how to conduct the investigation.

5. COMMUNITY INVESTMENT

The Company attaches great importance to the harmonious relations established with the community and society. We actively understand the needs of the community in the community activities and give serious consideration to the impact of business activities on the community. In 2017, the Company preferentially recruited and trained outstanding university graduates from the place of incorporation who devoted themselves to the game research and development industry. While stimulating the economic growth in the region, such initiative has also promoted the employment of university graduates, which is an effective measure both for economic development and for social harmony.

We actively accept the supervision and inspection proposed by the relevant authority departments according to laws and regulations, to ensure that we have properly fulfilled our responsibilities and obligations. In addition, the Company also set up a government and public relations department to take charge of the promotion and maintenance of the relationship with the government and community for establishing a harmonious local-enterprise relationship and realising mutual benefit and win-win, with the aim of strengthening communication with government authorities.

Moreover, the Company also actively carries out charity activities. We have established an internal public service organisation which is always ready to serve the teenagers, special groups and elderly organisations in need of help in the society, and contributes love and strength to those in need.

Directors' Report

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a mobile game developer and publisher in the PRC. The principal activities and other particulars of the Company's subsidiaries are set out in note 10 to the financial statement. There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2017.

Further discussion and analysis of the business review required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the section of "Management Discussion and Analysis" set out on pages 11 to 21 of this annual report. Such discussion forms part of this "Directors' Report".

RESULTS AND DIVIDENDS

The Group's results for the year ended December 31, 2017 are set out in the consolidated statement of comprehensive loss on page 82 of this annual report. The Board did not recommend the payment of a final dividend for the year ended December 31, 2017.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, June 15, 2018. A notice convening the annual general meeting will be despatched to the shareholders of the Company in due course.

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, June 12, 2018 to Friday, June 15, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's 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, for registration not later than 4:30 p.m. on Monday, June 11, 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Group's share capital and share options are set out in note 20 and note 22 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 152 in this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 36 and note 21 to the financial statements. At December 31, 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HKD1,441.9 million. This includes the Company's share premium in the amount of approximately HKD2,058.5 million at December 31, 2017, which may be distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS AND THEIR RELATIONSHIP(S) WITH THE COMPANY

For the sales of in-game virtual items, the Group concluded that the Group takes the primary responsibilities in rendering services to paying players, and therefore, the paying players are the Group's customers. In 2017, no single paying player contributed more than 1% of the Group's revenue.

For the revenue generated from license fee and technical support fee, the Group's five largest third-party licensees accounted for approximately 12.2% of the Group's total revenue from the year and the single largest third-party licensee included therein accounted to approximately 8.8%.

Purchases from the Group's five largest suppliers accounted for approximately 27.9% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 13.2%.

None of the Directors, or any of his associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors for the year ended December 31, 2017 and as at the date of this report were as follows:

Executive Directors

Mr. Wang Feng *(Chairman and chief executive officer)*	(appointed on May 24, 2007)
Ms. Liao Mingxiang *(President)*	(appointed on May 24, 2007)
Mr. Qian Zhonghua	(appointed on June 11, 2015; re-designated as executive Director with effect from February 3, 2017 and resigned as executive Director with effect from February 15, 2018)
Mr. Mei Song	(appointed on June 11, 2015; resigned with effect from June 16, 2017)
Mr. Zhao Jun	(appointed on June 11, 2015; resigned with effect from February 15, 2018)

Non-executive Director

Mr. Pan Donghui	(appointed on February 3, 2017)

Independent non-executive Directors

Mr. Ma Ji	(appointed on April 24, 2014)
Mr. Wang Xiaodong	(appointed on June 11, 2015)
Mr. Zhang Xiangdong	(appointed on April 24, 2014)
Ms. Zhao Yifang	(appointed on June 11, 2015)

In accordance with the articles of association of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Pursuant to the articles of association, every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Directors' Report

DIRECTORS *(Continued)*

Subject to the Companies Law of the Cayman Islands, if any Director or other person shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge, or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Director or person so becoming liable as aforesaid from any loss in respect of such liability.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Pursuant to code provision A.1.8 of the Code, the Company should arrange appropriate insurance to cover potential legal actions against its Directors. To comply with code provision, the Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising from corporate activities for the year ended December 31, 2017.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 7 to 10 of this annual report.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals of the Group are set out in note 37 and note 27 to the financial statements.

DIRECTORS' INTEREST IN SIGNIFICANT TRANSACTION, ARRANGEMENT OR CONTRACTS

No Director (or entity connected with the Director) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

As of December 31, 2017, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" below and the disclosure on share incentive schemes and the Share Option Scheme in note 22 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Directors' Report

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

As of December 31, 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

Name of Director/chief executive	Capacity/Nature of interest	Total number of shares	Approximate percentage of shareholding *(Note 4)*
Mr. Wang Feng *(Note 1)*	Interest of controlled corporation	66,576,160 (L)	20.94%
	Beneficial owner	10,646,308 (L)	
Ms. Liao Mingxiang *(Note 2)*	Interest of controlled corporation	12,168,720 (L)	4.09%
	Beneficial owner	2,918,269 (L)	
Mr. Qian Zhonghua (resigned on February 15, 2018)	Beneficial owner	5,000 (L)	0.001%
Mr. Zhao Jun *(Note 3)* (resigned on February 15, 2018)	Beneficial owner	2,211,769 (L)	0.60%

(L) Long position

Notes:

(1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 2,213,000 shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 shares subject to vesting. As of December 31, 2017, approximately 95.0% of the RSUs have been vested and the remaining RSUs are subject to vesting.

(2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 106,500 shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 shares subject to vesting. As of December 31, 2017, approximately 95.0% of the RSUs have been vested and the remaining RSUs are subject to vesting.

(3) Mr. Zhao Jun holds 28,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of December 31,2017, approximately 63.34% of the RSUs have been vested and the remaining RSUs are subject to vesting. During the reporting period, Mr. Zhao Jun sold 600,000 shares on the Stock Exchange.

(4) As of December 31, 2017, the Company issued 368,730,964 shares.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(i) Long position in Shares and underlying Shares *(Continued)*

Save as disclosed above, as of December 31, 2017, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as of December 31, 2017, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

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

Directors' Report

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

So far as is known to the Directors or chief executives of the Company, as of December 31, 2017, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long and short positions in the shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company *(Note 8)*
Long Position			
Wangfeng Management Limited *(Note 1)*	Beneficial owner	66,576,160 (L)	18.06%
Zhu Li *(Note 2)*	Interest of spouse	77,222,468 (L)	20.94%
China Momentum Fund, L.P. *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun China Momentum Fund GP, Ltd. *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Financial Holdings Limited *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Holdings Limited *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Holdings Limited *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Limited *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Momentum Holdings Limited *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang *(Note 3)*	Interest of controlled corporation	52,318,760 (L)	14.19%
Starwish Global Limited *(Note 3)*	Beneficial owner	52,318,760 (L)	14.19%
The Core Trust Company Limited *(Note 4)*	Trustee of a trust	40,846,658 (L)	11.08%
Premier Selection Limited *(Note 4)*	Nominee for another person	40,846,658 (L)	11.08%
Chi Sing Ho *(Note 5)*	Interest of controlled corporation	29,922,996 (L)	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. *(Note 5)*	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund Associates, L.P. *(Note 5)*	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund L.P. *(Note 5)*	Beneficial owner	23,061,443 (L)	6.25%

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Long and short positions in the shares *(Continued)*

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company *(Note 8)*
Quan Zhou *(Note 5)*	Interest of controlled corporation	27,774,323 (L)	7.53%
Fubon Financial Holding Co., Ltd. *(Note 6)*	Interest of controlled corporation	23,739,000 (L)	6.44%
Fubon Life Insurance Co., Ltd. *(Note 6)*	Beneficial owner	23,739,000 (L)	6.44%
JPMorgan Chase & Co. *(Note 7)*	Interest of controlled corporation	25,843,564 (L) 36,000 (S)	7.00% 0.00%
J. P. Morgan Broker-Dealer Holdings Inc *(Note 7)*	Interest of controlled corporation	25,771,564 (L)	6.98%
J. P. Morgan Securities LLC *(Note 7)*	Beneficial owner	25,771,564 (L)	6.98%

(L) Long position (S) Short position

Notes:

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

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

3. Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P. Fosun China Momentum Fund GP, Ltd. is in turn wholly-owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). As of December 31, 2017, Fosun International Limited is 71.68% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of December 31, 2017, Mr. Guo Guangchang owned 64.45% equity interest in Fosun International Holdings Limited.

4. The Core Trust Company Limited, being the RSU trustee, directly holds the entire issued share capital of Premier Selection Limited (the RSU nominee), which originally held 44,374,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of December 31, 2017, 3,527,883 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 40,846,658 underlying Shares, including a total of 15,462,231 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 4,217,154 RSUs granted to Mr. Zhao Jun. On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017, June 22, 2017, August 30, 2017, September 12, 2017, October 10, 2017, November 16, 2017 and December 29, 2017, the Company had directed The Core Trust Company Limited to purchase and hold on-market 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 Shares, 1,000 Shares, 72,000 Shares, 140,000 Shares, 100,000 Shares, 240,500 Shares, 50,500 Shares, 370,000 Shares, 183,500 Shares and 124,000 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Long and short positions in the shares *(Continued)*

Notes:

5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund Associates, L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 Shares) and IDG-Accel China Growth Fund-A L.P. (directly holds 4,712,880 Shares) are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Quan Zhou and Mr. Chi Sing Ho; and (ii) IDG-Accel China Investors L.P. (directly holds 2,148,673 Shares) is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Chi Sing Ho. Hence, IDG-Accel China Growth Fund Associates L.P., IDG-Accel China Growth Fund GP Associates Ltd. and Mr. Quan Zhou are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing Ho is deemed to be interested in 29,922,996 Shares by virtue of SFO.

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

7. J.P. Morgan Securities LLC is 100% owned by J.P. Morgan Broker-Dealer Holdings Inc. J.P. Morgan Broker-Dealer Holdings Inc is 100% owned by JPMorgan Chase & Co.. JPMorgan Chase & Co., through J.P. Morgan Securities LLC and J.P. Morgan Broker-Dealer Holdings Inc, holds 25,771,564 Shares. In addition, JPMorgan Chase & Co., through various other subsidiaries, holds 72,000 Shares (long position) and 36,000 Shares (short position).

8. As of December 31, 2017, the Company issued 368,730,964 Shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2017, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME

Share Incentive Scheme

The Company approved and adopted the RSU Scheme on March 21, 2014 and as amended on August 22, 2014. The RSU Scheme is not subject to the procedures 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.

The key terms of the RSU Scheme are as follow.

(a) Purposes of the RSU Scheme

The purpose of the RSU Scheme is to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to our Group for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

Directors' Report

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME *(Continued)*

Share Incentive Scheme *(Continued)*

(b) Participants in the RSU Scheme

Persons eligible to receive RSUs under the RSU Scheme are existing employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors) or officers of our Company or any of our subsidiaries (including Linekong Online) or any person who provides or has provided consultancy or other advisory services to the Group (the "**RSU Eligible Persons**"). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

(c) Term of the RSU Scheme

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the date of the first grant of the RSUs, being March 21, 2014 (unless it is terminated earlier in accordance with its terms) (the "**RSU Scheme Period**").

(d) Maximum number of Shares pursuant to RSUs

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of shares held by the RSU Trustee (as defined in paragraph (e) below) for the purpose of the RSU Scheme from time to time.

(e) Appointment of the RSU Trustee

Our Company has appointed a trustee (the "**RSU Trustee**") to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme. Our Company may (i) allot and issue shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing shares from any of the shareholder of the Company or purchase existing shares (either on-market or off-market) to satisfy the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustee by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration of the RSU Scheme. All the shares underlying the RSUs granted and to be granted under the RSU Scheme were allotted and issued to Premier Selection Limited.

(f) Exercise of RSUs

RSUs held by a Participant in the RSU Scheme (the "**RSU Participant**") that are vested as evidenced by the vesting notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot of 500 shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot). Upon receipt of an exercise notice, our Board may decide at its absolute discretion to:

(i) direct and procure the RSU Trustee to, within a reasonable time, transfer the shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up shares or which the RSU Trustee has either acquired by purchasing existing shares or by receiving existing shares from any of the shareholder of the Company, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

(ii) pay, or direct and procure the RSU Trustee to, within a reasonable time, pay, to the RSU Participant in cash an amount which represents the value of the shares underlying the RSUs exercised on or about the date of exercise (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those shares) less any exercise price (where applicable) and after deduction or withholding of any tax, levies, stamp duty and other charges applicable to the entitlement of the RSU Participant and the sale of any shares to fund such payment and in relation thereto.

Directors' Report

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME *(Continued)*

Share Incentive Scheme *(Continued)*

(f) Exercise of RSUs *(Continued)*

On December 31, 2017, RSUs in respect of 35,471,879 underlying shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 889,718 underlying shares granted to 16 grantees had been lapsed during the year ended December 31, 2017. As of December 31, 2017, 28,152,604 RSUs have been vested unconditionally and there were 2,970,210 RSUs granted and outstanding.

Share Option Scheme

The Company conditionally approved the Share Option Scheme on November 20, 2014 which became effective on December 30, 2014, being the date of Listing. On August 12, 2015, October 9, 2015, June 15, 2016 and January 18, 2017, 1,849,192, 6,010,000, 1,750,000 and 9,225,000 share options were granted to certain employees under the Share Option Scheme with exercise price of HKD8.10, HKD7.18, HKD4.366 and HKD3.10, respectively. Based on the market price of the underlying ordinary share of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 on the respective grant date of the share option, the Company has used Binomial Option-Pricing Model to determine the fair value of the share option as of the grant date.

The key terms of the Share Option Scheme are as follow:

(a) Purpose

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons (as defined below) 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 our Company.

(b) Who may participate

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 or 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 (the "**Eligible Persons**").

(c) Maximum number of shares in respect of which options may be granted

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (the "**Other Schemes**") of our Company must not in aggregate exceed 10% of the total number of shares in issue as at the date of Listing, which is 36,983,846 shares (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

(d) Maximum entitlement of each individual

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the shares in issue at such date.

Directors' Report

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME *(Continued)*

Share Option Scheme *(Continued)*

(e) Acceptance of an offer of options

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HKD1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(f) Exercise price

Subject to any adjustment pursuant to the Share Option Scheme, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

(ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and

(iii) the nominal value of the shares.

(g) Duration of Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of Listing, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

As of December 31, 2017, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of grant	Option period	Share Options granted	Exercise price per share *HKD*	The weighted average closing price of the shares *HKD*	Outstanding balance as at January 1, 2017	During the reporting period				Outstanding balance as at December 31, 2017	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 *(note 2)*	8.10	8.028	462,298	0	0	0	0	462,298	0	0
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 *(note 3)*	7.18	6.896	4,742,500	0	0	0	876,875	3,865,625	0	960,625
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 *(note 4)*	4.366	4.366	1,450,000	0	0	0	37,500	1,412,500	0	537,500
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 *(note 5)*	3.10	3.084	N/A	9,225,000	0	0	1,525,000	7,700,000	0	0

Directors' Report

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME *(Continued)*

Share Option Scheme *(Continued)*

(g) Duration of Share Option Scheme *(Continued)*

Notes:

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

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

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

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

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

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

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

Directors' Report

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME *(Continued)*

Share Option Scheme *(Continued)*

(g) Duration of Share Option Scheme *(Continued)*

Notes: (Continued)

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

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

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

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

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

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

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

(7) For details of the accounting policy adopted for the share options and value of share options granted, please refer to note 2 and note 22(b) to the financial statements.

Directors' Report

INTERESTS IN COMPETING BUSINESS

Mr. Qian Zhonghua, a non-executive Director (re-designated as executive Director with effect from February 3, 2017 and resigned as executive Director with effect from February 15, 2018), had been a managing director of Fosun Equity Investment Management Ltd. from October 2014 to January 2017 and a director of Starwish Global Limited from April 2015 to January 2017 before the re-designation as executive Director. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 00656)) and its subsidiaries (together, the "**Fosun Group**"). Fosun Group is an investment group taking roots in China with a global foothold. It has established two principal businesses comprising integrated finance (including insurance, investment, wealth management and internet finance) and industrial operation (including health, happiness, steel, property development and sales, and resources). Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including private mobile game and network game companies including Shanghai Muyou Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies. In addition, Fosun Group has nominated representatives to hold directorship in the board of directors of the aforementioned companies after the appointment. On the other hand, although Fosun Group has the right to nominate one of its representatives to act as a non-executive director in each of the private portfolio companies, it does not control any of the board of directors of the private portfolio companies.

