2018

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

Non-executive Director

Mr. Pan Donghui

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Wang Feng
Ms. Liao Mingxiang

COMPLIANCE OFFICER

Ms. Liao Mingxiang

REGISTERED OFFICE

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

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

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

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

AUDITORS

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

LEGAL ADVISORS AS TO HONG KONG LAWS

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

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

COMPLIANCE ADVISOR

Yunfeng Financial Markets Limited
Suites 3201–3204
One Exchange Square
8 Connaught Place
Hong Kong
(up to September 30, 2018)

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 from January 1, 2018 to December 31, 2018 (the "**Reporting Period**").

The weakening of global economic growth in 2018, coupled with the concentration of resources to the dominant enterprises, the expecting downturn of the film and television industry and fierce competition in the gaming industry have brought enormous challenges to the development of enterprises. Under this backdrop, our film business has developed rapidly, with a year-on-year increase of 444.5% in revenue; while our overseas game business has continued to grow, with revenue up by 40.4% from 2017. However, due to the unfavourable operating environment of the industry and the fact that some products had not lived up to the expectations and our revenue remained at a flat level in 2018. Although we had stopped making significant losses, the results did not meet our expectations, and thus our share price underperformed. We express our sincere apologies to our shareholders and investors who have offered us long-term support and trust.

In June 2018, Linekong Interactive restructured its management team with Ms. Liao Mingxiang, the former president of the Group, taking over the role of chief executive officer (CEO) of the Group who is fully responsible for formulating and implementing the overall strategy as well as business plans of the Group. Upon undergoing such adjustment, our management team, the game business team and the film business team are now filled with pragmatic and passionate personnel, leading the Group to perform well in several areas such as overseas expansion of our game business, our film business and internal management.

In 2018, the Group achieved the following results in its principal businesses:

1. In the second quarter of 2018, "Uproar in Heaven (鬧鬧天宮) ", the Group's self-developed product, was shortlisted for the Tencent A.C.E Program and has its paid non-deletion testing launched on all major platforms on January 15, 2019. The game is highly recognized by a large number of players with its fascinating Chinese-painting-style artistic and casual battling system, which makes it topping several platform ranking lists, such as iOS free download chart, the best seller list of TapTap, etc. right after the kick-off of its test. The game also gained recommendation from Apple App Store's home page, as well as a number of industry media reports with good reputation.

2. The Group continuously endeavored in overseas market, which can be evidenced by the establishment of its South Korea subsidiary in 2014. Through a few years of operating endeavors and in-depth development in South Korea mobile game market, our South Korea subsidiary has gained advanced distribution experience and has successfully distributed certain exciting mobile games, including "Daybreak (黎明之光) " and "Nueva Salida (大航海之路) ", ranking the forefront on download chart and the best seller list of the mobile game market in South Korea.

3. There were rapid development in the film business of the Group "Linekong Pictures". "Unexpected (來到你的世界)" was broadcast via Tencent Video on June 13, 2018 and won a rating as high as 7.2 on Duoban.com. It has also been awarded The Best Internet Drama of the Year (年度最佳網絡劇獎) in the Annual China Pan-Entertainment Awards Ceremony (中國泛娛樂年度盛典年度最佳網絡劇獎). In additions, "Long For You 2 (我與你的光年距離2) ", an online drama co-produced by Linekong Pictures and Mango TV, had finished shooting and has been launched successfully. The production and content of "Long For You 2 (我與你的光年距離2) " have been fully upgraded, where production crew composed of members with film-making experience has been engaged, in order to deliver an amazing film to the audience. "Long For You 2 (我與你的光年距離2) "has been broadcast exclusively on the platform co-operated by Mango TV and Youku since December 16, 2018. Looking forward, Linekong Pictures will adhere to its planned annual output of two to three high-quality videos, endeavoring to upgrade from contented based video provider to an IP operation platform.

Chairman's Statement

As a new start of 2019, the Group will adhere to its objective to value our users the most, and hope that every game and videos we produce and distribute is able to bring enriched and joyful experience to our users.

In 2019, the Group will keep endeavouring in its Korean distributing business and will distribute certain outstanding works in South Korea, including "Senran Kagura NEW LINK (閃亂神樂忍者大師)", which is developed by Marvelous, a well-known Japanese game developer, and "Datangwushuang (大唐無雙)", a game under the IP brand of NetEase. Meanwhile, the filming of "A Girl Has a Good Appetite (temporary name) 《小姐最近很能吃》", an original creation of Linekong Pictures, and an internet drama adapting "As a Fat Girl (身為一個胖子)", a short article in Mr. Zhang Haochen's (張皓宸) novel, "I'm with the world, just one of you (我與世界只差一個你)" is expected to begin shooting in 2019.

We truly understand that the brand value of Linekong Interactive is responsible to our 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 Interactive during this challenging and opportunistic period. In 2019, we will be more pragmatic in developing prime products as well as creating fun and excitement to the public.

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 50, is the chairman of the Board and an executive Director. He is also the chairman of the nomination committee of the Company (the "**Nomination Committee**") and a member of the remuneration committee of the Company (the "**Remuneration Committee**"). Mr. Wang is the founder of the Group, 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 1997 to 2007, 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 21 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. Mr. Wang is also the director of Wangfeng Management Limited, a company which has an interest in the shares of the Company which would fall to be disclosed to the Company under the Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Ms. Liao Mingxiang, aged 45, is the chief executive officer of our Group and an executive Director. She is also a member of the Remuneration Committee and the compliance officer. Ms. Liao serves as a Director since May 24, 2007. As, the co-founder of the Group, Ms. Liao is primarily responsible for formulating and implementing the overall strategy as well as products and business plans of the Group. Ms. Liao has over 20 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 general 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" by GIAC for many years. Ms. Liao graduated from Changchun University of Technology in April 2014 and obtained a master degree in project management engineering.

Mr. Chen Hao, aged 32, has been an executive Director since May 11, 2018. He is also the vice president of the Group and the chief executive officer of Linekong Online (Beijing) Technology Co., Ltd. ("**Linekong Games**"), a wholly-owned subsidiary of the Company. Having joined the Group in 2010, Mr. Chen served as a product manager, and became product director in 2013 and served as the vice president and general manager of the third game department of the Group in 2016. He has been the chief executive officer of Linekong Games since April 2018 and is primarily responsible for the day-to-day management of the business of Linekong Games. Mr. Chen has extensive experience in game release, operation and management. He has made an outstanding contribution to the development of Linekong Games during his term of office, which can be demonstrated by the successful release of key mobile games including "Sword of God (神之刃)", "One Hundred Thousand Bad Jokes (十萬個冷笑話)" and "Daybreak (黎明之光)". He has also been active in leading the overseas development of the business of Linekong Games. Mr. Chen received his Master of Engineering from Huazhong University of Science and Technology in June 2010.

Mr. Wang Jin (also known as Yan Yusong), aged 45, has been an executive Director since May 11, 2018. He is also the vice president of the Group, as well as the chief executive officer of Linekong Pictures, the film business of the Group. Mr. Wang has 20 years of experience in the film and television entertainment industry. He worked at Hong Kong Azio TV as a director from 2000 to 2003, at Shanghai Dragon TV as a producer from 2003 to 2007, at Starlight International Media Co., Ltd. as the vice president from 2007 to 2012, and at TVB China Company as the general manager of Beijing branch office from 2012 to 2015. He joined the Group in January 2016 as the vice president of the Group and the president of Linekong Pictures, and has been the chief executive officer of Linekong Pictures since April 2018 and is primarily responsible for the day-to-day management of the business of Linekong Pictures. Mr. Wang graduated from Chengdu University, majoring in business arts, after which he did further studies at the Shanghai Theatre Academy with directing as his major.