Save as the aforementioned, none of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group for the year ended December 31, 2017.

NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has undertaken, among other things, not to accept any positions/job titles or conduct any business transactions with any individual or company that in any way competes with the Group or our associated companies, whether directly or indirectly. The executive Directors have also undertaken that they would not hold more than 5% of the economic interests and/or participate in any business activities of the aforesaid companies. Each of the executive Directors confirms that he/she had complied with the non-competition undertakings as set out in their respective service contracts from the date of the service contract up to the date of this report.

CONTRACTUAL ARRANGEMENTS

Pursuant to applicable PRC Laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting online games business (the "**Principal Business**") and are restricted to conduct value-added telecommunications services. Accordingly, we cannot acquire equity interest in Linekong Online, which conducts our Principal Business and holds the assets and certain licenses, approvals and permits required for the operation of our Principal Business.

As a result of the foregoing, we, through our wholly-owned subsidiary, Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**"), entered into a series of contracts (the "**Contractual Arrangements**") with Linekong Online and Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu (Mr. Wang, Ms. Liao and Mr. Zhang, collectively referred to as the "**Registered Shareholders**") on January 16, 2014 (and subsequently amended on November 24, 2014) to assert management control over the operations of our Principal Business conducted through Linekong Online, and to enjoy all economic benefits of Linekong Online, and in consideration of which, Beijing Linekong Online shall provide, among others, technology consulting and service to Linekong Online. Linekong Online is an operating company of the Group established under the laws of the PRC and currently holds several domestic operating companies in the PRC to conduct the Principal Business. The Contractual Arrangements are designed to provide our Group with effective control over the financial and operation policies of Linekong Online and, to the extent permitted by PRC law and regulations, the right to acquire the equity interests in and/or the assets of Linekong Online through Beijing Linekong Online. As we operate our Principal Business through Linekong Online, which is controlled by Registered Shareholders, we do not hold any direct equity interest in Linekong Online. Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations. Details of the shareholdings of Linekong Online held by the Registered Shareholders are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Major terms of the contracts under the Contractual Arrangements

The Contractual Arrangements currently in effect comprise four agreements, namely (i) the Amended and Restated Exclusive Technology Consulting and Service Agreement, (ii) the Amended and Restated Exclusive Call Option Agreement, (iii) the Amended and Restated Equity Pledge Agreement and (iv) the Loan Agreement, which were entered into between or amongst Beijing Linekong Online, Linekong Online and the Registered Shareholders (as the case may be), and the irrevocable power of attorney executed by each Registered Shareholder.

A summary of the major terms of the four agreements and the power of attorney of the Contractual Arrangements is as follows:

(a) Amended and Restated Exclusive Technology Consulting and Service Agreement

Beijing Linekong Online and Linekong Online entered into an Amended and Restated Exclusive Technology Consulting and Service Agreement on January 16, 2014, and as further amended on November 24, 2014, pursuant to which, among others:

i. Linekong Online agreed to engage Beijing Linekong Online as its exclusive technology consultant and service provider. The technology advices and services which Beijing Linekong Online shall provide to Linekong Online include, but are not limited to, (i) research and development of technologies necessary for the operations of Linekong Online, (ii) application and implementation of technologies relevant to the operations of Linekong Online, (iii) technical services related to advertisement design, software design, and webpage production with respect to Linekong Online's advertising business, and provide management advices and recommendations, and (iv) daily maintenance, supervision, commissioning and troubleshooting of Linekong Online's computer network equipment and other technical services;

ii. Linekong Online shall pay to Beijing Linekong Online a service fee that equals to the profit before taxation of Linekong Online, including all profits attributable to Linekong Online of, and any other distributions received by Linekong Online from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreement and after offsetting the prior-year loss (if any) and deducting such amounts as required for working capital expenses and tax of each of Linekong Online and its subsidiaries (as the case may be) in any given year; and

iii. Beijing Linekong Online shall enjoy all economic benefits of, and bear all risks arising from, the conduct of Principal Business by Linekong Online. In the event that Linekong Online incurs significant operating loss or experienced serious difficulties in its operations, Beijing Linekong Online shall provide financial support to Linekong Online and shall have the right to request Linekong Online to cease in operation.

The Amended and Restated Exclusive Technology Consulting and Service Agreement has an initial term of ten (10) years and may be automatically extended for another ten years at the discretion of Beijing Linekong Online. The Amended and Restated Exclusive Technology Consulting and Service Agreement may be terminated by Beijing Linekong Online by giving Linekong Online 30 days' prior written notice of termination or shall be terminated upon the transfer of the entire equity interests in and/or the transfer of all assets of Linekong Online to Beijing Linekong Online or its designated person(s) pursuant to the Amended and Restated Exclusive Call Option Agreement. Linekong Online is not contractually entitled to terminate the Amended and Restated Exclusive Technology Consulting and Service Agreement with Beijing Linekong Online.

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

Major terms of the contracts under the Contractual Arrangements *(Continued)*

(b) Amended and Restated Exclusive Call Option Agreement

Beijing Linekong Online, the Registered Shareholders and Linekong Online entered into an Amended and Restated Exclusive Call Option Agreement on January 16, 2014, and as further amended on November 24, 2014, pursuant to which, among others:

i. the Registered Shareholders jointly and severally granted to Beijing Linekong Online (exercisable by itself or any direct or indirect shareholder of Beijing Linekong Online and a direct or indirect subsidiary of such shareholder (i.e. being any member of our Group) or an authorised director (being a PRC citizen) of any such member of our Group as designated by Beijing Linekong Online) irrevocable options to (i) purchase, to the extent permitted by PRC laws and regulations, their equity interests in Linekong Online, entirely or partially, at the minimum purchase price permitted under PRC laws and regulations or (ii) acquire to the extent permitted by PRC laws and regulations, all or part of the assets (including all intellectual properties) of Linekong Online at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations;

ii. Beijing Linekong Online (by itself or any of its designees) may exercise such options at any time until it has acquired all equity interests and/or assets (including all intellectual properties) of Linekong Online, subject to applicable PRC laws and regulations; and

iii. Beijing Linekong Online shall have the right to forthwith exercise the option granted under the Amended and Restated Exclusive Call Option Agreement when relevant PRC laws and regulations permit the equity interests of Linekong Online to be directly held by Beijing Linekong Online while Linekong Online continues to operation the Principal Business.

The Amended and Restated Exclusive Call Option Agreement shall expire when all the equity interests in and assets of Linekong Online have been transferred to Beijing Linekong Online or its designee, unless and until Beijing Linekong Online, at its sole discretion, gives Linekong Online and the Registered Shareholders a 30 days' prior written notice of termination. Linekong Online and the Registered Shareholders are not contractually entitled to terminate the Amended and Restated Exclusive Call Option Agreement with Beijing Linekong Online.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Major terms of the contracts under the Contractual Arrangements *(Continued)*

(c) Amended and Restated Equity Pledge Agreement

Beijing Linekong Online and the Registered Shareholders entered into the Amended and Restated Equity Pledge Agreement on January 16, 2014, pursuant to which, among others:

i. each of the Registered Shareholders agreed to pledge all of their respective equity interests in Linekong Online to Beijing Linekong Online to secure performance of all their obligations and the obligations of Linekong Online under the Contractual Arrangements. If any Registered Shareholder breaches or fails to fulfil the obligations, Beijing Linekong Online, as the pledgee, will be entitled to foreclose the pledged equity interests, entirely or partially;

ii. each Registered Shareholder has undertaken to Beijing Linekong Online, among other things, not to transfer or otherwise dispose his/her equity interests in Linekong Online and not to create or allow any pledge thereon that may affect the rights and interest of Beijing Linekong Online without its prior written consent;

iii. appropriate arrangements have been made to protect Beijing Linekong Online's interests in the event of death, incapacity, bankruptcy or divorce of the Registered Shareholders or any other circumstances that may affect their exercise of the shareholders' rights to avoid any practical difficulties in enforcing the Amended and Restated Equity Pledge Agreement; and

iv. if Linekong Online declares any dividend or distribute any income during the term of the pledge, Beijing Linekong Online is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests.

The Amended and Restated Equity Pledge Agreement shall terminate when Linekong Online has fulfilled and performed all obligations under the agreements underlying the Contractual Arrangements or upon the termination of the agreements underlying the Contractual Arrangements.

(d) Loan Agreement

In order to satisfy the funding needs in Linekong Online, the Registered Shareholders borrowed a sum of RMB9,970,000 from our Company without interest on or around the date of establishment of Linekong Online. Beijing Linekong Online and the Registered Shareholders subsequently entered into the Loan Agreement, pursuant to which Beijing Linekong Online agreed to lend a total of RMB9,970,000 to the Registered Shareholders without interest, in order to assume the loan originally granted by our Company, for the purpose of acquiring the equity interest in Linekong Online. The relevant portion of the loan will become due and payable upon Beijing Linekong Online's demand under certain circumstances, including but not limited to: (i) the relevant Registered Shareholder resigning or is being removed from the various positions held by him/her in the Group; (ii) the relevant Registered Shareholder becoming insolvent or incurring any other significant personal debt which may affect his/her ability to repay the loan under the Loan Agreement; (iii) Beijing Linekong Online exercising its option to purchase all equity interests in Linekong Online to the extent permitted by PRC laws and regulations as soon as the PRC foreign ownership restrictions applicable to our Group's mobile and online games business have been lifted.

The Loan Agreement is for a term of ten (10) years commencing from April 14, 2008, and may be automatically extended for another ten (10) years upon each expiry. Linekong Online is not contractually entitled to terminate the Loan Agreement with Beijing Linekong Online.

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

Major terms of the contracts under the Contractual Arrangements *(Continued)*

(e) Power of Attorney

On January, 16, 2014, each Registered Shareholder executed an irrevocable Power of Attorney to appoint a director of any direct or indirect shareholder of Beijing Linekong Online or his/her successor who is a PRC citizen as proxy of the relevant Registered Shareholder to exercise all of their respective shareholders' rights in Linekong Online. Pursuant to the Power of Attorney, the shareholders' rights exercisable by the proxy include, but not limited to, the rights to (i) attend shareholders' meetings and pass any shareholders' resolution of Linekong Online; (ii) exercise all shareholders' rights in accordance with applicable laws and the articles and constitutional documents of Linekong Online; (iii) submit and/or file any documents or information to relevant companies registry; and (iv) elect and appoint the legal representative, chairman, directors, supervisors, general manager and other senior management of Linekong Online.

Under each Power of Attorney, each Registered Shareholder irrevocably confirmed that the power of attorney shall remain in full force and effect during the term which the relevant Registered Shareholder remains as a shareholder of Linekong Online.

For further details of the terms of the four agreements and power of attorney of the Contractual Arrangements, please refer the section headed "Contractual Arrangements — Details of the Existing Agreements" of the prospectus of the Company dated December 9, 2014 (the "**Prospectus**").

Risks associated with the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, which include, but not limited to: (i) if the PRC government finds that the agreement that establish the structure for operating our online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in Linekong Online; (ii) Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business; (iii) we may lose the ability to use and enjoy assets held by Linekong Online that are important to the operation of our business if Linekong Online declares bankruptcy or become subject to a dissolution or liquidation proceeding; (iv) we principally rely on dividends and other distributions on equity paid by Beijing Linekong Online to fund any cash and financing requirements we may have. Any limitation on Beijing Linekong Online's ability to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition. For further details of the risks associated with the Contractual Arrangements, please refer the section headed "Risk Factors — Risks Relating to Our Corporate Structure" of the Prospectus.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Major terms of the contracts under the Contractual Arrangements *(Continued)*

(e) Power of Attorney *(Continued)*

Measures adopted by our Group

Our Group has adopted various measures to ensure legal and regulatory compliance and to ensure the sound and effective operation of our Group (including Linekong Online and its subsidiaries) and the implementation of the Contractual Arrangements, which include, but not limited to: (i) as part of the internal control measure, major risks and issues arising from implementation of the Contractual Arrangements has been regularly reviewed, at least on a quarterly basis, by our Board; (ii) the relevant business units and operation divisions of our Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of our Company in relation to compliance and performance conditions the Contractual Arrangements and other related matters; (iii) the company seals, financial seals, contract seals and crucial corporate certificates of Linekong Online and its subsidiaries are kept by the Group's finance department; (iv) the independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in the annual report; (v) if necessary, legal advisors and, or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements and to ensure that the operation and implementation of the Contractual Arrangements as a whole will comply with applicable laws and regulations; (vi) our Group will unwind the Contractual Arrangements as soon as relevant PRC laws and regulations allow the Principal Business to be conducted and operated by owned subsidiaries of our Company without such arrangements in place; (vii) each of Mr. Wang Feng and Ms. Liao Mingxiang, being our executive Directors and the Registered Shareholders, shall abstain from voting on any resolutions at any Board meeting or shareholders' meeting of the Company or Linekong Online (as the case may be) in which he/she may have conflict of interest. For further details of the actions taken by the Company to mitigate the risks associated with the Contractual Arrangements, please refer the section headed "Contractual Arrangements — Operations in Compliance with the Contractual Arrangements" of the Prospectus.

Revenue and assets subject to the Contractual Arrangements

For the year ended December 31, 2017, the revenue and net loss subject to the Contractual Arrangements are RMB431.2 million and RMB59.4 million (amounted to approximately 87.2% and 20.2% of the total revenue and net loss of the Group), respectively.

As at December 31, 2017, the total assets subject to the Contractual Arrangements is RMB323.7 million, amounted to approximately 26.7% of the total assets of the Group.

Change of circumstances

There had been no material change in the arrangements under the Contractual Arrangements and/or the circumstances under which they were adopted. As of the date of this annual report, the foreign investment restrictions which gave rise to the arrangements under the Contractual Arrangements are still in existence.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

Establishment of Feng Hua Investment and Feng Hua Partners

On August 24, 2017, Linekong Online, a wholly-owned subsidiary of the Company, has signed the shareholders' contribution agreement (the "**Shareholders' Contribution Agreement**") with Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Qian Zhonghua, Mr. Ren Zheng and Mr. Shang Silin, pursuant to which Linekong Online has agreed to contribute RMB3.9 million with the intention of jointly establishing Linekong Feng Hua Investment Management Limited (藍港峰華投資管理有限公司) ("**Feng Hua Investment**") with the above parties.

On the same day, Feng Hua Investment, which is intended to be established, has entered into the limited partnership contribution agreement (the "**Limited Partnership Contribution Agreement**") with Linekong Online, Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Qian Zhonghua, Mr. Ren Zheng and Mr. Shang Silin, pursuant to which Linekong Online has agreed to contribute RMB12.5 million to jointly establish Linekong Feng Hua Limited Partners Corporation (Limited Partnership) (藍港峰華有限合夥企業(有限合夥)) ("**Feng Hua Partners**") with the above parties. The purpose of establishing Feng Hua Partners is for managing fund raising projects. Upon completion of the transactions contemplated under the Limited Partnership Contribution Agreement, Linekong Online will become a limited partner of Feng Hua Partners while Feng Hua Investment will become a general partner of Feng Hua Partners.

As the Directors of the Company, Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Qian Zhonghua are connected persons of the Company according to the GEM Listing Rules. Therefore, pursuant to the GEM Listing Rules, the Shareholders' Contribution Agreement, the Limited Partnership Contribution Agreement and the transactions thereunder constitute the connected transactions of the Company under the GEM Listing Rules. Pursuant to the requirement under Rule 20.79 of the GEM Listing Rules, the transactions under the Shareholders' Contribution Agreement shall be aggregated with the transactions under the Limited Partnership Contribution Agreement. As the applicable ratios under Rule 19.07 of the GEM Listing Rules in respect of the Shareholders' Contribution Agreement, the Limited Partnership Contribution Agreement and the transactions thereunder, when aggregated, are more than 0.1% but less than 5%, the Shareholders' Contribution Agreement, the Limited Partnership Contribution Agreement and the transactions thereunder are exempted from the independent shareholders' approval requirement.

Details of the transactions in relation to the establishment of Feng Hua Investment and Feng Hua Partners are set out in the announcement of the Company dated August 24, 2017. As at the date of this report, the establishment of Feng Hua Investment has been completed while the establishment of Feng Hua Partners is in progress. It was disclosed in the above announcement that the board of directors of Feng Hua Investment would comprise of seven directors, among which three directors would be delegated by Linekong Online while four directors would be delegated by the remaining shareholders. The parties to the Shareholders' Contribution Agreement subsequently agreed to decrease the number of directors to five, among which two will be delegated by Linekong Online and three will be delegated by the remaining shareholders.

Disposals of Equity Interest in Horgos Pictures

On 24 August 2017, Linekong Online, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with, among others, Gonggingcheng Lanfeng Investment Management Partnership (Limited Partnership) (共青城藍峰投資管理合夥企業(有限合夥)) ("**Lanfeng Investment**") (the "**Lanfeng Agreement**") and another equity transfer agreement with, among others, Gonggingcheng Lanhai Culture Investment Management Partnership (Limited Partnership) (共青城藍海文化投資管理合夥企業(有限合夥)) ("**Lanhai Culture**") (the "**Lanhai Culture Agreement**"), respectively. Pursuant to the Lanfeng Agreement, Lanfeng Investment has agreed to acquire and Linekong Online has agreed to dispose of 50% equity interest held in Horgos Linekong Pictures Corporation (霍爾果斯藍港影業有限公司) ("**Horgos Pictures**") at a consideration of RMB29.3 million. Pursuant to the Lanhai Culture Agreement, Lanhai Culture has agreed to acquire and Linekong Online has agreed to dispose of 31% equity interest held in Horgos Pictures at a consideration of RMB18.166 million. Upon completion of the equity transfers under the Lanfeng Agreement and the Lanhai Culture Agreement, the Group will cease to have any shareholdings in Horgos Pictures and Horgos Pictures will cease to be a subsidiary of the Company.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

Disposals of Equity Interest in Horgos Pictures *(Continued)*

The transactions under the Lanfeng Agreement and the Lanhai Culture Agreement are separate transactions and are not inter-conditional.

According to the GEM Listing Rules, as an associate of a Director of the Company, Lanfeng Investment is a connected person of the Company. Therefore, the transaction contemplated under the Lanfeng Agreement constitutes a connected transaction of the Company under the GEM Listing Rules. As the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules in respect of the transaction under the Lanfeng Agreement are more than 0.1% but less than 5%, the Lanfeng Agreement and the transaction thereunder are exempted from the independent shareholders' approval requirement.

The transaction under the Lanhai Culture Agreement does not constitute a connected transaction of the Company, but reference to the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules shall be made in order to determine whether it constitutes a notifiable transaction. As one of the applicable percentage ratios in respect of the transaction under the Lanhai Culture Agreement, when aggregated with the transaction under the Lanfeng Agreement according to Rule 19.22 of the GEM Listing Rules, is more than 5% but less than 25%, the Lanhai Culture Agreement and the transaction thereunder constitute a discloseable transaction of the Company and are also subject to the announcement requirement but exempted from the shareholders' approval requirement under Chapter 19 of the GEM Listing Rules.

Details of the transactions in relation to the disposals of equity interest in Horgos Pictures are set out in the announcement of the Company dated August 24, 2017. As at the date of this report, the disposals of equity interest in Horgos Pictures have not been completed.

Continuing Connected Transactions

Contractual Arrangements

The Contractual Arrangements constitute non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules. Each of Mr. Wang Feng and Ms. Liao Mingxiang is a deemed controlling shareholder of the Company and an executive Director and is therefore a connected person of our Company under Rule 20.07(1) of the GEM Listing Rules. Mr. Zhang Yuyu, is a deemed controlling shareholder and a director of Linekong Online and certain of its subsidiaries and is therefore a connected person of our Company under Rule 20.07(1) of the GEM Listing Rules. In addition, Linekong Online is owned as to 75.45%, 13.64% and 10.91% by Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu, respectively, and hence an associate of Mr. Wang Feng. Linekong Online is therefore a connected person of our Company under Rule 20.07(4) of the GEM Listing Rules. Accordingly, the transactions (if any) contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the GEM Listing Rules.

The Stock Exchange has granted a waiver pursuant to Rule 20.103 of the GEM Listing Rules from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules in respect of the transactions contemplated under the Contractual Arrangements; (ii) the requirement of setting an annual caps for the fees payable to Beijing Linekong Online under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as Shares are listed on the GEM. For further details of the waiver granted by the Stock Exchange, please refer the section headed "Connected Transactions — Non-exempted Continuing Connected Transactions" of the Prospectus.

As at December 31, 2017, there was no transaction conducted under the Contractual Arrangements.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Independent non-executive Directors' confirmation

Our independent non-executive Directors confirmed, after conducting annual review on the Contractual Arrangements and the transactions contemplated thereunder, that:

(1) no transactions were carried out for the financial year ended December 31, 2017;

(2) no dividends or other distributions have been made by Linekong Online to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and

(3) there were no new contracts entered into, renewed or reproduced between our Group and Linekong Online for the financial year ended December 31, 2017.

There were no continuing connected transactions between the Group and its connected person (as defined under the GEM Listing Rules) which are subject to reporting, announcement and independent shareholders' approval requirement under the GEM Listing Rules for the year ended December 31, 2017.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 34 to the consolidated financial statements in this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the GEM Listing Rules, except for those described in the paragraph headed "Connected and Continuing Connected Transactions" above, in respect of which the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules have been complied with or waived by the Stock Exchange.

EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

Share Purchase by RSU Trustee

On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017, June 22, 2017, August 30, 2017, September 12, 2017, October 10, 2017, November 16, 2017 and December 29, 2017, the Company had directed The Core Trust Company Limited, being the RSU Trustee assisting with the administration and vesting of RSUs granted pursuant to the RSU Scheme adopted by the Company, to purchase and hold on-market 115,000 shares, 50,000 shares, 70,500 shares, 54,000 shares, 129,000 shares, 10,000 shares, 1,000 shares, 72,000 shares, 140,000 shares,100,000 shares, 240,500 shares, 50,500 shares, 370,000 shares, 183,500 shares and 124,000 shares, respectively, of the ordinary shares of the Company (collectively, the "**Share Purchases**"), which will be used to satisfy the RSUs upon exercise.

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

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 13, 2017, June 22, 2017, August 30, 2017, September 12, 2017, October 10, 2017, November 16, 2017 and December 29, 2017, respectively.

Directors' Report

EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS *(Continued)*

Grant of Share Options

Pursuant to the Share Option Scheme, on January 18, 2017, share options were granted by the Company and details are set out in the section headed "Share Incentive Scheme and Share Option Scheme" of this report.

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

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

Resignation of Executive Directors

On June 16, 2017, Mr. Mei Song has resigned as an executive Director and a member of the nomination committee with effect from June 16, 2017 due to his personal reasons. On February 15, 2018, Mr. Qian Zhonghua has resigned as an executive Director with effect from February 15, 2018 due to personal development. On the same day, Mr. Zhao Jun has also resigned as an executive Director and a member of the remuneration committee with effect from February 15, 2018 due to physical considerations.

Change of Logo of the Company

The Company adopted the new logos with effect from October 17, 2017 in order to align with its latest business development. The change of Company logo will not affect any rights of the shareholders of the Company. All certificates of issued securities bearing the existing logo will, after the change of the Company's logo, continue to be evidence of title to such securities and will continue to be valid for trading, settlement, registration and delivery purposes. Therefore, there will not be any arrangement for the free exchange of existing certificates of securities of the Company for new certificates of securities bearing the new logos of the Company.

Details of the change of logo of the Company are set out in the announcement of the Company dated October 17, 2017.

USE OF IPO PROCEEDS

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

As of December 31, 2017, a total amount of approximately HKD324.9 million from the IPO Proceeds had been utilised for the purposes and approximately in the amount set out below:

(a) approximately HKD81.7 million was used for overseas expansions, expanding our business in overseas markets;

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

Directors' Report

USE OF IPO PROCEEDS *(Continued)*

(c) approximately HKD58.2 million was used for creating pan-entertainment environment;

(d) approximately HKD61.4 million was used for licensing more high-quality games with different genres and themes from Chinese and overseas game developers and the operation of such games; and

(e) approximately HKD77.6 million was used for the research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content.

As of December 31, 2017, approximately HKD361.3 million, being the residual part of the IPO Proceeds, remains unutilised. The unutilised IPO Proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group.

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.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 22 to 31 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

As of the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under our articles of association or applicable laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors in writing and annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

INDEPENDENT AUDITOR

The financial statements of the Company for the year ended December 31, 2017 were audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

Directors' Report

CHANGE OF AUDITOR

There was no change in auditor of the Company during the past three years.

DONATIONS

Donations made by the Group/Company during the year ended December 31, 2017 amounted to 0.

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries have entered into equity-linked agreements.

ON BEHALF OF THE BOARD
Wang Feng
Chairman

March 28, 2018

Independent Auditor's Report

pwc 羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Linekong Interactive Group Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 82 to 155, which comprise:

- the consolidated balance sheet as of December 31, 2017;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Accounting estimation involved in revenue recognition for sales of in-game virtual items
- Valuation of level 3 financial assets measured at fair value
- Impairment assessment of the investment in an associate

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting estimation involved in revenue recognition for sales of in-game virtual items Refer to note 5 to the consolidated financial statements. For the year ended December 31, 2017, the Group has generated revenue from sales of in-game virtual items of RMB407.3 million. The recognition of the revenue generated from sales of in-game virtual items involved the estimation of the lives of permanent ownership items ("**Player Relationship Period**"). Management has estimated the Player Relationship Period on a game-by-game basis for revenue recognition. We focused on this area because of the inherent uncertainties and subjectivities involved in estimation of Player Relationship Period, which could result in differences in the periods when revenue is recognised.	Our procedures in relation to estimation of Player Relationship Period in revenue recognition for the sales of in-game virtual items included: • We assessed the appropriateness of the methodologies and assumptions used in the estimation of Player Relationship Period by checking the mathematic formula as well as comparing them with historical data and industry practice. • On sample basis, we checked the key inputs used in the estimation including the quantity of paying players of games and their log-in records with the original data directly extracted from the game servers. • For selected samples, we recalculated the related Player Relationship Period of selected games, and compared the results with Player Relationship Period prepared by management. We found that the assumptions adopted and estimation made by management were supported by the evidence we gathered and consistent with our understanding.

Independent Auditor's Report

Key Audit Matter

Valuation of level 3 financial assets measured at fair value

Refer to note 3.3 to the consolidated financial statements.

As of December 31, 2017, the Group has level 3 financial assets of RMB168.4 million, including an associate measured at fair value through profit or loss, financial assets at fair value through profit or loss and available-for-sale financial assets.

One or more significant input of the valuation for level 3 financial assets are not based on active market prices, observable market data.

Management assessed and measured the level 3 financial assets using discounted cash flow method. An external valuer was engaged by management to assist the valuation. The determination of model adopted, inputs and assumptions adopted require significant judgement and estimation, which could give a material impact to the fair value measured. We therefore focused on this area.

How our audit addressed the Key Audit Matter

Our procedures in relation to the valuation of level 3 financial assets measured at fair value included:

- We evaluated the Group's internal valuation process as well as external valuer's competence, capability and objectivity in those cases where external valuer was involved.
- We worked with our in-house valuation specialist to assess the appropriateness of valuation model adopted, and to challenge the reasonableness of the key inputs and assumptions including assessing the reasonableness of the discount rate based on relevant market data of comparable companies.
- We evaluated management's future cash flow forecasts, and the process by which they were drawn up, including testing the underlying calculations.
- We challenged the key assumptions including revenue growth rates in the cash flow forecasts by comparing them to historical results, economic and industry performances.
- We compared the input data used in the cash flow forecasts against the historical figures, the approved budgets and the business plans.

We found that the key assumptions adopted by management were supported by the evidence we gathered and consistent with our understanding.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of the investment in an associate Refer to note 11 to the consolidated financial statements. As of December 31, 2017, the Group has an equity investment of RMB40.0 million in an associate, Fuze Entertainment Co., Ltd. ("**Fuze**"), which was accounted for by using equity accounting. The investments using equity accounting are reviewed at each reporting date to determine whether there is any indication of impairment. Fuze incurred operating losses for the year ended December 31, 2017, which was considered as an indication of impairment. Management performed the impairment assessment with assistance from an external valuer engaged by management, and based on it, the recoverable amount of the investment in Fuze was determined by the higher of the fair value less disposal cost and value in use as of December 31, 2017. The Group recognised an impairment charge of RMB69.3 million arising from the assessment. The model adopted, inputs and assumptions used for the impairment assessment require significant judgement and estimation, which could give a material impact to the outcome. We therefore focused on this area.	Our procedures in relation to the impairment assessment of the investment in Fuze included: • We evaluated the Group's internal valuation process as well as external valuer's competence, capability and objectivity. • We worked with our in-house valuation specialist to assess the appropriateness of valuation model adopted, and to challenge the reasonableness of the key inputs and assumptions including assessing the discount rate based on relevant market data of capital of comparable companies. • We evaluated management's future cash flow forecast, and the process by which it was drawn up, including testing the underlying calculations . • We further discussed with management to understand the key factors that would affect the forecasted sales, including latest business plan, market condition and sales pattern. We evaluated these factors with supporting evidences including sales contracts and agent agreements. • We challenged the key assumptions including revenue growth rates in the cash flow forecast by comparing them to historical results, economic and industry performances. • We compared the input data used in the cash flow forecast against the historical figures, the approved budget and Fuze's business plans. • We evaluated management's estimation of the disposal cost using our industry knowledge as well as considering typical transaction cost in market. We found that assumptions adopted by management were supported by the evidence we gathered and consistent with our understanding.

Independent Auditor's Report

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all of the information included in the Linekong Interactive Group Co., Ltd. 2017 annual report other than the consolidated financial statements and our auditor's report thereon ("**the Other Information**").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 28, 2018

Consolidated Balance Sheet

		As of December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**6,850**	13,649
Intangible assets	7	**34,310**	39,406
Films in progress	8	**48,372**	24,418
Investments using equity accounting	11	**52,268**	176,362
An associate measured at fair value through profit or loss	12	**44,330**	19,229
Available-for-sale financial assets	13	**94,973**	115,125
Financial assets at fair value through profit or loss	14	**16,602**	15,637
Deferred income tax assets — net	15	**2,975**	1,431
Prepayments and other receivables	17	**6,657**	20,389
Restricted deposits	19	**–**	106,139
		307,337	531,785
Current assets			
Trade receivables	16	**52,340**	78,947
Prepayments and other receivables	17	**107,194**	112,905
Available-for-sale financial assets	13	**12,446**	–
Financial assets at fair value through profit or loss	14	**17,447**	17,125
Short-term bank deposits	18	**–**	312,963
Restricted deposits	19	**188,236**	–
Cash and cash equivalents	19	**349,563**	338,655
		727,226	860,595
Total assets		**1,034,563**	1,392,380

Consolidated Balance Sheet *(Continued)*

		As of December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	20	**59**	59
Share premium	20	**1,720,690**	1,720,691
Shares held for RSU Scheme	20	**(3,578)**	(2)
Reserves	21	**390,603**	426,480
Accumulated losses		**(1,435,377)**	(1,135,029)
		672,397	1,012,199
Non-controlling interests		**3,760**	(1,909)
Total equity		**676,157**	1,010,290
Liabilities			
Non-current liabilities			
Bank borrowings	23	**–**	99,400
Deferred revenue	25	**4,256**	7,021
		4,256	106,421
Current liabilities			
Bank borrowings	23	**136,719**	600
Trade and other payables	24	**143,527**	171,940
Current income tax liabilities		**7,893**	17,813
Deferred revenue	25	**66,011**	85,316
		354,150	275,669
Total liabilities		**358,406**	382,090
Total equity and liabilities		**1,034,563**	1,392,380

The notes on pages 88 to 155 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 82 to 155 were approved by the Board of Directors on March 28, 2018 and were signed on its behalf.