Biographical details of the Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Pan Donghui, aged 48, has been a non-executive Director, a member of the audit committee of the Company ("**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 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

Ms. Zhao Yifang, aged 60, 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 a member of the Zhejiang Provincial Committee of the Chinese People's Political Consultative Conference, the Vice Chairman, of Zhejiang Chamber of Commerce (浙商總會) and 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.

Mr. Zhang Xiangdong, aged 41, 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. Wu Yueqin, aged 42, has been an independent non-executive Director, chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee since May 29, 2018. Ms. Wu has around 16 years of financial management experience. From June 2002 to December 2004, Ms. Wu was the accounting supervisor at Zhongchu Logistics Online Co., Ltd. From December 2004 to June 2006, she was a financial manager at Kingsoft Corporation Ltd. From July 2006 to January 2011, she was the financial head of Kingsoft Corporation Ltd. From January 2011 to January 2012, she was Kingsoft Corporation Ltd.'s assistant president. From January 2012 to June 2015, she was the vice president of finance at Kingsoft Corporation Ltd. Since July 2015, she has been the vice president of finance at Cheetah Mobile Inc. Ms. Wu graduated from Xi'an Jiaotong University with a bachelor's degree in accounting in July 1999 and she graduated from Xi'an Jiaotong University with a master's degree in management science and engineering in July 2002. Ms. Wu is qualified as a Chinese Certified Public Accountant and has passed the Hong Kong Institute of Certified Public Accountants qualification exams.

SENIOR MANAGEMENT

Ms. Qi Yunxiao, aged 36, 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 marketing department, in charge of formulating our marketing strategies. 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 16 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

1. A paid non-deletion testing of "Uproar in Heaven (鬧鬧天宮)" was carried out since January 15, 2019, and the game is recommended by major platforms

In the second quarter of 2018, "Uproar in Heaven (鬧鬧天宮)", the Group's self-developed product, was shortlisted for the Tencent A.C.E Program and has its paid non-deletion testing launched on all major platforms on January 15, 2019. The game is highly recognized by a large number of players with its fascinating Chinese-painting-style artistic and casual battling system, which makes it topping several platform ranking lists, such as iOS free download chart, the best seller list of TapTap, etc. right after the kick-off of its test. The game also gained recommendation from Apple App Store's home page, as well as a number of industry media reports with good reputation. It has won certain awards, such as "You Ding Award — The Most Popular Game of the Year (遊鼎獎年度最具人氣遊戲獎)", and "SnapPea Design Award (豌豆莢設計獎)". During the non-deletion testing period, "Uproar in Heaven (鬧鬧天宮)" has gained a huge number of supporters on bilibili (嗶哩嗶哩), DOUYU.com (鬥魚), Sina Weibo (新浪微博), etc., who spontaneously propagate the merits of the game. The Open Beta testing of the game is going to be launched officially in late March 2019.

2. Continuous endeavors in overseas markets, further intensifying our international deployment

The Group continuously endeavored in overseas market in order to realize a rapid growth for overseas business. In 2018, the Group's game business in overseas market generated a revenue of RMB198.4 million, representing an increase of 40.4% as compared to that of 2017.

Being an important market for the Group to distribute its games overseas, the South Korea market has been growing rapidly. The Group established its South Korea subsidiary in 2014. Through a few years of operating endeavors and in-depth development in South Korea mobile game market, our South Korea subsidiary has gained advanced distribution experience and has successfully distributed certain exciting mobile games, including "Daybreak (黎明之光)" and "Nueva Salida (大航海之路)", ranking the forefront on download chart and the best seller list of the mobile game market in South Korea. By virtue of mature distribution strategy, refined operation and localized services, our South Korea subsidiary has successfully cooperated with various outstanding mobile game developers, including Marvelous, a well-known game developer in Japan. The Group has obtained the license to distribute "Senran Kagura NEW LINK (閃亂神樂忍者大師)", a self-developed game by Marvelous, through our South Korea agent, and the game has already been launched online in South Korea on February 14, 2019. Besides, the satisfactory cooperation with NetEase on distributing "Nueva Salida (大航海之路)" has also laid a ground for our South Korea subsidiary to launch "Datangwushuang (大唐無雙)", a self-developed game under the IP brand of NetEase, officially in South Korea region on March 21, 2019. During 2019, the Group has scheduled to distribute certain outstanding games overseas.

Meanwhile, "Daybreak (黎明之光)", a 3D adventure game, has won popularity in overseas market. It has been launched in all overseas regions on Google Play. The game continues to contribute revenue and profit to the Group with monthly gross billing of more than RMB10 million. "Daybreak (黎明之光)" has been launched in different foreign languages and well received by overseas players which can be evidenced by its over 14 million downloads, ranking Top 1 on the best seller list of iOS and Google Play in more than 20 countries or regions worldwide. "Daybreak (黎明之光)" has become the Group's hottest game in overseas market.

Management Discussion and Analysis

3. The Group's brand new "nijigen (二次元)" set-aside mobile game is kicking off its online testing

The Group targets on the younger generation segment which has more fragmented time and focuses on the planning of "nijigen (二次元)" set-aside mobile games. "Code: S (代號: S)" is the Group's self-developed "nijigen (二次元)" set-aside mobile game created with a theme of war among gods based on an imaginary world view, and its online testing is scheduled to be launched in the second quarter of 2019.

4. Implementing prime IP strategy and promoting the IP values of the best games in the world

Based on our prime IP strategy, the Group continued to promote the IP value of two of the best games in the world during the Reporting Period. The Group has obtained the license to globally distribute "Xuanyuan Sword: Millennium Fate (軒轅劍 · 蒼之曜)", which is the official sequel of "Xuanyuan Sword (軒轅劍)", a classic Chinese RPG game series with a history of 28 years. The Group will cooperate with Softstar Entertainment Inc. (臺灣大宇) and Softstar Technology (Shanghai) Co., Ltd. (上海軟星) for the development of such mobile game. The first external testing has been carried out in the fourth quarter of 2018 and the game is scheduled to be launched in 2019. The Group has obtained the license for the exclusive adaptation and global distribution of "Ys VIII (伊蘇VIII)", a heavyweight IP reserve and a supreme ARPG game in Japan. The Group will self-develop and launch the official authorized mobile game of "Ys VIII (伊蘇VIII)", it is expected that such game will be developed with the new Saturn 2.0 engine and under the supervision and maintenance from the original production team of "Ys VIII (伊蘇VIII)" from Falcom for the whole process, and will continue to promote this 31-year classic game series.

5. Being operated practically with its products distributed on schedule, Linekong Pictures generated a year-on-year growth in revenue of 444.5%

Linekong Pictures, the film business of the Group, adheres to its planned annual output of two to three high-quality videos, endeavoring to upgrade from contented based video provider to an IP operation platform. In 2018, Linekong Pictures realized a revenue of RMB123.6 million, representing a growth of 444.5% as compared to that of 2017.

During the Reporting Period, "Unexpected (來到你的世界)" was broadcast by Linekong Pictures via Tencent Video on June 13, 2018, and won a rating as high as 7.2 on Duoban.com. It has also been awarded The Best Internet Drama of the Year (年度最佳網絡劇獎) by Annual China Pan-Entertainment Awards Ceremony (中國泛娛樂年度盛典年度最佳網絡劇獎). In addition, the shooting of "Long For You 2 (我與你的光年距離2)", an online drama co-produced by Linekong Pictures and Mango TV, had been finished and has been launched successfully. The production and content of "Long For You 2 (我與你的光年距離2)" have been fully upgraded, where production crew composed of members with film-making experience was engaged in order to deliver an amazing film to the audience. "Long For You 2 (我與你的光年距離2)", has been broadcast exclusively on the platform co-operated by Mango TV and Youku since December 16, 2018. In 2018, Linekong Pictures gained recognitions from peers in the industry through producing and launching internet dramas, such as "Unexpected (來到你的世界)" and "Long For You 2 (我與你的光年距離2)", and received the "2018 DoNews Awards, The Most Trustworthy Brand of Internet Audiovisual Category (2018年牛耳獎網絡視聽領域最具信賴品牌獎)", as well as the "2018 Golden Bud Network Film and Television Festival, The Best New Company of the Year (2018金骨朵年度網絡影視新銳公司獎)".

In 2019, Linekong Pictures will allocate more resources to develop its production team, screenwriter team and administration team for enhancing IP development and operation. Currently, the filming of "A Girl Has a Good Appetite (temporary name) (小姐最近很能吃)", an original creation of Linekong Pictures, and an internet drama adapting "As a Fat Girl (身為一個胖子)", a short article in Mr. Zhang Haochen's (張皓宸) novel, "I'm with the world, just one of you (我與世界只差一個你)" is expected to commence in 2019. Meanwhile, Linekong Pictures is developing the IP of "Ancient Music Records (古樂風華錄)", an IP which can be promoted for movie and gaming jointly, such product is created with unique charm of nationalism from the oriental perspective, aiming to arouse the vitality of our traditional culture, so as to produce a great and popular phenomenal drama of youth fantasy. Moreover, Linekong Pictures is also developing the IP of "Apocalypse, the Tomb Guardian (鎮墓獸 · 天啓)", which is an enthusiastic ancient-setting youth adventure drama co-produced by the famous composer, Tian Xia Ba Chang (天下霸唱) and the great writer of mystery stories, Mr. Cai Jun (蔡駿). Apocalypse, the Tomb Guardian (鎮墓獸 · 天啓)" is a warm-hearted story of two young men, growing together hand-in-hand, who are going to embark upon their journey of treasure hunt.

Management Discussion and Analysis

FINANCIAL REVIEW

The following table sets out our consolidated statement of loss for the years ended December 31, 2017 and 2018, together with changes (expressed in approximate percentages) from 2017 to 2018:

	For the year ended December 31,				
	2018		2017		Change
	RMB'000	***approximate %***	*RMB'000*	*approximate %*	*approximate %*
Revenue	**457,790**	**100.0**	494,733	100.0	(7.5)
Cost of revenue	**(286,390)**	**(62.6)**	(294,610)	(59.5)	(2.8)
Gross profit	**171,400**	**37.4**	200,123	40.5	(14.4)
Selling and marketing expenses	**(103,756)**	**(22.7)**	(186,344)	(37.7)	(44.3)
Administrative expenses	**(91,775)**	**(20.0)**	(103,443)	(20.9)	(11.3)
Research and development expenses	**(67,860)**	**(14.8)**	(132,407)	(26.8)	(48.7)
Net impairment losses on financial assets	**(3,253)**	**(0.7)**	(1,934)	(0.4)	68.2
Other operating income — net	**4,679**	**1.0**	240	–	1,849.6
Operating loss	**(90,565)**	**(19.8)**	(223,765)	(45.2)	(59.5)
Other (losses)/gains — net	**(54,463)**	**(11.9)**	30,739	6.2	(277.2)
Finance (costs)/income — net	**(1,349)**	**(0.3)**	3,334	0.7	(140.5)
Share of loss of investments using equity accounting	**(12,411)**	**(2.7)**	(45,780)	(9.3)	(72.9)
Impairment of investments using equity accounting	**–**	**–**	(69,300)	(14.0)	(100.0)
Loss before income tax	**(158,788)**	**(34.7)**	(304,772)	(61.6)	(47.9)
Income tax (expense)/credit	**(4,226)**	**(0.9)**	10,009	2.0	(142.2)
Loss for the year	**(163,014)**	**(35.6)**	(294,763)	(59.6)	(44.7)
Non-IFRSs Measure:	**–**	**–**	–	(42.7)	(55.5)
Adjusted net loss (unaudited)	**(93,981)**	**(20.5)**	(211,019)	(42.7)	(55.5)

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

	For the year ended December 31,		
	2018	2017	Change
	RMB'000	*RMB'000*	*approximate %*
Segment Revenue			
Game Business	**340,934**	472,041	(27.8)
Film Business	**123,630**	22,692	444.8
Elimination	**(6,774)**	–	–
Total	**457,790**	494,733	(7.5)
Operating (loss)/profit			
Game Business	**(105,226)**	(200,874)	(47.6)
Film Business	**14,661**	(22,891)	(164.0)
Total	**(90,565)**	(223,765)	(59.5)

In 2018, the loss from our game business reduced by 47.6% in the unfavourable operating environment of the entire industry through the Company's efforts. The film business has developed rapidly reaching a profit amounted to RMB14.7 million, by the way of authorising film copyrights for specific customers.

Management Discussion and Analysis

Revenue

The Group's revenue amounted to approximately RMB457.8 million for the year ended December 31, 2018, representing a decrease of approximately 7.5% from that of approximately RMB494.7 million for the year ended December 31, 2017.

The following table sets forth the breakdown of the Group's revenue by game business and film business:

	For the year ended December 31,			
	2018		2017	
	RMB'000	approximate %	RMB'000	approximate %
Development and operations of online games	334,160	73.0	472,041	95.4
Production and licensing of film rights and others	123,630	27.0	22,692	4.6
Total	457,790	100.0	494,733	100.0

For the year ended December 31, 2018, the revenue contributed by game business was RMB334.2 million, representing a decrease of approximately 29.2% or RMB137.8 million as compared with the corresponding period of 2017, which was attributable to fewer new games released in 2018 than in 2017, 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.

The following tables set forth the breakdown of the Group's revenue by game sources :

	For the year ended December 31,			
	2018		2017	
	RMB'000	approximate %	RMB'000	approximate %
Self-developed games	86,104	25.8	139,376	29.5
Licensed games	248,056	74.2	332,665	70.5
Total	334,160	100.0	472,041	100.0

	For the year ended December 31,			
	2018		2017	
	RMB'000	approximate %	RMB'000	approximate %
Sales of in-game virtual items	309,516	92.6	407,326	86.3
License fee and technical support fee	24,644	7.4	64,715	13.7
Total	334,160	100.0	472,041	100.0

In respect of the Group's film business, the Group recognised revenue of approximately RMB123.6 million from production and licensing of film rights and others during the year ended December 31, 2018, representing an increase of approximately 444.5% from that of approximately RMB22.7 million for the year ended December 31, 2017. The increase in revenue was mainly due to the respective revenue recognised for "Unexpected (來到你的世界)" and "Long For You 2 (我與你的光年距離2)" during 2018.