Wang Feng	**Liao Mingxiang**
Director	*Director*

Consolidated Statement of Comprehensive Loss

		Year ended December 31,	
		2017	2016
	Note	RMB'000	RMB'000
Revenue	5	**494,733**	658,442
Cost of revenue	26	**(294,610)**	(367,837)
Gross profit		**200,123**	290,605
Selling and marketing expenses	26	**(186,344)**	(201,129)
Administrative expenses	26	**(105,377)**	(102,054)
Research and development expenses	26	**(132,407)**	(139,496)
Other gains — net	28	**30,979**	35,558
Operating loss		**(193,026)**	(116,516)
Finance income — net	29	**3,334**	4,225
Share of loss of investments using equity accounting	11	**(45,780)**	(28,621)
Impairment of investments using equity accounting	11	**(69,300)**	–
Loss before income tax		**(304,772)**	(140,912)
Income tax credit/(expense)	30	**10,009**	(16,462)
Loss for the year		**(294,763)**	(157,374)
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		**14,953**	21,022
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		**(17,991)**	(2,449)
— Share of other comprehensive (loss)/income of investments accounted for using the equity method, net of tax		**(4,885)**	3,991
Items that will not be reclassified to profit or loss:			
— Currency translation differences		**(40,677)**	45,042
Other comprehensive (loss)/income for the year, net of tax		**(48,600)**	67,606
Total comprehensive loss for the year		**(343,363)**	(89,768)
Loss attributable to:			
Owners of the Company		**(294,098)**	(157,372)
Non-controlling interests		**(665)**	(2)
Loss for the year		**(294,763)**	(157,374)
Total comprehensive loss attributable to:			
Owners of the Company		**(342,744)**	(89,766)
Non-controlling interests		**(619)**	(2)
Total comprehensive loss for the year		**(343,363)**	(89,768)
Loss per share (expressed in RMB per share)			
— Basic	31(a)	**(0.84)**	(0.45)
— Diluted	31(b)	**(0.84)**	(0.45)

The notes on pages 88 to 155 are integral parts of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at January 1, 2016		59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(157,372)	(157,372)	(2)	(157,374)
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax		–	–	–	21,022	–	21,022	–	21,022
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		–	–	–	(2,449)	–	(2,449)	–	(2,449)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	3,991	–	3,991	–	3,991
— Currency translation differences		–	–	–	45,042	–	45,042	–	45,042
Total comprehensive income/(loss) for the year		–	–	–	67,606	(157,372)	(89,766)	(2)	(89,768)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Employee share option and RSU Scheme:									
— Value of employee services	22	–	–	–	33,161	–	33,161	–	33,161
— Vesting of shares		–	(1)	1	–	–	–	–	–
Repurchase of shares		–	(1,616)	–	–	–	(1,616)	–	(1,616)
Total contributions by and distributions to owners of the Company for the year		–	(1,617)	1	33,161	–	31,545	–	31,545
Balance at December 31, 2016		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290

Consolidated Statement of Changes in Equity *(Continued)*

		Attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at January 1, 2017		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(294,098)	(294,098)	(665)	(294,763)
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax		–	–	–	14,953	–	14,953	–	14,953
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		–	–	–	(17,991)	–	(17,991)	–	(17,991)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	(4,885)	–	(4,885)	–	(4,885)
— Currency translation differences		–	–	–	(40,723)	–	(40,723)	46	(40,677)
Total comprehensive loss for the year		–	–	–	(48,646)	(294,098)	(342,744)	(619)	(343,363)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Decrease in ownership interest in subsidiaries without change of control		–	–	–	(6,288)	–	(6,288)	6,288	–
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		–	–	(3,577)	–	–	(3,577)	–	(3,577)
— Value of employee services	22	–	–	–	12,807	–	12,807	–	12,807
— Vesting of shares		–	(1)	1	–	–	–	–	–
Appropriation to statutory reserves		–	–	–	6,250	(6,250)	–	–	–
Total contributions by and distributions to owners of the Company for the year		–	(1)	(3,576)	12,769	(6,250)	2,942	6,288	9,230
Balance at December 31, 2017		59	1,720,690	(3,578)	390,603	(1,435,377)	672,397	3,760	676,157

The notes on pages 88 to 155 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash used in operations	33(a)	**(137,320)**	(88,376)
Income tax paid — net		**(442)**	(3,743)
Net cash used in operating activities		**(137,762)**	(92,119)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,071)**	(7,277)
Purchase of intangible assets		**(31,645)**	(17,967)
Net cash received from disposal of property, plant and equipment		**450**	145
Cash consideration paid for investment in an investment using equity accounting	11	**–**	(12,000)
Purchase of available-for-sale financial assets		**(300,300)**	(328,860)
Proceeds from disposal of available-for-sale financial assets		**327,640**	328,749
Capital injection in an associate measured at fair value through profit or loss	12	**(15,000)**	(15,000)
Purchase of financial assets at fair value through profit or loss		**(2,400)**	(3,887)
Proceeds from disposal of financial assets at fair value through profit or loss		**1,390**	–
Payments for films in progress		**(40,650)**	(22,848)
Prepayments for investments	17	**–**	(11,564)
Return of prepayments for investment		**4,244**	–
Loan granted to related parties	34	**(2,042)**	–
Advances for films productions		**(15,000)**	–
Return of advances for films productions		**1,300**	–
Loan repayments received from a third party		**–**	10,966
Increase in restricted deposits		**(89,132)**	(106,139)
Decrease/(increase) in short term bank deposits		**302,735**	(312,963)
Net cash generated from/(used in) investing activities		**137,519**	(498,645)
Cash flows from financing activities			
Proceeds from bank borrowings	23, 33(b)	**37,319**	100,000
Repayment of bank borrowings	23, 33(b)	**(600)**	–
Interests paid		**(2,945)**	(944)
Subscription received for preferred shares issued by a subsidiary		**–**	30,000
Return of the subscription due to cancellation of the issuance of preferred shares		**–**	(30,000)
Repurchase of shares		**(3,577)**	(1,616)
Net cash generated from financing activities		**30,197**	97,440
Net increase/(decrease) in cash and cash equivalents		**29,954**	(493,324)
Cash and cash equivalents at beginning of year		**338,655**	794,461
Exchange (loss)/gain on cash and cash equivalents		**(19,046)**	37,518
Cash and cash equivalents at end of the year		**349,563**	338,655

The notes on pages 88 to 155 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in Renminbi ("**RMB**"). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As of December 31, 2017 and 2016, other than the restrictions from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

The consolidated financial statements are presented in RMB, unless otherwise stated, and have been approved by the Company's Board of Directors on March 28, 2018.

All companies comprising the Group have adopted December 31 as their financial year-end date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") and requirements of Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to the standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2017:

Amendments to IAS 12	"Income tax"
Amendments to IAS 7	"Statement of cash flow"

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies and disclosures *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

The adoption of above amendments does not have any significant financial effect on the Group's consolidated financial statements. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 33 (b).

(b) New standards and amendments not yet adopted

A number of new standards and amendments to standards have been issued but not effective for annual period beginning on January 1, 2017, which have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 9	"Financial Instruments"	January 1, 2018
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 2	"Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4	"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
Amendment to IFRS 1	"First time adoption of IFRS"	January 1, 2018
Amendment to IAS 28	"Investments in associates and joint ventures"	January 1, 2018
Amendments to IAS 40	"Transfers of investment property"	January 1, 2018
IFRIC 22	"Foreign Currency Transactions and Advance Consideration"	January 1, 2018
IFRS 16	"Leases"	January 1, 2019
IFRIC 23	"Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 10 and IAS 28	"Sale or contribution of assets between an investor and its associate or joint venture"	Date to be determined

The Group's assessment of the impact of these new standards and amendments is set out below.

IFRS 9 "Financial Instruments"

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies and disclosures *(Continued)*

(b) New standards and amendments not yet adopted *(Continued)*

IFRS 9 "Financial Instruments" *(Continued)*

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018:

Equity instruments classified as available-for-sale as of December 31, 2017 as disclosed in Note 13 are measured at fair value under IAS 39. They will have to be reclassified to financial assets at fair value through profit or loss ("**FVPL**") under IFRS 9, unless the Group makes election to designate them as financial assets at fair value through other comprehensive income ("**FVOCI**"). The Group plans not to elect the option and will measure these equity instruments at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Accordingly, the balance of these equity instruments will have to be reclassified to FVPL, and related fair value gains of approximately RMB22.4 million will have to be transferred from the available-for-sale financial assets reserve to retained earnings on January 1, 2018.

The other financial assets held by the Group include:

- Equity investments currently measured at fair value through profit or loss which will continue to be measured on the same basis under IFRS 9, and

- Debt instruments currently classified as measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, and contract assets under IFRS 15 "Revenue from Contracts with Customers". Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for these assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after January 1, 2018. The Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policies and disclosures *(Continued)*

(b) New standards and amendments not yet adopted *(Continued)*

IFRS 15 "Revenue from Contracts with Customers"

Nature of change

IFRS 15 establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

(i) Identify the contract(s) with a customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to each performance obligation; and

(v) Recognise revenue when each performance obligation is satisfied.

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Impact

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group had assessed the impact of adopting IFRS 15 on the Group's consolidated financial statements, by identifying the separate performance obligations in the contracts with customers and allocating the transactions price, and considered the new guidance does not significantly affect the timing of the Group's revenue recognition.

Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

Except for the impact as disclosed above, the Group anticipates that the application of other new standards and amendments to existing standards, which are effective on January 1, 2018, will have no material impact on the consolidated financial statements in the foreseeable future. The Group is in the process of making an assessment on the impact of other new standards and amendments to existing standards.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over the entity and is exposed to or has rights to receive variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) Subsidiaries arising from Reorganisation

On March 30, 2007, Linekong Online (Beijing) Technology Co., Ltd. ("**Linekong Online**") was established to carry out the Group's Game Business in the PRC. Several domestic operating companies have been established by Linekong Online as its subsidiaries since 2007 and these operating companies together with Linekong Online are collectively defined as the "**PRC Operational Entities**".The wholly-owned subsidiary, Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**"), has entered into a series of contractual agreements (the "**Contractual Agreements**") with Linekong Online and its equity holders on April 22, 2008, which enable Beijing Linekong Online and the Group to:

- exercise effective financial and operational control over Linekong Online;
- exercise equity holders' voting rights of Linekong Online;
- receive substantially all of the economic interest returns generated by Linekong Online in consideration for the business support, technical and consulting services provided by Beijing Linekong Online;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Linekong Online from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations, and all or part of the assets of Linekong Online at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations. Beijing Linekong Online may exercise such options at any time until it has acquired all equity interests and/or all assets of Linekong Online;
- obtain a pledge over the entire equity interest of Linekong Online from its respective equity holders as collateral security for all of Linekong Online's payments due to Beijing Linekong Online and to secure performance of Linekong Online's obligation under the Contractual Arrangements.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

(i) Subsidiaries arising from Reorganisation *(Continued)*

The Group does not have any equity interest in Linekong Online. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Linekong Online and has the ability to affect those returns through its power over Linekong Online and is considered to control Linekong Online. Consequently, the Company regards Linekong Online as an indirect subsidiary under IFRSs. The Group has consolidated the financial position and results of operations of Linekong Online in the consolidated financial statements of the Group during the year ended December 31, 2017 and 2016.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Linekong Online and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Linekong Online. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Beijing Linekong Online, Linekong Online and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive (loss)/income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive (loss)/income are reclassified to profit or loss.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

(a) Equity method of accounting

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition net of any accumulated impairment losses. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of loss of investments using equity accounting" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

(b) Fair value through profit or loss

The Group has invested as a limited partner in a PE Fund and exerted significant influence. The Group has applied the measurement exemption within IAS 28 "Investment in Associates and Joint Ventures" for mutual funds, unit trusts and similar entities and such an investment is measured at fair value through profit or loss, and presented as "an associate measured at fair value through profit or loss" in the balance sheet.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollars ("**USD**"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. The consolidated financial statements are presented in RMB (unless otherwise stated), which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statements of comprehensive loss within "finance income — net". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive loss within "other gains — net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet date presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statements of comprehensive loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income as currency translation differences.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment *(Continued)*

Depreciation on property, plant and equipment is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Furniture and office equipment	3 years
Server and other equipment	3–5 years
Motor vehicles	4–5 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains — net", in the consolidated statements of comprehensive loss.

2.8 Intangible assets

(a) Computer software

Computer software is initially recognised and measured at cost less amortisation. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised over their estimated useful lives of five years.

(b) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the game product so that it will be available for use or sell; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. During the years ended December 31, 2017 and 2016, there were no development costs meeting these criteria and capitalised as intangible assets.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

(c) Trademarks and licences

Separately acquired trademarks and licences are reported at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 31 months and 2 to 6 years, respectively.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Film rights and films in progress

(a) Film rights

Film rights represent films and internet drama produced by the Group. Film rights are stated at cost less any provision for impairment losses. Costs of film rights are expensed in the consolidated income statement over respective useful economic life, or upon the delivery of related master tapes.

(b) Films in progress

Films in progress are stated at cost less any provision for impairment losses. Costs include all direct costs associated with the production of films. Costs of films are transferred to film rights upon completion.

(c) Impairment

At the end of each reporting period, both internal and external market information are considered to assess whether there is any indication that film rights and films in progress are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.1 Classification *(Continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "short-term bank deposits" in the balance sheet (Notes 2.14, 2.15 and 2.16).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset, or on the settlement date — the date on which an asset is delivered to or by the Group. The method used is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "Other gains — net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.3 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Group also assesses at the end of each reporting period whether there is objective evidence that an available-for-sale financial asset or a group of an available-for-sale financial assets is impaired.

For debt securities classified as available-for-sale, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale will not be reversed even if in a subsequent period, the fair value of the instrument increases.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not designates any derivatives as hedging instruments.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected to be in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.11.2 for further information about the Group's accounting for trade receivables and Note 2.11.3 for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.16 Term deposits

Term deposits represent time deposits placed with banks. Deposits with original maturities of one year or less are reported as current assets. Interest earned is recorded as interest income in the consolidated statements of comprehensive loss during the periods presented.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

2.21 Current and deferred income tax

The income tax expenses for the period comprises expenses relating to current and deferred income tax. Income tax expenses are recognised in the profit or loss, except to the extent that the expenses relate to items recognised in other comprehensive income or directly in equity, in which case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

The Group contributes based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under such plan and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to the plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group receives services from employees as consideration for equity instruments of the Company or the Company's subsidiaries. The fair value of the services received in exchange for the grant of the shares, restricted shares units ("**RSUs**") and options is recognised as expenses.

In terms of shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the shares, RSUs and options granted:

- including the impact of any market performance vesting conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market performance and service vesting conditions are included in assumptions about the number of shares, RSUs and options that are expected to vest. The total expenses are recognised over the vesting period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares, RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expenses during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) Share-based payment transactions among group entities

The grant by the Company of its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition

The Group engages in development and operation of online games. The Group primarily receives proceeds from sales of in-game virtual credits ("**Game Credits**") to the game players and licensing games and providing technical support to third party publishing partners.

The Group recognises revenue when it can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's revenue streams as described below. Revenue is recorded at the fair value of consideration received or receivable net of sale tax, discounts and other promotions.

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

The Group publishes its self-developed games as well as games licensed from third-party developers through its own web-based platforms (8864.com, Linekong.com) and cooperation with various third-party game distribution channels, payment collection channels and prepaid game card distributors. These game distribution channels include third party web-based platforms (such as 360.com, 4399.com), online application stores (such as Apple Inc.'s App Store installed in mobile phones and tablets), and web-based and mobile game portals in certain countries and regions (collectively referred to as "**Game Distribution Channels**").

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

Principal Agent Consideration

The Group has evaluated the respective roles and responsibilities of the Group, third-party game developers, third-party Game Distribution Channels, third-party payment channels and third-party prepaid game card distributors in the delivery of game experience to the Paying Players in determining if the Group is acting as a principal or as an agent in the arrangement, and therefore if the Group's revenue from such arrangement should be reported on a gross or net basis, by assessing various factors, including but not limited to whether the Group (i) has the primary responsibility in the arrangement, and (ii) has latitude in establishing the selling prices.