The following tables set forth the breakdown of the Group's revenue by geographical locations:

	For the year ended December 31,			
	2018		2017	
	RMB'000	approximate %	RMB'000	approximate %
China (including Hong Kong, Macau and Taiwan)	259,373	56.7	353,424	71.4
Overseas countries and regions	198,417	43.3	141,309	28.6
Total	457,790	100.0	494,733	100.0

Management Discussion and Analysis

The Group established its South Korea subsidiary in 2014. Through a few years of operating endeavours, it successfully rolled out certain mobile games, including "Daybreak (黎明之光)" and "Nueva Salida (大航海之路)", and achieved a successful performance of commercialization in South Korea market. Moreover, the Group will continue to distribute a number of exciting games in 2019. During the year ended December 31, 2018, the revenue from overseas markets was approximately RMB198.4 million, representing an increase of approximately 40.4% as compared to approximately RMB141.3 million from overseas markets of 2017. The revenue from overseas markets accounts for approximately 43.3% of our total revenue as the Group continuously endeavoured in the overseas market in order to realize a rapid growth for overseas business in 2018. For the year ended December 31, 2018, revenue generated from China (including Hong Kong, Macau and Taiwan) market was amounted to approximately RMB259.4 million, representing a decrease of approximately 26.6% from revenue generated from China (including Hong Kong, Macau and Taiwan) market of approximately RMB353.4 million of 2017. The revenue from China (including Hong Kong, Macau and Taiwan) market accounted for 56.7% of our total revenue in 2018, which was due to the reduction of distribution of the Group's new games.

Cost of revenue

The Group's cost for the year ended December 31, 2018 was approximately RMB286.4 million, representing a decrease of approximately 2.8% from approximately RMB294.6 million for the year ended December 31, 2017. Excluding the share-based compensation expense, the Group's cost for the year ended December 31, 2018 was approximately RMB286.3 million, representing a decrease of approximately 2.1% from approximately RMB292.5 million for the year ended December 31, 2017.

For the year ended December 31, 2018, the cost incurred by game business was approximately RMB210.1 million, representing a decrease of approximately 22.5% or RMB61.1 million as compared with the corresponding period of 2017, which was due to the reduction of our distribution of new games in 2018.

In respect of the Group's film business, the cost incurred by production and licensing of film rights and others recognised was approximately RMB76.3 million for the year ended December 31, 2018, representing an increase of approximately 226.1% or RMB52.9 million as compared with the corresponding period of 2017. Such increase was mainly due to the respective cost recognised for "Unexpected (來到你的世界)" and "Long For You 2 (我與你的光年距離2) during 2018.

Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2018 was approximately RMB171.4 million, representing a decrease of approximately 14.4% from approximately RMB200.1 million for the year ended December 31, 2017. Excluding the share-based compensation expense, the Group's gross profit for the year ended December 31, 2018 was approximately RMB171.5 million, representing a decrease of approximately 15.2% as compared to approximately RMB202.2 million for the year ended December 31, 2017. The decrease in the Group's gross profit was primarily due to the decrease in our game business for the year ended December 31, 2018 as compared with the corresponding period of 2017.

The Group's gross profit margin for the year ended December 31, 2018 was approximately 37.4%, representing a decrease of approximately 3.1 percentage points as compared to approximately 40.5% for the year ended December 31, 2017. Excluding the share-based compensation expense, the Group's gross profit margin for the year ended December 31, 2018 was approximately 37.5%, representing a decrease of approximately 3.4 percentage points as compared to approximately 40.9% for the year ended December 31, 2017.

For the year ended December 31, 2018, the gross profit margin of the Group's game business was approximately 37.1%, representing a decrease of approximately 5.4 percentage points as compared with the corresponding period of 2017, which was mainly due to the increase in proportion of revenue from licensed games to the overall revenue and the relatively low gross profit margin of the licensed games. The gross profit margin of film business was approximately 38.3%.

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended December 31, 2018 were approximately RMB103.8 million, representing a decrease of approximately 44.3% from approximately RMB186.3 million for the year ended December 31, 2017. Excluding the (reversal of)/ charged to share-based compensation expenses, the Group's selling and marketing expenses for the year ended December 31, 2018 were approximately RMB104.0 million, representing a decrease of approximately 43.9% from approximately RMB185.4 million for the year ended December 31, 2017. The decrease in selling and marketing expenses was primarily due to the reduction of advertising and promotion expenses incurred by distributing new games.

Management Discussion and Analysis

Administrative expenses

The Group's administrative expenses for the year ended December 31, 2018 were approximately RMB91.8 million, representing a decrease of approximately 11.3% from approximately RMB103.4 million for the year ended December 31, 2017. Excluding the (reversal of)/charged to share-based compensation expenses and one-off compensation for loss of office paid, the Group's administrative expenses for the year ended December 31, 2018 were approximately RMB74.1 million, representing a decrease of approximately 22.2% from approximately RMB95.3 million for the year ended December 31, 2017. The decrease in administrative expenses was primarily due to the reduction in expenses so as to meet the needs of the business and development strategy of the Company.

Research and development expenses

The Group's research and development expenses for the year ended December 31, 2018 were approximately RMB67.9 million, representing a decrease of approximately 48.7% from approximately RMB132.4 million for the year ended December 31, 2017. Excluding the (reversal of)/charged to share-based compensation expenses, the Group's research and development expenses for the year ended December 31, 2018 were approximately RMB69.5 million, representing a decrease of approximately 45.4% from approximately RMB127.2 million for the year ended December 31, 2017. The decrease in research and development expenses was primarily due to reduction in salary expenses as a result of reduction in headcounts for improving efficiency so as to meet the needs of the business and development strategy of the Company.

Net impairment losses on financial assets

The Group's net impairment losses on financial assets for the year ended December 31, 2018 were approximately RMB3.3 million, representing an increase of approximately 68.2% from approximately RMB1.9 million for the year ended December 31, 2017. The increase in the Group's net impairment losses on financial assets, was primarily due to delay of the grant of loans for third party's film projects.

Other operating income — net

The Group's other operating income — net for the year ended December 31, 2018 were approximately RMB4.7 million, while other operating income — net of approximately RMB0.2 million for the year ended December 31, 2017, which was mainly due to the penalties income from termination of contracts for the period.

Other (losses)/gains — net

The Group's other net losses for the year ended December 31, 2018 were approximately RMB49.8 million, while other net gains of approximately RMB31.0 million for the year ended December 31, 2017, which was mainly due to the changes in fair value of the financial instruments held by the Group.

Finance (costs)/income — net

The Group's net finance costs for the year ended December 31, 2018 were approximately RMB1.3 million, while net finance income of approximately RMB3.3 million for the year ended December 31, 2017, which was mainly due to the increase in interest cost on borrowings for the period. No interest was capitalised for the year ended December 31, 2018 (for the year ended December 31, 2017: Nil).

Share of loss of an investment using equity accounting

The Group's share of loss of an investment using equity accounting for the year ended December 31, 2018 was approximately RMB12.4 million, representing a decrease of approximately 72.9% from approximately RMB45.8 million for the year ended December 31, 2017, which was mainly due to the narrowing of operating loss incurred by Fuze Entertainment Co., Ltd. ("**Fuze**"), our investee.

Impairment of investments using equity accounting

The Group has no impairment of investments using equity accounting for the year ended December 31, 2018 (for the year ended December 31, 2017: RMB69.3 million, representing the impairment provided for the investment in Fuze).

Management Discussion and Analysis

Income tax (expense)/credit

The Group's income tax expense for the year ended December 31, 2018 was approximately RMB4.2 million, while the Group's income tax credit for the year ended December 31, 2017 was approximately RMB10.0 million, which was primarily due to: (i) certain subsidiaries of the Group were accredited as software enterprises in 2017 before the 2016 annual EIT clearance and related tax provision arising in 2016 was exempted in May 2017; and (ii) the decrease in recognised deferred income tax assets in respect of the temporary differences of certain subsidiaries.

Loss for the year

As a result of the foregoing, loss attributable to owners of the Company for the year ended December 31, 2018 was approximately RMB166.9 million, representing a decrease of approximately 43.3% from approximately RMB294.1 million for the year ended December 31, 2017.

Non-IFRSs measure — adjusted net loss

To supplement our consolidated financial statements presented in accordance with the International Financial Reporting Standards, we also adopted adjusted net loss as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted net loss was derived from our net loss for the respective year deducted (reversal of)/charged to share-based compensation expenses, impairment of investments using equity accounting, one-off compensation for loss of office paid and realised/unrealised loss/(gain) on fair value of financial assets at fair value through profit or loss. The adjusted net loss is an unaudited figure.

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

	For the year ended December 31,		
	2018	2017	Change
	RMB'000	*RMB'000*	*approximate %*
Loss for the year	**(163,014)**	(294,763)	(44.7)
Add:			
(Reversal of)/charged to share-based compensation expenses	**(2,498)**	12,807	(119.5)
Impairment of investments using equity accounting	**–**	69,300	(100.0)
One-off compensation for loss of office paid	**18,273**	3,510	420.6
Realised/unrealised loss/(gain) on fair value of financial assets at fair value through profit or loss	**53,258**	(1,873)	(2,943.5)
Adjusted net loss (unaudited)	**(93,981)**	(211,019)	(55.5)

The Group's adjusted net loss for the year ended December 31, 2018 was approximately RMB94.0 million, representing a decrease of 55.5% as compared to the adjusted net loss of approximately RMB211.0 million for the year ended December 31, 2017. The adjusted net loss decreased as compared to 2017 was due to the combined effect of the following factors: (1) the decrease in advertising and marketing expenses for games distribution; (2) the decrease in salary expenses as a result of reduction in headcounts for improving efficiency; and (3) the narrowing of operating loss incurred by Fuze, our investee.

We have presented adjusted net loss in this report as we believe that the adjusted net loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration (reversal of)/charged to share-based compensation expenses, impairment of investments using equity accounting, one-off compensation for loss of office and realised/unrealised loss/(gain) on fair value of financial assets at fair value through profit or loss. However, adjusted net loss for the year should not be considered in isolation or construed as an alternative to net loss or operating loss, 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.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

In 2018, we financed our businesses primarily through cash generated from our operating activities. The Group has been maintaining a solid cash position since the initial public offering (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, 2018, most of the Group's idle capital was invested in short-term wealth management products issued by commercial banks in the PRC. For the purpose of generating better returns for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives. In order to meet the domestic working capital requirements, we will seek for stable financial supports from banks in long-run at market lending rate for the corresponding period.

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

As at December 31, 2018, we had cash and cash equivalents of approximately RMB176.6 million (as at December 31, 2017: approximately RMB349.6 million), which primarily consisted of cash at bank and other financial institutions and cash in hand and which were mainly denominated in Renminbi (as to approximately 9.1%), Hong Kong dollars ("**HKD**") (as to approximately 25.0%), U.S. dollars ("**USD**") (as to approximately 60.7%) and other currencies (as to approximately 5.2%).

As at December 31, 2018, we had short-term bank deposits of RMB102.9 million (as at December 31, 2017: Nil).

As at December 31, 2018, approximately RMB233.8 million (as at December 31, 2017: RMB188.2 million) are restricted deposits held at bank as reserve for serving a loan facility with a total credit line of RMB199.1 million (as at December 31, 2017: RMB180.0 million) provided by the bank. Such facility will expire in 2019.

Net proceeds from the Listing, after deducting the underwriting commission and other expenses in connection with the Listing, received by the Company amounted to approximately HKD686.2 million. As at the date of this report, some of the net proceeds (see the section headed "Use of IPO Proceeds") from the Listing had been utilised and the rest has been deposited into bank accounts maintained by the Group as short-term demand deposits and other deposits. In 2019, we will continue to utilise the net proceeds from the Listing in accordance with the proposed use of proceeds as set out in the "Change in Use of Proceeds" announcement of the Group dated March 29, 2016.

Capital expenditures

Our capital expenditures comprised expenditures on film rights and films in progress, 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, 2018, our total capital expenditure amounted to approximately RMB31.4 million (2017: approximately RMB61.6 million), including expenditures on film rights and films in progress of approximately RMB5.9 million (2017: approximately RMB41.3 million), the purchase of furniture and office equipment of approximately RMB0.4 million (2017: approximately 2.0 million), server and other equipment of approximately RMB0.1 million (2017: approximately RMB1.6 million), motor vehicles of nil (2017: approximately RMB0.3 million), leasehold improvements of nil (2017: approximately RMB0.1 million), trademarks and licenses of approximately RMB23.8 million (2017: approximately RMB15.6 million) and computer software of approximately RMB1.2 million (2017: approximately RMB0.7 million). As of the end of the Reporting Period, we have no committed capital expenditures, and the capital expenditures for 2019 are expected to be game rights and IP.

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 comprises ordinary shares.

Management Discussion and Analysis

BORROWING AND GEARING RATIO

As at December 31, 2018, the bank loans borrowed by the Group amounted to RMB199.1 million (as at December 31, 2017: RMB136.7 million), which were fixed rate loans for a term of one year. As at December 31, 2018, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 38.8% (as at December 31, 2017: approximately 34.6%).

CHARGE ON GROUP ASSETS

As at December 31, 2018, restricted deposits of approximately RMB233.8 million of the Group were pledged to secure bank borrowings (as at December 31, 2017: RMB188.2 million).

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2018, the Group had 284 employees (as at December 31, 2017: 720), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at December 31, 2018 and December 31, 2017, respectively:

	As at December 31,			
	2018		2017	
Function	***Number of Employees***	***approximate % of total employees***	*Number of Employees*	*approximate % of total employees*
Research and development	**128**	**45.0**	375	52.0
Game publishing	**86**	**30.3**	200	27.8
— Game licensing	**46**	**16.2**	82	11.4
— Customer service	**12**	**4.2**	30	4.2
— Sales and marketing	**28**	**9.9**	88	12.2
General and administrative	**46**	**16.2**	102	14.2
Film business	**24**	**8.5**	43	6.0
Total	**284**	**100.0**	720	100.0

Note: The decrease in number of staff was mainly attributable to the fact that meeting the needs of development strategy of the Company through reducing headcounts for improvement of efficiency and trimming the expenses.

The total remuneration of the employees of the Group was approximately RMB147.5 million for the year ended December 31, 2018 (2017: approximately RMB203.6 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 has taken 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 paragraphs headed "Share Incentive Scheme and Share Option Scheme" of this annual report.

In addition, the Company has adopted a restricted share unit scheme (the "**RSU Scheme**") on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Reversal of share-based compensation expenses in connection with the RSU Scheme and the Share Option Scheme for the year ended December 31, 2018 were approximately RMB2.5 million, while the share-based compensation expenses for the year ended December 31, 2017 were approximately RMB12.8 million.

Management Discussion and Analysis

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

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

Save as disclosed in the section of "Directors' Report — Connected Transactions" of this annual report and herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended December 31, 2018.

SIGNIFICANT INVESTMENT HELD DURING THE REPORTING PERIOD

As of December 31, 2018, the Group held interests in two associates, namely Fuze, a company which is engaged in development and sales of smart device, and Huaying Jiashi (Beijing) International Culture Media Co., Ltd. ("**Huaying**"), a company which is engaged in film distribution. In 2018, Fuze was making losses and it was undergoing a business transformation. Suffering from the impact of the entire unfavourable operating environment of film and television industry, Huaying recorded a decline in its revenue in 2018.