The Group operates both its self-developed games and licensed games and takes primary responsibilities in the delivery of game experiences to the Paying Players, including marketing and promotion, determining distribution and payment channels, hosting game servers and providing customer services. In addition, the Group also controls game and service specifications and pricing of the in-game virtual items. Therefore the Group considers itself the principal in the delivery of game experience to the Paying Players as the Group has exposure to the significant risks and rewards associated with the operation of the games and thus records revenues on a gross basis. Payment to third-party game developers and channel service charges by Game Distribution Channels and third-party payment channels are recorded as cost of revenue.

As the Group has determined that it is the principal in the delivery of game experience to the Paying Players, the Paying Players are identified by the Group to be its customers. Accordingly the Group considers the actual price paid by the Paying Players to be the gross amount of its revenue. In determining the gross amount of revenue generated from operations of the Group's self-developed games and licensed games, the Group makes estimates of the discounts given to the Paying Players by the third-party Game Distribution Channels and third-party prepaid game card distributors based on available information and recorded such discounts as a deduction of revenue.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition *(Continued)*

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

Recognition of revenue generated from sales of in game virtual items

Upon the sales of Game Credits, the Group typically has an implied obligation to provide services which enable the in game virtual items exchanged from the Game Credits to be displayed or used in the games. As a result, the proceeds received from sales of Game Credits directly through the Game Distribution Channels' own charging systems or third-party payment collection channels are initially recorded by the Group as deferred revenue, while the proceeds received from sales of prepaid game cards are initially recorded as advance received from sales of prepaid game cards in trade and other payables. Such advance from sales of prepaid game cards is transferred to deferred revenue when the game cards are activated by the players, i.e. the first time the players use the pre-paid game cards to credit the Game Credits to their game accounts.

The Paying Players use the Game Credits to purchase in-game virtual items. Deferred revenue from the sales of Game Credits is immediately or ratably recognised as revenue only when the services relating to the in-game virtual items purchased by the Paying Players are rendered to the respective Paying Players. For the purposes of determining when services have been provided, the Group has determined the following:

- Consumable items represent in-game items that can be consumed by a specific player action or expire over a pre-determined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. The common characteristics of the consumable items include (a) items will be no longer displayed on the player's game account after a specified period of time ranging from several days to several months or after a player consumes the items through performing in-game actions, and (b) once the items are consumed or expired, the Group does not have further obligations in connection with such items. Revenues in relation to consumable items are recognised (as a release from deferred revenue) over the period that they are expiring or after they are consumed, as the Group's obligations in connection with such items have been fully rendered to the players after their consumption or expiration.

- Permanent ownership items represent in-game items that are accessible by the Paying Players as long as they play the game. The Group will provide continuous online game services in connection with these permanent ownership items until they are no longer used by the Paying Players. Revenues in relation to the permanent ownership items are recognised over their estimated lives. The Group considers player behaviour patterns in estimating the lives of permanent ownership items ("**Player Relationship Period**"), which is the average period between the first date the Paying Players charge their accounts and the last date these Paying Payers would play the game, and it represents the Group's best estimate for the lives of the in-game permanent ownership items purchased by the Paying Players.

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

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition *(Continued)*

(b) Revenue generated from licensing and technical support fees

The Group also derives revenue from licensing games and providing technical support services to third-party publishing partners primarily from oversea market.

Licensing revenue is recognised on a straight-line basis over the licensing period. Technical support revenue is recognised when technical support services are rendered.

The Group has evaluated the respective roles and responsibilities of the Group and the international game publishers in the delivery of game experience to overseas Paying Players and concluded that the international game publishers have the primary responsibility in these license arrangements as they are responsible for marketing and promotion of the games in each overseas market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under license. Accordingly, the Group records technical support fees, which are calculated based on a pre-determined percentage of the proceeds received by international game publishers from the overseas Paying Players, on a net basis.

(c) Revenue generated from the licensing of film rights

Revenue from the licensing of film rights (including rights of internet drama) is recognized upon the delivery of the master tapes to the customers, in accordance with the terms of the underlying contracts.

2.25 Interest income

Interest income mainly represents interest income from bank deposits and loans and is recognised using effective interest method.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the periods necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or Board of Directors, where appropriate.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT

3.1 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, concentration risk and liquidity risk. The Group's overall risk management strategy seeks to minimize the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group and approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss would have been approximately RMB9,225,000 lower/higher for the year ended December 31, 2017 (2016: RMB23,387,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB567,000 lower/higher for the year ended December 31, 2017 (2016: RMB1,516,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. The Group does not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

Other than interest-bearing cash and cash equivalents, short-term bank deposits, restricted deposits and loans, the Group has no other significant interest-bearing assets. Loans were granted at fixed rate and expose the Group to fair value interest risk. The Group's interest rate risk arises from bank borrowings, Borrowings were offered at fixed rates and expose the Group to fair value interest rate risk. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets and liabilities resulted from the changes in interest rates, because the interest rates of bank balances, loans and borrowings are not expected to change significantly.

(iii) Price risk

The Group is exposed to price risk because of investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Price risk *(Continued)*

The Group's available-for-sale financial assets are held for capital appreciation and business strategic purposes. The Group does not actively trade these investments. The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2016: 5%) higher/lower as at December 31, 2017, the other comprehensive income would have been approximately RMB4,035,000 (2016: RMB4,317,000) higher/lower.

The Group's fair value through profit or loss financial assets are held for trading or host equity instruments with redemption features designated in this category. The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 5% higher/lower, the post-tax loss for the year ended December 31, 2017 would have been approximately RMB1,532,000 (2016: RMB1,481,000) lower/higher.

(b) Credit risk

The carrying amounts of cash and cash placed with banks and financial institutions, trade receivables, other receivables (including loans) included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

To manage risk of bank deposits, deposits are mainly placed with reputable financial institutions. There has been no recent history of default in relation to these financial institutions.

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

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

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

The Group has no significant concentrations of credit risk with respect to its customers, except for the trade receivables due from Game Distribution Channels and payment channels as discussed below. The Group assesses the credit quality of and sets credit limits on its debtors by taking into account their financial position, the availability of guarantees from third parties, their credit history and other factors such as current market conditions.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Concentration risk

There are no customers whose revenues individually represent greater than 10% of the total revenues of the Group for the years ended December 31, 2017 and 2016.

Revenues generated from sales of in-game virtual items through Game Distribution Channels representing over 10% of the total revenues of the Group for the years ended December 31, 2017 and 2016 are as follows:

	Year ended December 31,	
	2017	2016
Game Distribution Channel A	**26.6%**	33.0%
Game Distribution Channel B	**11.7%**	7.9%
	38.3%	40.9%

The trade receivables from Game Distribution Channels represented over 10% of trade receivables balances of the Group as of December 31, 2017 and 2016 were as follows:

	Year ended December 31,	
	2017	2016
Game Distribution Channel A	**36.5%**	46.1%
Game Distribution Channel B	**24.2%**	–
	60.7%	46.1%

(d) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Total *RMB'000*
At December 31, 2017				
Bank borrowings	**143,262**	**–**	**–**	**143,262**
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	**88,253**	**–**	**–**	**88,253**
	231,515	**–**	**–**	**231,515**
At December 31, 2016				
Bank borrowings	612	104,366	–	104,978
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	138,389	–	–	138,389
	139,001	104,366	–	243,367

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital, share premium and capital reserves) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 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).

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At December 31, 2017				
Assets				
An associate measured at fair value through profit or loss	**–**	**–**	**44,330**	**44,330**
Financial assets at fair value through profit or loss				
— Listed securities	**17,447**	**–**	**–**	**17,447**
— Unlisted securities	**–**	**–**	**16,602**	**16,602**
Available-for-sale financial assets	**–**	**–**	**107,419**	**107,419**
	17,447	**–**	**168,351**	**185,798**
At December 31, 2016				
Assets				
An associate measured at fair value through profit or loss	–	–	19,229	19,229
Financial assets at fair value through profit or loss				
— Listed securities	17,125	–	–	17,125
— Unlisted securities	–	–	15,637	15,637
Available-for-sale financial assets	–	–	115,125	115,125
	17,125	–	149,991	167,116

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

There were no transfers among level 1, 2 and 3 during the year ended December 31, 2017.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

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

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

Specific valuation techniques used to value financial instruments include:

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

There were no changes in valuation techniques used during the year ended December 31, 2017.

For the fair value measurements categorised within level 3 of the fair value hierarchy, the significant assumptions and inputs utilised in the valuation using discounted cash flow method by the Company for the year ended December 31, 2017 were as follows:

Discount rate:	21%–33%
Terminal growth rate:	3%
Discount for lack of marketability:	7%–25%
Volatility:	29%–47%

The changes in level 3 instruments for the years ended December 31, 2017 and 2016 are presented in Notes 13 and 14.

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimates of the Player Relationship Period

As described in Note 2.24(a), the Group recognises revenue from permanent ownership virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual or quarterly basis. Any adjustments arising from changes in the Player Relationship Period as a result of updated information will be accounted for prospectively as a change in accounting estimate.

(b) Fair value of Level 3 financial assets

As mentioned in Note 3.3, the fair value of Level 3 financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets and financial assets measured at fair value through profit or loss that are not traded in active markets.

(c) Estimated impairment of investments using equity accounting

The Group tests whether investments using equity accounting have suffered impairment, in accordance with the accounting policy states in Note 2.4. The recoverable amounts of the associates are determined by the higher of the fair value less disposal cost and value in use. Significant estimates on assumptions, such as the forecast of the associate's future performance and the discount rate used in the analysis, are required to be made by the Company in the analysis. For the year ended December 31, 2017, the Group recognised impairment loss of RMB69,300,000 of equity investment in Fuze Entertainment Co., Ltd. ("**Fuze**") in the income statement (Note 11).

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(d) Recognition of share-based compensation expenses

The fair values of RSUs and share options granted as mentioned in Note 22 are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognises an expense for those RSUs and share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of RSUs and share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

The fair value of RSUs and share options at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expenses.

Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expenses recognised by the Group in respect of the services rendered for the year ended December 31, 2017 were RMB12,807,000, which would have been RMB606,000 lower/RMB682,000 higher should the discount rate used in discount cash flow analysis was higher/lower by 100 basis points from management's estimates.

(e) Current and deferred income taxes

The Group is subject to income taxes in several jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.2 Critical judgments in applying the Group's accounting policies

(a) Revenue deferred of certain games

As mentioned in Note 2.24, in the case the Group does not possess relevant data and information to differentiate revenues attributable to permanent ownership and consumable virtual items of a specific game, revenues from both permanent ownership and consumable virtual items are deferred and recognised ratably over the expected Player Relationship Period of the specific game.

(b) Critical judgment in recognition of associates

The Company has assessed the level of influence that the Group has on Fuze undertaken during the year ended December 31, 2015 (Note 11). According to the shareholders agreements of Fuze, the Group has been entitled the right to appoint certain directors of the board of directors of Fuze since the completion of issuance of series A preferred shares by Fuze in June 2015. The directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in Fuze' operational and financial policy-making processes and representation in board of directors. The Company also assessed that and the risk and reward characteristics of the preferred shares held by the Company are substantially similar to Fuze's ordinary shares, therefore the investment in Fuze has been classified as an investment in associates.

5. REVENUE AND SEGMENT INFORMATION

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Development and operations of online games *(Note (a))*:		
— Sales of in-game virtual items	**407,326**	635,380
— License fee and technical support fee	**64,715**	23,062
Licensing of film rights *(Note (b))*	**22,692**	–
	494,733	658,442

(a) The Group offers its online games in different forms: client-based games, web-based games and mobile games. A breakdown of revenue derived from different forms of the Group's games for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	**458,359**	635,555
— Web-based games	**2,841**	3,756
— Client-based games	**10,841**	19,131
	472,041	658,442

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

The Group has a large number of game players. No revenue from any individual game player exceeded 10% or more of the Group's revenue for the years ended December 31, 2017 and 2016.

Notes to the Consolidated Financial Statements

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

A breakdown of revenue derived from Mainland China and overseas countries and regions for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Revenue from external customers:		
— Mainland China	**330,063**	537,324
— Korea	**136,476**	90,527
— Other overseas countries and regions	**28,194**	30,591
	494,733	658,442

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
— Mainland China	**80,601**	81,366
— Korea	**2,685**	2,464
— Other overseas countries and regions	**6,364**	5,263
	89,650	89,093

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment *RMB'000*	Server and other equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
At January 1, 2016					
Cost	10,215	23,963	4,065	9,735	47,978
Accumulated depreciation	(5,676)	(20,972)	(1,574)	(5,288)	(33,510)
Net book amount	4,539	2,991	2,491	4,447	14,468
Year ended December 31, 2016					
Opening net book amount	4,539	2,991	2,491	4,447	14,468
Additions	1,956	258	688	4,230	7,132
Depreciation	(2,456)	(1,297)	(758)	(3,407)	(7,918)
Disposals	(14)	(12)	(7)	–	(33)
Closing net book amount	4,025	1,940	2,414	5,270	13,649
At December 31, 2016					
Cost	11,674	22,798	4,058	13,470	52,000
Accumulated depreciation	(7,649)	(20,858)	(1,644)	(8,200)	(38,351)
Net book amount	4,025	1,940	2,414	5,270	13,649
Year ended December 31, 2017					
Opening net book amount	**4,025**	**1,940**	**2,414**	**5,270**	**13,649**
Additions	**2,007**	**1,608**	**327**	**148**	**4,090**
Depreciation	**(3,700)**	**(1,017)**	**(848)**	**(4,864)**	**(10,429)**
Disposals	**–**	**–**	**(460)**	**–**	**(460)**
Closing net book amount	**2,332**	**2,531**	**1,433**	**554**	**6,850**
At December 31, 2017					
Cost	**13,080**	**24,406**	**3,698**	**11,718**	**52,902**
Accumulated depreciation	**(10,748)**	**(21,875)**	**(2,265)**	**(11,164)**	**(46,052)**
Net book amount	**2,332**	**2,531**	**1,433**	**554**	**6,850**

Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive loss:

	Year ended December 31,	
	2017 *RMB'000*	2016 *RMB'000*
Cost of revenue	**2,276**	1,906
Administrative expenses	**4,228**	2,479
Selling and marketing expenses	**725**	774
Research and development expenses	**3,200**	2,759
	10,429	7,918

Notes to the Consolidated Financial Statements

7. INTANGIBLE ASSETS

	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
At January 1, 2016			
Cost	46,296	3,130	49,426
Accumulated impairment	(2,515)	–	(2,515)
Accumulated amortisation	(15,289)	(2,279)	(17,568)
Net book amount	28,492	851	29,343
Year ended December 31, 2016			
Opening net book amount	28,492	851	29,343
Additions	29,188	989	30,177
Amortisation	(13,786)	(666)	(14,452)
Disposals	(733)	–	(733)
Impairment	(4,929)	–	(4,929)
Closing net book amount	38,232	1,174	39,406
At December 31, 2016			
Cost	71,714	4,119	75,833
Accumulated impairment	(5,807)	–	(5,807)
Accumulated amortisation	(27,675)	(2,945)	(30,620)
Net book amount	38,232	1,174	39,406
Year ended December 31, 2017			
Opening net book amount	**38,232**	**1,174**	**39,406**
Additions	**15,625**	**733**	**16,358**
Amortisation	**(15,887)**	**(947)**	**(16,834)**
Impairment	**(4,620)**	**–**	**(4,620)**
Closing net book amount	**33,350**	**960**	**34,310**
At December 31, 2017			
Cost	**84,584**	**4,853**	**89,437**
Accumulated impairment	**(9,550)**	**–**	**(9,550)**
Accumulated amortisation	**(41,684)**	**(3,893)**	**(45,577)**
Net book amount	**33,350**	**960**	**34,310**

Amortisation charges were expensed in the following categories in the consolidated statements of comprehensive loss:

	Year ended December 31,	
	2017 RMB'000	2016 RMB'000
Cost of revenue	**11,409**	7,735
Administrative expenses	**286**	338
Selling and marketing expenses	**122**	52
Research and development expenses	**5,017**	6,327
	16,834	14,452