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. 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, 2018 would have been approximately RMB1,085,000 lower/higher (2017: RMB9,225,000), 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 for the year ended December 31, 2018 would have been approximately RMB71,000 lower/higher (2017: RMB567,000), 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, 2018.

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, 2018, except for the deviation from code provision A.2.1 of the Code.

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

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, 2018 is set out as follows:

Executive Directors

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

Non-executive Director

Mr. Pan Donghui

Independent non-executive Directors

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

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 7 to 8 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

During the year ended 31 December 2018, the Board at all times met the requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors, the number of independent non-executive Directors represent not less than one-third of the Board and one of the independent non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise.

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.

Corporate Governance Report

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 (including 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 service contracts with Mr. Chen Hao and Mr. Wang Jin, also being our executive Directors, are for an initial term of three years commencing from May 11, 2018. 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 letter of appointment with Mr. Zhang Xiangdong, being our independent non-executive Director is for an initial term of three years commencing from April 24, 2014 and have been renewed for another term of three years on April 23, 2017. The letter of appointment with Ms. Zhao Yifang, being our independent non-executive Director, is for an initial term of three years commencing from June 11, 2015 and have been renewed for another term of three years on June 12, 2018, and the letter of appointment with Ms. Wu Yueqin, being our independent non-executive Director, is for an initial term of three years commencing from May 29, 2018. 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.

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 at least once every three years, and Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment. Subject to other requirements of our articles of association, retiring Directors may offer themselves for re-election.

The Board will make separate announcement(s) with regard to the arrangement of re-election of directors at the forthcoming annual general meeting of the Company which is expected to be held on June 21, 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard (the "**Standards**") 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 enquiries 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, 2018.

Corporate Governance Report

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each of the Directors attended various trainings in 2018, 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., details of which are as follows:

Name of Director	Number of trainings attended	Topics covered
Executive Directors		
Mr. Wang Feng *(Chairman)*	1	R
Ms. Liao Mingxiang *(Chief Executive Officer)*	1	R
Mr. Chen Hao *(Vice President)* (appointed with effect from May 11, 2018)	1	R
Mr. Wang Jin (also known as Yan Yusong) *(Vice President)* (appointed with effect from May 11, 2018)	1	R
Mr. Qian Zhonghua (resigned with effect from February 15, 2018)	–	–
Mr. Zhao Jun (resigned with effect from February 15, 2018)	–	–
Non-executive Director		
Mr. Pan Donghui	1	R
Independent Non-executive Directors		
Ms. Zhao Yifang	1	R
Mr. Zhang Xiangdong	1	R
Ms. Wu Yueqin (appointed with effect from May 29, 2018)	1	R
Mr. Ma Ji (resigned with effect from May 29, 2018)	–	–
Mr. Wang Xiaodong (retired with effect from June 15, 2018)	–	–

Key:
C: Corporate governance
R: Regulatory updates
F: Finance and accounting
I: Industry updates

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.

Corporate Governance Report

BOARD COMMITTEES

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.

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, Ms. Zhao Yifang, Ms. Wu Yueqin, Mr. Ma Ji (resigned with effect from May 29, 2018) and Mr. Wang Xiaodong (retired with effect from June 15, 2018) our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the GEM's 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, including making recommendations to the Board on the remuneration packages of executive Directors and senior management. 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, 2018 and has approved the service contracts of Mr. Chen Hao and Mr. Wang Jin.

NOMINATION COMMITTEE

The Nomination Committee was established on April 24, 2014. The chairman of the Nomination Committee is Mr. Wang Feng, our chairman and executive Director, and other members include Ms. Liao Mingxiang (resigned with effect from June 15, 2018), our executive Director, Mr. Pan Donghui, our non-executive Director, Ms. Zhao Yifang, Mr. Zhang Xiangdong, Ms. Wu Yueqin (appointed with effect from May 29, 2018), Mr. Ma Ji (resigned with effect from May 29, 2018) and Mr. Wang Xiaodong (retired with effect from June 15, 2018), our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the GEM's 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. During the Reporting Period, the Nomination Committee has also considered the appointments of Mr. Chen Hao, Mr. Wang Jin and Ms. Wu Yueqin, as well as those directors, who offered themselves for re-election at the 2017 annual general meetings.

Corporate Governance Report

BOARD COMMITTEES *(Continued)*

Nomination Policy

The objective of the Company's nomination policy (the "**Nomination Policy**") is to ensure the members of the Board possess the skills, experiences, and multiple perspectives required for the business of the Company. The principal nominating criteria and principles of the Company's Nomination Policy are as follows:

(a) to review at least once a year the number, composition and organizational structure of the Board (including the skills, knowledge reserve, work experience and diversity of the Board members), and to advise on personnel changes of the Board so as to strengthen the Company's development strategy;

(b) to consider the criteria and procedures for selecting Directors and chief executive officer and make recommendations thereon to the Board; to develop or revise the Board Diversity Policy and focus on developing board diversity in the member selection process. Factors to consider include but are not limited to gender, age, culture, perspectives, educational background, and work experience;

(c) to identify qualified candidates as Directors and provide advice to the Board on the nomination of candidates after due consideration on the Company's board diversity policy (the "**Board Diversity Policy**"), requirements for serving as a Director of the Company under the Company's articles of association, GEM Listing Rules and applicable laws and regulations, and the potential contributions that the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity; and

(d) to assess the independence of independent non-executive Directors with reference to the factors set out in Rule 5.09 of the GEM Listing Rules and any other factors deemed appropriate by the Nomination Committee or the Board. If a proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, assess his/her ability to devote sufficient time to Board matters.

Selection Procedures of Directors

The Company's selection procedures of Directors are mainly as follows:

(a) the Board office and the Nomination Committee shall actively communicate with the relevant departments of the Company to assess the demand for new Directors and their re-election and prepare written materials;

(b) the Nomination Committee may extensively seek candidates for Directors within the Company, its holding (or non-wholly owned) enterprises, as well as in the recruitment market;

(c) the Nomination Committee, with due consideration of the relevant requirements including but not limited to the Nomination Policy and the Board Diversity Policy, may identify persons who are eligible to become members of the Board and, where appropriate, assess the independence of the proposed independent non-executive Directors. The Nomination Committee shall gather and know about the information of the preliminary candidates' occupation, educational background, job title, detailed work experience and all the part-time positions, and prepare written materials;

(d) to seek the written consent from the nominated candidates on the proposed nomination; otherwise, such nominated candidates shall not be considered as candidates for Directors and chief executive officer;

(e) to convene Nomination Committee meetings to review the qualifications of the preliminary candidates against the requirements for being the Directors and chief executive officer;

(f) to submit proposals and relevant materials to the Board in respect of candidates for Directors and Directors re-election within a reasonable time prior to the election of new Directors and re-election of Directors; and

(g) to carry out other follow-up work according to the decision(s) and feedback of the Board.

Corporate Governance Report

BOARD COMMITTEES *(Continued)*

Board Diversity Policy

The Board Diversity Policy was adopted by the Board, with effective on December 29, 2014, and was revised on December 27, 2018. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, race, age, language, 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 will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee selects Board candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, age, language, cultural background, educational background, industry experience and professional experience. As the Board Diversity Policy has recently been updated, the measurable objectives to be adopted for achieving diversity on the Board is under consideration and discussion by the Nomination Committee and no measurable objective has been set as at the date of this Report.