Notes to the Consolidated Financial Statements

8. FILMS IN PROGRESS

	As of December 31, 2017 RMB'000	2016 RMB'000
Film rights and films in progress:		
— Under production/production yet to commence	**48,372**	24,418

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Beginning of the year	**24,418**	–
Additions	**41,171**	24,418
Completed and transferred to cost of revenue upon sales	**(17,217)**	–
End of the year	**48,372**	24,418

9. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	Assets at fair value through profit & loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Assets				
As of December 31, 2017				
Available-for-sale financial assets	**–**	**–**	**107,419**	**107,419**
Trade receivables	**52,340**	**–**	**–**	**52,340**
Other receivable (excluding prepayments and deductible value-added tax ("**VAT**") input)	**36,278**	**–**	**–**	**36,278**
Financial assets at fair value through profit or loss	**–**	**34,049**	**–**	**34,049**
An associate at fair value through profit or loss	**–**	**44,330**	**–**	**44,330**
Restricted deposits	**188,236**	**–**	**–**	**188,236**
Cash and cash equivalents	**349,563**	**–**	**–**	**349,563**
	626,417	**78,379**	**107,419**	**812,215**
As of December 31, 2016				
Available-for-sale financial assets	–	–	115,125	115,125
Trade receivables	78,947	–	–	78,947
Other receivable (excluding prepayments)	22,946	–	–	22,946
Financial assets at fair value through profit or loss	–	32,762	–	32,762
An associate at fair value through profit or loss	–	19,229	–	19,229
Restricted deposits	106,139	–	–	106,139
Short-term bank deposits	312,963	–	–	312,963
Cash and cash equivalents	338,655	–	–	338,655
	859,650	51,991	115,125	1,026,766

Notes to the Consolidated Financial Statements

9. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Liabilities as amortized cost *RMB'000*
Liabilities	
As of December 31, 2017	
Bank borrowings	**136,719**
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	**88,253**
	224,972
As of December 31, 2016	
Bank borrowings	100,000
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	138,389
	238,389

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES

The following is a list of the principal subsidiaries (including structured entities) as of December 31, 2017:

Company Name	Kind of legal entity	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity Interest Held	Principal activities and place of operation
(a) Directly held by the Company:					
Linekong Online (Beijing) Internet Technology Co., Ltd	Limited liability company	PRC/April 14, 2008	USD34,000,000	100%	Technology consulting and services/PRC
Linekong Holdings Limited	Limited liability company	BVI/January 8, 2014	USD1	100%	Investment holdings/BVI
Creative Ace Limited	Limited liability company	Cayman Islands/ June 17, 2015	USD50,000	98%	Investment holdings/ Cayman Islands
(b) Indirectly held by the Company:					
Linekong Asia Co., Limited	Limited liability company	Hong Kong/ March 27, 2014	HKD10,000	100%	Investment holdings/ Hong Kong
Linekong Korea Co., Ltd.	Limited liability company	South Korea/ April 16, 2014	KER100,000,000	100%	Game operation, research and development/South Korea
Linekong Interactive Entertainment (Hong Kong) Co., Limited	Limited liability company	Hong Kong/ April 27, 2012	HKD10,000	98%	Game operation/Hong Kong
Ace Incorporation Limited	Limited liability company	Hong Kong/ September 4, 2015	HKD1	98%	Investment holdings/ Hong Kong
Linekong US Inc.	Limited liability company	United States of America ("**US**")/ June 12, 2015	USD100	98%	Game operation, research and development/US
(c) Controlled by the Company pursuant to the Contractual Agreements:					
Linekong Online (Beijing) Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB10,000,000	100%	Game operation, research and development/PRC
Duobianxing (Beijing) Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB30,000	100%	Game research and development/PRC
Beijing Sanqiren Technology Co., Ltd.	Limited liability company	PRC/December 7, 2007	RMB100,000	100%	Game research and development/PRC
Linekong Xingyun (Beijing) Technology Co., Ltd.	Limited liability company	PRC/January 16, 2008	RMB100,000	100%	Game research and development /PRC

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES *(Continued)*

Company Name	Kind of legal entity	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity Interest Held	Principal activities and place of operation
(c) Controlled by the Company pursuant to the Contractual Agreements: *(Continued)*					
Zhuhai Linekong Online Technology Co., Ltd.	Limited liability company	PRC/October 30, 2008	RMB10,000,000	97%	Game research and development/PRC
Shouyoutong (Beijing) Technology Co., Ltd. ("**Shouyoutong**", previously known as Beijing Huoying Shidai Network Technology Co., Ltd.)	Limited liability company	PRC/August 26, 2011	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Technology Co., Ltd.	Limited liability company	PRC/June 13, 2012	RMB1,000,000	100%	Game research and development/PRC
Tianjin Baba Liusi Network Technology Co., Ltd. ("**Tianjin 8864**")	Limited liability company	PRC/December 26, 2012	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Information Technology Co., Limited	Limited liability company	PRC/May 20, 2014	RMB2,000,000	100%	Game research and development/PRC
Beijing Lanhujing Technology Co., Limited	Limited liability company	PRC/May 29, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Quweizhijian Network Technology Co., Limited	Limited liability company	PRC/July 25, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Feng and Long Interactive Culture Co., Limited	Limited liability company	PRC/June 5, 2015	RMB12,500,000	100%	Game operation, research and development/PRC
Linekong Interactive Pictures (Tianjin) Co., Limited	Limited liability company	PRC/December 4, 2015	RMB10,000,000	100%	Film and television drama series production and distribution/PRC
Horgos Linekong Pictures Corporation *(Note (i))*	Limited liability company	PRC/June 14, 2016	RMB50,000,000	81%	Film and television drama series production and distribution/PRC
Linekong Interactive Entertainment Film (Beijing) Co., Limited *(Note (i))*	Limited liability company	PRC/August 8, 2016	RMB3,000,000	81%	Film and television drama series production and distribution/PRC

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES *(Continued)*

Note:

(i) On August 24, 2017, Linekong Online entered into an equity transfer agreement with, among others, Gonggingcheng Lanfeng Investment Management Partnership (Limited Partnership) (共青城藍峰投資管理合夥企業（有限合夥)) ("**Lanfeng Investment**") (the "**Lanfeng Agreement**") and another equity transfer agreement with, among others, Gonggingcheng Lanhai Culture Investment Management Partnership (Limited Partnership) (共青城藍海文化投資管理合夥企業（有限合夥)) ("**Lanhai Culture**") (the "**Lanhai Culture Agreement**").

Pursuant to Lanfeng Agreement, Lanfeng Investment has agreed to acquire and Linekong Online has agreed to dispose of 50% equity interest held in Horgos Linekong Pictures Corporation ("**Horgos Pictures**", together with its subsidiary Linekong Interactive Entertainment Film (Beijing) Co., Limited), at a consideration of RMB29,300,000. Pursuant to the Lanhai Culture Agreement, Lanhai Culture has agreed to acquire and Linekong Online has agreed to dispose of 31% equity interest held in Horgos Pictures at a consideration of RMB18,166,000.

Upon completion of aforementioned equity transfers, the Group will cease to have any shareholdings in Horgos Pictures. As of December 31, 2017, the transactions have not yet been completed. Considering the fact that aforementioned equity transfers are subject to a series of closing conditions including that Horgos Pictures shall repay all the outstanding loans due to Linekong Online, the Group determined that the criteria of "be available for immediate sale in its present condition" for assets held for sale is not satisfied. Therefore, the related assets and liabilities of Horgos Pictures were not reclassified to assets held for sale as of December 31, 2017.

11. INVESTMENTS USING EQUITY ACCOUNTING

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Beginning of the year	**176,362**	180,183
Addition of the year	**–**	12,000
Share of losses	**(45,780)**	(28,621)
Gain arising from other shareholders' contribution to an associate	**–**	5,619
Other comprehensive income	**(4,885)**	3,991
Currency translation difference	**(4,129)**	3,190
Impairment charges *(Note (c))*	**(69,300)**	–
End of the year	**52,268**	176,362

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

Notes to the Consolidated Financial Statements

11. INVESTMENTS USING EQUITY ACCOUNTING *(Continued)*

Notes:

(a) The Group has been entitled the right to appoint certain directors of the board of directors of Fuze thus the directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in its operational and financial decision-making processes, therefore the investment in Fuze was accounted for using equity accounting method consistently for the years ended December 31, 2017 and 2016.

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

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

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

(c) Based on the recoverable amount in the impairment assessment of the investment in Fuze performed by management, impairment loss of RMB69,300,000 was recorded as of December 31, 2017.

Summarised financial information for associates

Set out below is the summarised financial information of Fuze, the significant associate of the Group accounted for using the equity method.

Summarised balance sheet

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current assets	**156,508**	275,134
Non-current assets	**14,270**	52,428
Current liabilities	**(62,106)**	(85,013)
Net assets	**108,672**	242,549

Summarised statement of comprehensive loss

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**–**	12,730
Loss before income tax	**(120,611)**	(83,469)
Net loss	**(120,611)**	(83,469)
Other comprehensive (loss)/income	**(13,266)**	11,884
Total comprehensive loss	**(133,877)**	(71,585)
Total comprehensive loss, the Group's share	**(49,295)**	(23,109)
Amortisation of fair value adjustments	**(1,625)**	(1,521)
Total comprehensive loss after adjustment, the Group's share	**(50,920)**	(24,630)

Notes to the Consolidated Financial Statements

11. INVESTMENTS USING EQUITY ACCOUNTING *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in Fuze.

	As of December 31, 2017 RMB'000	2016 RMB'000
Net assets of the associate	**108,672**	242,549
Net assets of the associate, the Group's share	**40,013**	89,307
Adjustment of fair values	**–**	1,625
Net assets after adjustment, the Group's share	**40,013**	90,932
Goodwill	**69,300**	73,430
Impairment loss	**(69,300)**	–
Carrying value	**40,013**	164,362

For the year ended December 31, 2017, the Group's share of Huaying's profit is RMB255,000 (2016:nil). As of December 31, 2017, the carrying value of the Group's investments in Huaying is RMB12,255,000.

12. AN ASSOCIATE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31, 2017 RMB'000	2016 RMB'000
Unlisted fund	**44,330**	19,229

Name	Principal activities/ country of incorporation	% Interest held as of December 31, 2017	2016	Nature of the relationship
Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "**Jikebang Fund**")	Investment holding as a private equity fund/PRC	**31.19%**	22.45%	*Note*

Note:

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

Jikebang Fund is not traded on an active market, its fair value is determined using valuation techniques as disclosed in Note 3.3. The fair value is within level 3 of the fair value hierarchy.

Changes in fair value of an associate measured at fair value through profit or loss are recorded in "other gains — net" in the income statement (Note 28).

Notes to the Consolidated Financial Statements

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Included in current assets		
Unlisted equity investments *(Note (a))*	**12,446**	–
Included in non-current assets		
Unlisted equity investments *(Note (a))*	**94,973**	115,125

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Beginning of the year	**115,125**	44,370
Additions *(Note (b))*	**307,620**	371,215
Net gains transfer to equity	**19,937**	29,918
Net gains transfer from equity	**(23,988)**	(4,078)
Disposals	**(306,052)**	(326,300)
Impairment charges *(Note (c))*	**(5,223)**	–
End of the year	**107,419**	115,125

Notes:

(a) As of December 31, 2017, unlisted equity investments include equity investments held by the Group in several private companies, equity funds and production of films in PRC.

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

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

There are no quoted market prices available for all the underlying entities and film productions. The Group has determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 3.3. The fair value are within level 3 of the fair value hierarchy.

Gains or losses arising from the changes in fair value of available-for-sale financial assets are recognised as other comprehensive income or loss.

(b) Except for additions of the equity investment as mentioned in above (a), the Group purchased certain wealth management products issued by commercial banks in the PRC at an aggregate cash consideration of RMB292,300,000. These wealth management products are return non-guaranteed and redeemable on demand or with a term less than three months. The Group has classified its investments in such wealth management products as available-for-sale financial assets. Fair values of these investments were estimated based on the statements provided by the banks. As of December 31, 2017, all these investments have been disposed. The related gains previously recognised in other comprehensive income have been reclassified to profit or loss.

(c) There was a significant decline in the market value of several equity investments for the year ended December 31, 2017. The directors consider that such decline indicates that the equity investments have been impaired and impairment charges of RMB5,223,000 have been recognised in the consolidated statement of comprehensive loss.

Notes to the Consolidated Financial Statements

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Included in current assets		
Listed securities — Hong Kong *(Note (a))*	**17,447**	17,125
Included in non-current assets		
Unlisted securities *(Note (b))*	**16,602**	15,637

Notes:

(a) The fair value of all listed equity securities is based on their current bid price in an active market.

(b) The unlisted securities represent shares held by the Group in certain entities, which are redeemable upon occurrence of certain future events which are at option of the Group. Therefore, the Group has designated each of these investments as a financial asset at fair value through profit or loss upon initial recognition.

Each of these entities is a private company and there is no quoted market price available for its shares. The Group has determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 3.3. The fair value are within level 3 of the fair value hierarchy.

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

15. DEFERRED INCOME TAX — NET

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Deferred income tax assets:		
— To be recovered within 12 months	**3,487**	528
— To be recovered after 12 months	**15,266**	15,576
	18,753	16,104
Deferred income tax liabilities:		
— To be settled within 12 months	**(577)**	(83)
— To be settled after 12 months	**(15,201)**	(14,590)
	(15,778)	(14,673)
	2,975	1,431

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

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Beginning of the year	**1,431**	7,490
Recognised in profit or loss	**531**	1,208
Credited/(charged) to other comprehensive income	**1,013**	(7,267)
End of the year	**2,975**	1,431

Notes to the Consolidated Financial Statements

15. DEFERRED INCOME TAX — NET *(Continued)*

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

Deferred income tax assets:

	Deferred revenue *RMB'000*	Accrued employee benefit expenses *RMB'000*	Tax losses *RMB'000*	Provision and others *RMB'000*	Total *RMB'000*
Year Ended December 31, 2016					
Beginning of the year	5,579	–	3,791	371	9,741
(Charged)/credited to profit or loss	(4,261)	–	10,883	(259)	6,363
End of the year	1,318	–	14,674	112	16,104
Year Ended December 31, 2017					
Beginning of the year	**1,318**	**–**	**14,674**	**112**	**16,104**
(Charged)/credited to profit or loss	**(977)**	**27**	**1,027**	**2,572**	**2,649**
End of the year	**341**	**27**	**15,701**	**2,684**	**18,753**

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB294,810,000 as of December 31, 2017 (2016: RMB151,961,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2018 to 2022.