As at the date of this report, the Board consists of eight Directors, three of whom are independent non-executive Directors, who assist in critical review and monitoring of the management processes. The Board is considered to be rather diverse in terms of the nationality, professional background and skills of the Directors.

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 Ms. Wu Yueqin (appointed with effect from May 29, 2018), our independent non-executive Director, and other members include Mr. Pan Donghui, our non-executive Director, Mr. Zhang Xiangdong, Ms. Zhao Yifang, Mr. Ma Ji (resigned with effect from May 29, 2018) and Mr. Wang Xiaodong (retired with effect from June 15, 2018), our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM's 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, 2018 as well as the consolidated financial statements for the three months ended March 31, 2018, six months ended June 30, 2018 and nine months ended September 30, 2018 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, 2018 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, 2018, eleven 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 *(Note)*
Executive Directors		
Mr. Wang Feng *(Chairman)* (ceased to be the chief executive officer on June 15, 2018)	11	11
Ms. Liao Mingxiang *(Chief Executive Officer)* (appointed as the chief executive officer on June 15, 2018)	11	11
Mr. Chen Hao *(Vice President)* (appointed with effect from May 11, 2018)	8	8
Mr. Wang Jin (also known as Yan Yusong) *(Vice President)* (appointed with effect from May 11, 2018)	8	8
Mr. Qian Zhonghua (resigned with effect from February 15, 2018)	0	0
Mr. Zhao Jun (resigned with effect from February 15, 2018)	0	0
Non-executive Director		
Mr. Pan Donghui	11	11
Independent Non-executive Directors		
Ms. Zhao Yifang	11	11
Mr. Zhang Xiangdong	11	11
Ms. Wu Yueqin (appointed with effect from May 29, 2018)	7	7
Mr. Ma Ji (resigned with effect from May 29, 2018)	4	4
Mr. Wang Xiaodong (retired with effect from June 15, 2018)	5	5

Note: Among the relevant number of meetings held during the Reporting Period, 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, 2018, the Company convened and held one general meeting, namely the 2017 annual general meeting held on June 15, 2018, which was attended by all our then Directors, namely Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Chen Hao, Mr. Wang Jin (also known as Yan Yusong), Mr. Pan Donghui, Ms. Zhao Yifang, Mr. Zhang Xiangdong, Ms. Wu Yueqin and Mr. Wang Xiaodong.

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Audit Committee Meeting

For the year ended December 31, 2018, four 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. Pan Donghui	4	4
Independent Non-executive Directors		
Ms. Wu Yueqin *(Chairman of Audit Committee)* (appointed with effect from May 29, 2018)	2	2
Ms. Zhao Yifang	4	4
Mr. Zhang Xiangdong	4	4
Mr. Ma Ji (resigned with effect from May 29, 2018)	2	2
Mr. Wang Xiaodong (retired with effect from June 15, 2018)	2	2

Nomination Committee Meeting

For the year ended December 31, 2018, two Nomination Committee meetings were 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)*	2	2
Ms. Liao Mingxiang (resigned with effect from June 15, 2018)	2	2
Non-executive Director		
Mr. Pan Donghui	2	2
Independent Non-executive Directors		
Ms. Zhao Yifang	2	2
Mr. Zhang Xiangdong	2	2
Ms. Wu Yueqin (appointed with effect from May 29, 2018)	0	0
Mr. Ma Ji (resigned with effect from May 29, 2018)	2	2
Mr. Wang Xiaodong (retired with effect from June 15, 2018)	2	2

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Remuneration Committee Meeting

For the year ended December 31, 2018, two Remuneration Committee meetings were 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	2	2
Ms. Liao Mingxiang	2	2
Mr. Zhao Jun (resigned with effect from February 15, 2018)	0	0
Independent Non-executive Directors		
Mr. Zhang Xiangdong *(Chairman of Remuneration Committee)*	2	2
Ms. Zhao Yifang	2	2
Ms. Wu Yueqin (appointed with effect from May 29, 2018)	0	0
Mr. Ma Ji (resigned with effect from May 29, 2018)	2	2
Mr. Wang Xiaodong (retired with effect from June 15, 2018)	2	2

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 shall be 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, 2018 is set out below:

Remuneration band	Number of persons
HKD500,001 to HKD1,000,000	1
HKD1,500,001 to HKD2,000,000	0
HKD2,500,001 to HKD3,000,000	0
HKD3,500,001 to HKD4,000,000	0
HKD4,000,001 to HKD4,500,000	0
HKD4,500,001 to HKD5,000,000	0

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 SWCS Corporate Service Group (Hong Kong) Limited engaged by the Company as its company secretary. Ms. Leung is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom.

The primary contact person of Ms. Leung at the Company is Ms. Liao Mingxiang, the chief executive officer of the Company and an executive Director. 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, 2018, 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 December 31, 2018, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were approximately RMB3.6 million.

For the year ended December 31, 2018, the fee paid/payable to PricewaterhouseCoopers for non-audit services was approximately RMB0.7 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 2018. 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, 2018, 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, 2018, 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.

MAJOR RISKS

The Group is exposed to various risks and uncertainties in the course of its operation, The Group may be affected if those risks and uncertainties are not being managed properly. According to the evaluation of the Group, the major risks currently faced by the Group and their mitigating measures are as follows:

- The weakening of global economic growth in 2018, coupled with the concentration of resources to the dominant enterprises, the expecting downturn of the film and television industry and fierce competition in the gaming industry have brought enormous challenges to the development of enterprises. In 2019, the Group' game business will be more focus on the overseas markets via overseas expansions, and thus bringing risks and uncertainties to the Group. The Group will actively explore overseas markets so as to reduce such risk.

- Our technology infrastructure may experience unexpected system failures, disruptions, deficiencies and have security breaches. The Group will periodically examine the stability of the system to mitigate the occurrence of the aforesaid events.

Corporate Governance Report

MAJOR RISKS *(Continued)*

- Game players may sell or purchase in-game virtual credits or virtual items in a manner that violates game policies. We have formulated a game policy against unauthorised and inappropriate behaviour of players. According to our game policy, players are not allowed to sell or transfer virtual credits or virtual items in exchange for real money or other physical property.

- Both game and film businesses of the Group are affected by domestic policies. If there is any unfavourable domestic policy on game and film business, it will have an impact on the Group's operations. The Group will keep abreast of domestic policies from time to time and adjust its development strategy according to such policies in a timely manner.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the year ended December 31, 2018.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted a shareholder communication policy as amended in December 2018, 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's 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 GEM 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) shareholders may send their enquiries to the Company by ordinary post.

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
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

Corporate Governance Report

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 also 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.

The 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 2018 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 Overview of ESG management

In years of development, the Company has been striving to combine the social responsibility with operating activities. By implementing green operation, caring for employees and listening to customers, suppliers and communities, the Company was committed to making contributions to the sustainable development of the society and itself in joint hands with the stakeholders.

With respect to environment protection: The Company adheres to the concept of green operation, strives to reduce the resource consumption during the operation and reduces emissions in proactive response to the national initiative for environment protection.

With respect to employee care: The Company tries to offer employees harmonious and safe working environment, fair opportunities of career development and professional trainings of vocational skills.

With respect to product responsibility: The Company is committed to offering users quality products and services, attaching much importance to communication with users and protecting users' personal information.

With respect to supply chain management: The Company highly values the cooperation with suppliers and takes environmental and social assessment into consideration in supplier selection for mutual development with suppliers.

With respect to community investment: The Company devotes itself to community charity and makes contribution to the development of communities.