Deferred income tax liabilities:

	Trademarks and licenses *RMB'000*	Fair value changes of financial assets *RMB'000*	Fair value changes of an associate *RMB'000*	Total *RMB'000*
Year ended December 31, 2016				
Beginning of the year	(78)	(2,173)	–	(2,251)
Charged to profit or loss	(5)	(4,093)	(1,057)	(5,155)
Charged to other comprehensive income	–	(7,267)	–	(7,267)
End of the year	(83)	(13,533)	(1,057)	(14,673)
Year ended December 31, 2017				
Beginning of the year	**(83)**	**(13,533)**	**(1,057)**	**(14,673)**
Credited/(charged) to profit or loss	**7**	**401**	**(2,526)**	**(2,118)**
Credited to other comprehensive income	**–**	**1,013**	**–**	**1,013**
End of the year	**(76)**	**(12,119)**	**(3,583)**	**(15,778)**

Notes to the Consolidated Financial Statements

16. TRADE RECEIVABLES

	As of December 31, 2017 RMB'000	2016 RMB'000
Trade receivables	**54,297**	80,221
Less: impairment provision	**(1,957)**	(1,274)
	52,340	78,947

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

	As of December 31, 2017 RMB'000	2016 RMB'000
0–60 days	**46,696**	68,810
61–90 days	**2,572**	2,706
91–180 days	**2,293**	5,018
181–365 days	**744**	1,950
over 1 year	**1,992**	1,737
	54,297	80,221

(b) As at December 31, 2017 and 2016, trade receivables of past due but not impaired were RMB8,763,000 and RMB16,160,000, respectively. These related to a number of third-party Game Distribution Channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of December 31, 2017 RMB'000	2016 RMB'000
Outstanding after due dates:		
0–60 days	**5,692**	8,729
61–90 days	**1,330**	1,015
91–180 days	**1,454**	5,137
181–365 days	**252**	816
over 1 year	**35**	463
	8,763	16,160

Notes to the Consolidated Financial Statements

16. TRADE RECEIVABLES *(Continued)*

(c) Movements of the Group's provision for impairment of trade receivables are as follows:

	Year Ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**(1,274)**	(633)
Provision for impairment	**(1,315)**	(4,267)
Receivables written off during the year as uncollectible	**632**	3,626
At end of the year	**(1,957)**	(1,274)

The provision for impaired trade receivables have been included in "administrative expenses" in the consolidated statement of comprehensive loss. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

(d) The carrying amount of the Group's trade receivables are dominated in the following currencies:

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
RMB	**11,770**	41,095
USD	**25,368**	36,524
South Korean Won	**5,803**	2,071
HKD	**11,356**	531
	54,297	80,221

Notes to the Consolidated Financial Statements

17. PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31, 2017 RMB'000	2016 RMB'000
Current		
Prepaid service charges to Game Distribution Channels	**22,100**	31,307
Prepayment to game developers	**27,757**	33,923
Staff advance *(Note (a))*	**1,576**	693
Amount due from related parties *(Note 34)*	**2,042**	–
Loans to employees *(Note (b))*	**4,794**	4,283
— Loans to key management *(Note 34)*	**2,462**	2,162
— Loans to other employees	**2,332**	2,121
Prepaid rental, advertising cost and others	**11,432**	33,498
Rental and other deposits	**425**	731
Interests receivable	**3,238**	902
Advances for films productions *(Note (c))*	**16,100**	–
Deductible VAT input	**16,166**	5,283
Others	**2,064**	2,285
	107,694	112,905
Less: provision for impairment of other receivables	**(500)**	–
	107,194	112,905
Non-current		
Prepaid service charges to Game Distribution Channels	**118**	56
Loans to employees *(Note (b))*	**1,325**	2,587
— Loans to key management *(Note 34)*	**–**	208
— Loans to other employees	**1,325**	2,379
Rental and other deposits	**3,578**	3,942
Prepayment for investments	**–**	11,564
Others	**1,636**	2,240
	6,657	20,389

Movements of the Group's provision for impairment of other receivables are as follows:

	Year Ended December 31, 2017 RMB'000	2016 RMB'000
At beginning of the year	**–**	–
Provision for impairment	**(619)**	(19)
Other receivables written off during the year as uncollectible	**119**	19
At end of the year	**(500)**	–

The provision for impaired other receivables have been included in "administrative expenses" in the consolidated statement of comprehensive loss. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

Notes to the Consolidated Financial Statements

17. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Staff advances represent the advances to employees for various expenses to be incurred in the ordinary course of business.

(b) Loans to employees represent the housing loans provided to certain employees. These housing loans are unsecured and with a term ranging from 2 to 5 years.

(c) Advances for films productions are due from films owners or films investors for the Group's investment in film projects. The advances for films are repayable with next 12 months and with a fixed return of 15% ~ 20% (2016: Nil).

18. SHORT-TERM BANK DEPOSITS

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Short-term bank deposits	**–**	312,963

19. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents		
— Cash at bank and in hand	**342,304**	331,617
— Cash at other financial institutions	**7,259**	7,038
	349,563	338,655
Restricted deposits		
— Matured within 12 months	**188,236**	–
— Matured after 12 months	**–**	106,139
	188,236	106,139

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
RMB	**47,503**	126,061
USD	**39,232**	10,570
HKD	**244,367**	200,960
Others	**18,461**	1,064
	349,563	338,655

Note:

As of December 31, 2017, HKD118,700,000, approximately equivalent to RMB99,371,000, (December 31, 2016: HKD118,700,000, approximately equivalent to RMB106,139,000) and USD13,600,000, approximately equivalent to RMB88,865,000, (December 31, 2016: nil), are restricted deposits held at bank as reserve for serving of a loan facility with total a credit line of RMB100,000,000 and RMB80,000,000 provided by the bank, and which will expire in 2018.

Notes to the Consolidated Financial Statements

20. SHARE CAPITAL AND SHARE PREMIUM

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

	Number of ordinary shares ('000)	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Shares hold for RSU Scheme RMB'000
Issued:					
As of January 1, 2016	368,869	10	59	1,722,308	(3)
Repurchase of shares	(641)	–	–	(1,616)	–
Vesting of shares held for RSU Scheme	–	–	–	(1)	1
As of December 31, 2016	368,228	10	59	1,720,691	(2)
Issued:					
As of January 1, 2017	**368,228**	**10**	**59**	**1,720,691**	**(2)**
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	**–**	**–**	**–**	**–**	**(3,577)**
— Vesting of shares held for RSU Scheme	**–**	**–**	**–**	**(1)**	**1**
As of December 31, 2017	**368,228**	**10**	**59**	**1,720,690**	**(3,578)**

21. RESERVES

	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000 (Note (i))	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at January 1, 2016	(7,831)	73,857	9,557	240,829	9,301	325,713
Changes in fair value of available-for-sale financial assets, net of tax *(Note 13)*	–	–	–	–	21,022	21,022
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax *(Note 28)*	–	–	–	–	(2,449)	(2,449)
Share of other comprehensive income of investments using equity method, net of tax *(Note 11)*	–	–	–	–	3,991	3,991
Employee share option and RSU scheme:						
— Value of employee services *(Note 22)*	–	–	–	33,161	–	33,161
Currency translation differences	–	45,042	–	–	–	45,042
Balance at December 31, 2016	(7,831)	118,899	9,557	273,990	31,865	426,480
Balance at January 1, 2017	**(7,831)**	**118,899**	**9,557**	**273,990**	**31,865**	**426,480**
Appropriation to statutory reserves	**–**	**–**	**6,250**	**–**	**–**	**6,250**
Changes in fair value of available-for-sale financial assets, net of tax *(Note 13)*	**–**	**–**	**–**	**–**	**14,953**	**14,953**
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax *(Note 28)*	**–**	**–**	**–**	**–**	**(17,991)**	**(17,991)**
Share of other comprehensive income of investments using equity method, net of tax *(Note 11)*	**–**	**–**	**–**	**–**	**(4,885)**	**(4,885)**
Decrease in ownership interest in subsidiaries without change of control	**(6,288)**	**–**	**–**	**–**	**–**	**(6,288)**
Employee share option and RSU scheme:						
— Value of employee services *(Note 22)*	**–**	**–**	**–**	**12,807**	**–**	**12,807**
Currency translation differences	**–**	**(40,723)**	**–**	**–**	**–**	**(40,723)**
Balance at December 31, 2017	**(14,119)**	**78,176**	**15,807**	**286,797**	**23,942**	**390,603**

Notes to the Consolidated Financial Statements

21. RESERVES *(Continued)*

Note:

(i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, i.e. the PRC Operational Entities, it is required to appropriate 10% of the annual net profits of the PRC Operational Entities, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the entity, any further appropriation is at the discretion of the entity's shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory surplus reserve fund after such usage is no less than 25% of the entity's registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions in the Articles of Association of Beijing Linekong Online, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by Beijing Linekong Online to its reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the annual net profit. When the balance of the reserve fund reaches 50% of the registered capital, such appropriation needs not to be made.

22. SHARE-BASED PAYMENTS

(a) Restricted Share Units ("RSUs")

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

(i) Grant of the RSUs

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

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

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

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

(3) 4-year vesting: 25% on the date ending 12 months from the grant date, 12.5% on every six months from 12 months from the grant date.

(4) 3-year vesting: 33.33% on January 10, 2015, and 8.33% each on every three months from the first month after January 10, 2015.

Notes to the Consolidated Financial Statements

22. SHARE-BASED PAYMENTS *(Continued)*

(a) RSUs *(Continued)*

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

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

(1) 4-year vesting: 25% on September 11, 2015, 12.5% each on every six months from September 11, 2015.

(2) 2-year vesting: 25% each on every six months from the grant date.

(3) one-off vesting: 100% on July 1, 2015.

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

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

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

Movements in the number of RSUs outstanding:

	Number of RSUs Year ended December 31,	
	2017	2016
Beginning of the year	**5,348,162**	12,059,414
Granted	**1,805,385**	–
Lapsed	**(889,718)**	(1,264,931)
Vested	**(3,293,619)**	(5,446,321)
End of the year	**2,970,210**	5,348,162

As of December 31, 2017 and 2016, 28,152,604 and 24,858,985 RSUs have been vested unconditionally, respectively.

(ii) Shares held for RSU Scheme

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

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to "other reserves" as deemed contribution from shareholders. As a result of the vesting of 3,293,619 RSUs during the year ended December 31, 2017, costs of these RSUs totally approximately RMB506 was transferred out from treasury shares upon vesting of these RSUs.

Notes to the Consolidated Financial Statements

22. SHARE-BASED PAYMENTS *(Continued)*

(a) RSUs *(Continued)*

(iii) Fair value of RSUs

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

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

	March 21, 2014
Discount rate used to determine the underlying share value of the Company	20.00%
Risk-free interest rate	0.08%
Volatility	52.97%

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

(b) Share options

On November 20, 2014, the shareholders of the Company approved the establishment of a share option scheme (the "**Pre-IPO Share Option Scheme**") with an objective to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The Pre-IPO Share Option Scheme will be valid and effective for a period of ten years commencing from December 30, 2014, (the listing date) unless it is terminated earlier in accordance with the rules of Pre-IPO Share Option Scheme.

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

(1) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

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

(3) the nominal value of the shares.

Notes to the Consolidated Financial Statements

22. SHARE-BASED PAYMENTS *(Continued)*

(b) Share options *(Continued)*

(i) Grant of share options

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

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

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

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

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

	Year ended December 31,			
	2017		2016	
	Average Exercise Price	**Number of share options**	Average Exercise Price	Number of share options
Beginning of the year	**HKD6.63**	**6,654,798**	HKD7.40	7,709,192
Granted	**HKD3.10**	**9,225,000**	HKD4.366	1,750,000
Lapsed	**HKD4.59**	**(2,439,375)**	HKD7.33	(2,804,394)
Exercised		**–**		–
End of the year	**HKD4.58**	**13,440,423**	HKD6.63	6,654,798

Out of the 13,440,423 outstanding options (December 31, 2016: 6,654,798), 3,155,423 options (December 31, 2016: 1,657,298) were exercisable. Share options outstanding as of December 31, 2017 include 462,298 (December 31, 2016: 462,298) share options, 3,865,625 (December 31, 2016: 4,742,500) share options, 1,412,500 (December 31, 2016: 1,450,000) and 7,700,000 (December 31, 2016: Nil) with the exercise price of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 per share option, respectively. All these options will expire in 10 years from the grant date.

Notes to the Consolidated Financial Statements

22. SHARE-BASED PAYMENTS *(Continued)*

(b) Share options *(Continued)*

(ii) Fair value of share options

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

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

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

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

(c) RSUs and options granted by/for subsidiaries

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

22. SHARE-BASED PAYMENTS *(Continued)*

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

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

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

As of December 31, 2017 and December 31, 2016, 1,750,000 and 437,500 shares have been vested unconditionally, respectively, which represents 19% and 4.75% interest of Horgos Pictures.

(d) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive loss. As of December 31, 2017, the Expected Retention Rate of employees was assessed to be 70% (December 31, 2016: 85%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2016: 100%).

23. BANK BORROWINGS

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Bank borrowings		
— Secured loans	**136,719**	100,000
Included in:		
Current liabilities	**136,719**	600
Non-current liabilities	**–**	99,400

(a) Bank borrowings are secured by the restricted deposits of RMB188,236,000 (2016: RMB106,139,000) (Note 19).

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

(c) Effective interest rates per annum on borrowings is 2.55%–4.42% (2016: 2.55%–2.77%).

(d) Borrowings are repayable as follows:

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**136,719**	600
Between 1 and 2 years	**–**	99,400
	136,719	100,000

(e) As at December 31, 2017, the Group's borrowings are denominated in RMB.

Notes to the Consolidated Financial Statements

24. TRADE AND OTHER PAYABLES

	As of December 31, 2017 RMB'000	2016 RMB'000
Trade payables *(Note (i))*	**50,532**	92,754
Other taxes payables	**3,589**	3,565
Interests payable	**117**	74
Salary and staff welfare payables	**29,165**	28,486
Accrued expenses and liabilities	**37,604**	45,561
Advance received from licence fees	**1,777**	952
Advance received from sales of prepaid game cards	**79**	486
Advance from payment vendors	**41**	62
Advance received for license fee of film rights	**20,623**	–
	143,527	171,940

Note:

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

	As of December 31, 2017 RMB'000	2016 RMB'000
0–180 days	**44,708**	60,684
181–365 days	**1,034**	25,568
1–2 years	**1,515**	3,405
2–3 years	**605**	1,652
over 3 years	**2,670**	1,445
	50,532	92,754

25. DEFERRED REVENUE

	As of December 31, 2017 RMB'000	2016 RMB'000
Current		
— License fee and technical support fee	**3,107**	3,649
— Sales of in-game virtual items *(Note (i))*	**62,863**	81,570
— Government subsidies	**41**	97
	66,011	85,316
Non-current		
— License fee and technical support fee	**1,985**	4,421
— Sales of in-game virtual items *(Note (i))*	**742**	1,029
— Government subsidies	**1,529**	1,571
	4,256	7,021

Note:

(i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of December 31, 2017 and 2016. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games, as described in Note 2.24. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB6,011,000 as of December 31, 2017 (2016: RMB6,921,000).

Notes to the Consolidated Financial Statements

26. EXPENSES BY NATURE

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

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Service charges by Game Distribution Channels	**161,338**	249,593
Content fee to game developers	**46,208**	60,786
Bandwidth and server custody fees	**17,380**	16,642
Film rights recognised as cost of revenue	**17,217**	–
Payment handling costs	**326**	435
Employee benefit expenses (excluding share-based compensation expenses) *(Note 27 (a))*	**190,794**	172,006
Share-based compensation expenses	**12,807**	33,161
Depreciation of property, plant and equipment *(Note 6)*	**10,429**	7,918
Amortisation and impairment of intangible assets *(Note 7)*	**21,454**	19,381
Impairment charges on trade and other receivables *(Note 16, 17)*	**1,934**	4,242
Prepayment write-off	**13,862**	6,973
Promotion and advertising expenses	**159,366**	175,979
Traveling and entertainment expenses	**5,486**	5,951
Office rental expenses	**15,308**	16,180
Other professional service fees	**11,465**	11,710
Game development outsourcing costs	**16,281**	13,767
Utilities and office expenses	**4,188**	3,837
Auditors' remuneration		
— Audit services	**4,360**	5,100
— Non-audit services	**420**	180
Others	**8,115**	6,675
Total	**718,738**	810,516

Notes to the Consolidated Financial Statements

27. EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Wages, salaries and bonuses	**142,743**	129,821
Pension costs — defined contribution plans	**6,202**	10,285
Other social security costs, housing benefits and other employee benefits	**41,849**	31,900
Share-based compensation expenses	**12,807**	33,161
	203,601	205,167

Employees of the group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on fixed percentage of 20% of the employees' salary (subject to a floor and cap) as set by local municipal governments to the scheme locally to fund the retirement benefits of the employees.

(b) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2017 and 2016 include 1 and 3 directors whose emoluments are reflected in the analysis presented in Note 37(a), respectively. The aggregate amounts of emoluments for the remaining 4 and 2 individuals for each of the years ended December 31, 2017 and 2016 are set out below:

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Wages, salaries and bonuses	**3,544**	1,644
Pension costs — defined contribution plans	**152**	88
Other social security costs, housing benefits and other employee benefits	**190**	113
Share-based compensation expenses	**10,292**	5,701
	14,178	7,546

The emoluments payable to these individuals for the years ended December 31, 2017 and 2016 fell within the following bands:

	Year ended December 31, 2017	2016
Emoluments band		
HKD3,500,001 to HKD4,000,000	**2**	1
HKD4,000,001 to HKD4,500,000	**1**	–
HKD4,500,001 to HKD5,000,000	**1**	1
	4	2

For the years ended December 31, 2017 and 2016, neither directors nor the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

28. OTHER GAINS — NET

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Government subsidies *(Note (a))*	**238**	10,297
Foreign exchange (losses)/gains	**(1,209)**	1,454
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	**1,873**	8,950
Fair value gain from an associate measured at fair value through profit or loss	**10,101**	4,229
Impairment charges on available-for-sale financial assets	**(5,223)**	–
Gain on disposal of available-for-sale financial assets	**23,988**	2,449
(Loss)/gain on disposals of property, plant and equipment	**(10)**	138
Gain on disposals of intangible assets	**1,800**	2,459
Gain arising from other shareholders' contribution to an associate	**–**	5,619
Others	**(579)**	(37)
	30,979	35,558

Note:

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

29. FINANCE INCOME — NET

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**5,568**	5,373
Interest income on loans to third parties	**2,112**	243
Finance costs		
Interest cost on bank borrowings	**(2,988)**	(1,018)
Foreign exchange losses, net	**(1,358)**	(373)
Finance income — net	**3,334**	4,225

Notes to the Consolidated Financial Statements

30. INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for each of the years ended December 31, 2017 and 2016 is analysed as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
— Current income tax of this year	**7,621**	17,670
— Exemption of tax provision *(Note (c) (i))*	**(17,099)**	–
Total current income tax	**(9,478)**	17,670
Deferred income tax	**(531)**	(1,208)
Income tax (credit)/expense	**(10,009)**	16,462

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the years ended December 31, 2017 and 2016 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

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

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the years ended December 31, 2017 and 2016, except for Tianjin 8864, Beijing Feng and Long Interactive Culture Co., Limited ("**Feng and Long**") and Horgos Pictures. Tianjin 8864 and Feng and Long were accredited as software enterprises. Horgos Pictures was accredited as a new company in economic development zone. The applicable preferential income tax rates for these subsidiaries are as follows:

	2017	2016
Tianjin 8864	**50% reduction**	50% reduction
Feng and Long *(Note (i))*	**EIT exemption**	EIT exemption
Horgos Pictures	**EIT exemption**	25%

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining tax assessable profits for that year ("**Super Deduction**"). Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended December 31, 2017 and 2016.

Note:

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

Notes to the Consolidated Financial Statements

30. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

(d) PRC withholding Tax ("WHT")

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

As of December 31, 2017, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of December 31, 2017 and 2016, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss before income tax of consolidated entities in the respective jurisdictions as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Loss before income tax	**(304,772)**	(140,912)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	**(41,378)**	(20,470)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries *(Note (c) (i))*	**(19,958)**	–
Super Deduction for research and development expenses	**(8,410)**	(10,042)
Expenses not deductible for tax purposes:		
— Share-based compensation	**3,507**	7,902
— Others	**8,790**	18,844
Unrecognised temporary differences *(Note (ii))*	**60,551**	22,024
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	**4,094**	1,194
Exemption of tax provisions *(Note (c) (i))*	**(17,099)**	–
Adjustment to deferred income tax arising in prior years	**(106)**	(2,990)
Income tax (credit)/expense	**(10,009)**	16,462

Notes:

(i) The Company is exempt from Cayman Islands income tax. As such, the operating results reported by the Company on a standalone basis, are not subject to any income tax.

(ii) The Group has assessed the realisation of deductible temporary differences and unused tax losses for each Group entity as of December 31, 2017 and 2016. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.

Notes to the Consolidated Financial Statements

31. LOSS PER SHARE

(a) Basic

Basic loss per share for the year ended December 31, 2017 and 2016 is calculated by dividing the loss of the Group attributable to the owners of the Company of the year by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Loss attributable to owners of the Company	**(294,098)**	(157,372)
Weighted average number of ordinary shares in issue (thousand shares)	**352,142**	349,493
Basic loss per share (expressed in RMB per share)	**(0.84)**	(0.45)

(b) Diluted

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

For the year ended December 31, 2017 and 2016, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the years ended December 31, 2017 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the years ended December 31, 2017 and 2016 are the same as basic loss per share of the years.

32. DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2017 and 2016.

Notes to the Consolidated Financial Statements

33. CASH FLOW INFORMATION

(a) Cash used in operations

		Year ended December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Loss before income tax		**(304,772)**	(140,912)
Adjustments for:			
— Impairment charges on trade and other receivables	26	**1,934**	4,242
— Impairment charges on available-for-sale financial assets	28	**5,223**	–
— Prepayment write-off	26	**13,862**	6,973
— Depreciation of property, plant and equipment	6	**10,429**	7,918
— Amortisation of intangible assets	7	**16,834**	14,452
— Impairment charges on intangible assets	7	**4,620**	4,929
— Loss/(gain) on disposals of property, plant and equipment	28	**10**	(138)
— Gain on disposals of intangible assets	28	**(1,800)**	(2,459)
— Films in progress transferred to cost of sales		**17,217**	–
— Share-based payments	26	**12,807**	33,161
— Share of loss of investments using equity accounting	11	**45,780**	28,621
— Impairment of investments using equity accounting	11	**69,300**	–
— Gain arising from other shareholders' contribution to an associate	11	**–**	(5,619)
— Fair value gain from an associate measured at fair value through profit or loss	28	**(10,101)**	(4,229)
— Interest cost on bank borrowings	29	**2,988**	1,018
— Gain on disposal of available-for-sale financial assets	28	**(23,988)**	(2,449)
— Interest income from loans to third parties	29	**(2,112)**	(243)
— Realised/unrealised fair value gains on financial assets at fair value through profit or loss	28	**(1,873)**	(8,950)
— Foreign exchange losses, net	29	**1,358**	373
		(142,284)	(63,312)
Changes in working capital:			
— Trade receivables		**25,292**	(38,110)
— Prepayments and other receivables		**13,652**	(29,844)
— Trade and other payables		**(11,910)**	57,169
— Deferred revenue		**(22,070)**	(14,279)
Cash used in operations		**(137,320)**	(88,376)

Non-cash transactions

There's no significant non-cash transaction for the year ended December 31, 2017 and 2016.

Notes to the Consolidated Financial Statements

33. CASH FLOW INFORMATION *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents	**349,563**	338,655
Liquid investments *(Note (i))*	**17,447**	17,125
Borrowings — repayable within one year	**(136,719)**	(600)
Borrowings — repayable after one year	**–**	(99,400)
Net debt	**230,291**	255,780
Cash and liquid investments	**367,010**	355,780
Gross debt — fixed interest rates	**(136,719)**	(100,000)
Net debt	**230,291**	255,780

	Other assets		Liabilities from financing activities		
	Cash	**Liquid investments** *(Note (i))*	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash/(debt) as of December 31, 2016	338,655	17,125	(600)	(99,400)	255,780
Cash flows	29,954	(1,390)	(36,719)	–	(8,155)
Foreign exchange adjustments	(19,046)	(1,435)	–	–	(20,481)
Other non-cash movements	–	3,147	(99,400)	99,400	3,147
Net cash/(debt) as of December 31, 2017	**349,563**	**17,447**	**(136,719)**	**–**	**230,291**

Note:

(i) Liquid investments comprise current investments that are traded in an active market, included in the Group's financial assets held at fair value through profit or loss.

Notes to the Consolidated Financial Statements

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the consolidated financial statements, the following significant transactions were carried out between the Group and its related parties during the years ended December 31, 2017 and 2016. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Related party transactions

(i) Loans granted to related parties

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Loans granted to:		
— Fuze	**1,200**	–
— Huaying	**842**	–
Interest charged	**92**	–
	2,134	–

(b) Balances with related parties

(I) Amount due from related parties

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Zhao Jun *(Note (i))*	**2,462**	2,370
Fuze	**1,200**	–
Huaying	**842**	–
	4,504	2,370

Note:

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

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

Notes to the Consolidated Financial Statements

34. 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:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**13,779**	12,524
Pension costs — defined contribution plans	**563**	553
Other social security costs, housing benefits and other employee benefits	**644**	628
Share-based compensation expenses	**10,955**	21,835
	25,941	35,540

35. COMMITMENTS

(a) Capital commitments

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	**–**	167
Purchase of film rights and production of films	**49,964**	14,188
Capital investment in investees	**16,400**	17,835
	66,364	32,190

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

(b) Operating lease commitments — group company as lessee

The Group leases office premises under non-cancellable operating lease agreements. The lease terms are between 1 year to 3 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Not later than 1 year	**14,814**	9,842
Later than 1 year and not later than 3 years	**11,929**	1,731
	26,743	11,573

Notes to the Consolidated Financial Statements

36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Other receivables	–	208
Investments using equity accounting	**40,013**	164,362
Investments in subsidiaries	**618,541**	535,813
	658,554	700,383
Current assets		
Prepayment and other receivables	**343,150**	206,736
Financial assets at fair value through profit or loss	**17,447**	17,125
Short-term bank deposits	–	312,963
Cash and cash equivalents	**192,694**	162,487
	553,291	699,311
Total assets	**1,211,845**	1,399,694
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**59**	59
Share premium	**1,720,690**	1,720,691
Shares held for RSU Scheme	**(3,578)**	(2)
Reserves *(Note(a))*	**361,080**	431,177
Accumulated losses *(Note(a))*	**(872,938)**	(758,606)
Total equity	**1,205,313**	1,393,319
Liabilities		
Current liabilities		
Other payables	**6,532**	6,375
Total liabilities	**6,532**	6,375
Total equity and liabilities	**1,211,845**	1,399,694

The balance sheet of the Company was approved by the Board of Directors on March 28, 2018 and was signed on its behalf.

Wang Feng	**Liao Mingxiang**
Director	*Director*

Notes to the Consolidated Financial Statements

36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note:

(a) Reserves movement of the Company

	Capital reserve *RMB'000*	Currency translation differences *RMB'000*	Share-based compensation reserve *RMB'000*	Other Reserves *RMB'000*	Total Reserve *RMB'000*	Accumulated losses *RMB'000*
Balance at January 1, 2016	–	74,493	235,878	2,436	312,807	(729,548)
Loss for the year	–	–	–	–	–	(29,058)
Share of other comprehensive income of investments accounted for using the equity method, net of tax *(Note 11)*	–	–	–	3,991	3,991	–
Employee share option and RSU scheme:						
— Value of employee services	–	–	33,161	–	33,161	–
Currency translation differences	–	81,218	–	–	81,218	–
Balance at December 31, 2016	–	155,711	269,039	6,427	431,177	(758,606)
Balance at January 1, 2017	**–**	**155,711**	**269,039**	**6,427**	**431,177**	**(758,606)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(114,332)**
Share of other comprehensive income of investments accounted for using the equity method, net of tax *(Note 11)*	**–**	**–**	**–**	**(4,885)**	**(4,885)**	**–**
Employee share option and RSU scheme:						
— Value of employee services	**–**	**–**	**6,836**	**–**	**6,836**	**–**
Currency translation differences	**–**	**(72,048)**	**–**	**–**	**(72,048)**	**–**
Balance at December 31, 2017	**–**	**83,663**	**275,875**	**1,542**	**361,080**	**(872,938)**

Notes to the Consolidated Financial Statements

37. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended December 31, 2016:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits *(Note viii)*	Contributions to a defined contribution retirement benefit plan	Remunerations paid or receivable in respect of accepting office as director		Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman									
Mr. Wang Feng (i)	–	2,162	–	–	4,693	106	–	–	6,961
Executive directors									
Ms. Liao Mingxiang (ii)	–	1,684	1	–	1,565	106	–	–	3,356
Mr. Zhao Jun (iii)	–	676	480	–	1,852	106	–	–	3,114
Mr. Mei Song (iii)	–	676	–	–	2,634	106	–	–	3,416
Independent non-executive directors									
Mr. Ma Ji (iv)	286	–	–	–	–	–	–	–	286
Mr. Zhang Xiangdong (iv)	286	–	–	–	–	–	–	–	286
Mr. Wang Xiaodong (v)	286	–	–	–	–	–	–	–	286
Ms. Zhao Yifang (v)	286	–	–	–	–	–	–	–	286
Non-executive director									
Mr. Qian Zhonghua (vi)	–	–	–	–	–	–	–	–	–
Total	1,144	5,198	481	–	10,744	424	–	–	17,991

Notes to the Consolidated Financial Statements

37. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended December 31, 2017:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note viii)	Contributions to a defined contribution retirement benefit plan	Remunerations paid or receivable in respect of accepting office as director		Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman									
Mr. Wang Feng (i)	–	2,346	195	–	1,575	114	–	–	4,230
Executive directors									
Ms. Liao Mingxiang (ii)	–	1,764	147	–	525	114	–	–	2,550
Mr. Zhao Jun (iii)	–	720	300	–	280	114	–	–	1,414
Mr. Mei Song (iii)	–	249	–	–	(2,198)	55	–	–	(1,894)
Mr. Qian Zhonghua (vi)	–	1,477	126	–	–	100	–	–	1,703
Independent non-executive directors									
Mr. Ma Ji (iv)	286	–	–	–	–	–	–	–	286
Mr. Zhang Xiangdong (iv)	286	–	–	–	–	–	–	–	286
Mr. Wang Xiaodong (v)	286	–	–	–	–	–	–	–	286
Ms. Zhao Yifang (v)	286	–	–	–	–	–	–	–	286
Non-executive director									
Mr. Pan Donghui (vii)	–	–	–	–	–	–	–	–	–
Total	1,144	6,556	768	–	182	497	–	–	9,147

(i) Mr. Wang Feng was appointed on May 24, 2007.

(ii) Ms. Liao Mingxiang was appointed on May 24, 2007.

(iii) Mr. Zhao Jun and Mr. Mei Song were appointed on June 11, 2015, as the executive director of the Company. Mr. Mei Song resigned on June 16, 2017, from his role as the executive director of the Company.

(iv) Mr. Ma Ji and Mr. Zhang Xiangdong were appointed on April 24, 2014, as the independent non-executive directors of the Company.

(v) Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed on June 11, 2015.

(vi) Mr. Qian Zhonghua was appointed on January 27, 2014 as the non-executive director of the Company and was re-designated as executive Director on February 3, 2017.

(vii) Mr. Pan Donghui was appointed as the non-executive directors of the Company, on February 3, 2017

(viii) Other benefits mainly represent share-based compensation expenses.

Notes to the Consolidated Financial Statements

37. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: Nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2016: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2016: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans entered into by the Company or subsidiary undertaking of the Company in favour of directors is as follows:

Name of director	Total amount payable	Outstanding amount at the beginning of the year	Outstanding amount at the end of the year	Maximum outstanding during the year	Amounts fallen due but not been paid	Provisions	Term	Interest rate	Security
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*			
As December 31, 2016:									
Zhao Jun:									
Loan 1	2,162	2,067	2,162	2,162	–	–	Repayable 1 year	5%	Nil
Loan 2	208	188	208	208	–	–	Fully repayable on December 31, 2018	3.7%	Nil

Notes to the Consolidated Financial Statements

37. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors *(Continued)*

Name of director	Total amount payable *RMB'000*	Outstanding amount at the beginning of the year *RMB'000*	Outstanding amount at the end of the year *RMB'000*	Maximum outstanding during the year *RMB'000*	Amounts fallen due but not been paid *RMB'000*	Provisions *RMB'000*	Term	Interest rate	Security
As December 31, 2017:									
Zhao Jun:									
Loan 1	2,262	2,162	2,262	2,262	2,262	–	Fully repayable on December 31, 2017	5%	Nil
Loan 2	200	208	200	200	–	–	Fully repayable on December 31, 2018	3.7%	Nil

During the year, except for the loans disclosed above, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

Summary of Financial Information

	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**494,733**	658,442	540,828	678,684	514,997
Loss before income tax	**(304,772)**	(140,912)	(51,885)	(151,947)	(381,929)
Loss for the year	**(294,763**	(157,374)	(53,797)	(154,583)	(399,420)
Total comprehensive (loss)/income for the year	**(343,363)**	(89,768)	2,852	(157,106)	(384,113)
Total assets	**1,034,563**	1,392,380	1,286,486	1,260,240	246,860
Total liabilities	**358,406**	382,090	217,973	252,944	928,180
Total equity and liabilities	**1,034,563**	1,392,380	1,286,486	1,260,240	246,860
Net current assets/(liabilities)	**373,076**	584,926	734,052	957,382	37,930
Total assets less current liabilities	**680,413**	1,116,711	1,071,780	1,016,344	57,939