Environmental, Social and Governance Report

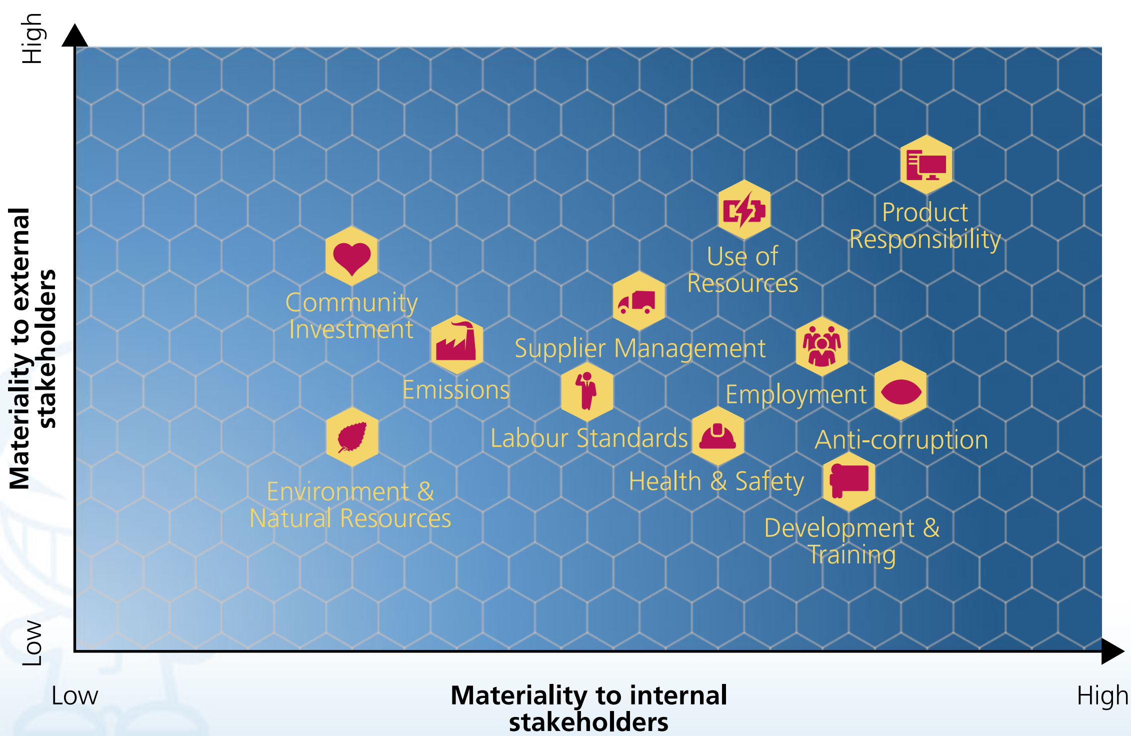
1. ESG MANAGEMENT SYSTEM *(Continued)*

1.2 Stakeholder engagement

The Company values the participation of stakeholders in the operating activities and keeps smooth communication channels and effective feedback system with all stakeholders. The Company has identified major stakeholders related to operation, including the government and regulators, shareholders and investors, employees, customers, suppliers, media and neighbouring communities. The Company actively responds to stakeholders' concerns.

Stakeholders	Communication Channels	Top Concerns on ESG
Governments and Regulators	Official documents, related meetings, on-site supervision, information disclosure, etc.	Product responsibility, anti-corruption, employment, labour standards and emissions
Shareholders and Investors	Shareholders' general meetings, annual reports, interim and quarterly reports, results announcements, company announcements, etc.	Product responsibility, anti-corruption and resource utilisation
Employees	Communication meetings, internal announcements, feedback mechanism for employee comments, company activities, etc.	Employment, health and safety, development and training
Customers	Customer satisfaction survey, customer feedback activities, member services, exhibition activities, etc.	Product responsibility
Suppliers	Supplier strategic cooperation negotiation, cooperation agreements, regular communication meetings, etc.	Supplier management
Media	Media conferences, interviews, advertising activities, etc.	Product responsibility, employment, emission, environment and natural resources
Neighbouring Community	Promotion of employment, community activities, etc.	Community investment and employment

Based on the 11 aspects listed in the ESG Guide of the SEHK, the Company has assessed the materiality of top concerns of internal and external stakeholders, and identified major concerns of stakeholders.



Environmental, Social and Governance Report

2. GREEN OPERATION

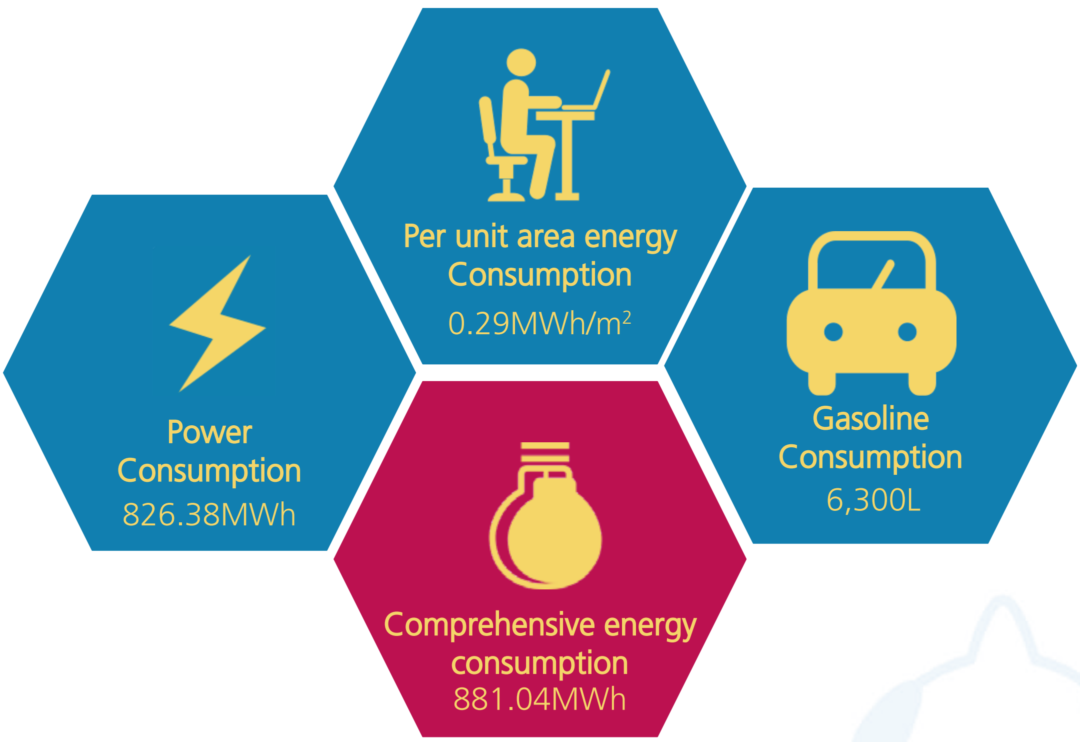
"Lucid waters and lush mountains are invaluable assets." Linekong Interactive persists in the concept of green development, complies with relevant national laws and regulations such as the *Environmental Protection Law of the People's Republic of China* and the *Energy Conservation Law of the People's Republic of China*. We strive to reduce emissions from operation activities, advocate green office and save resources. These laws and regulations require companies to fulfill their environmental responsibilities and practice energy conservation and emission reduction.

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 during operations mainly concentrates on electric power and fuel consumed by the official vehicles. Guided by the *Rules for Energy Management in Linekong Interactive Group Office Area*, the Company promotes the concept of green office, develops measures for energy saving, and encourages staff to carry out resource saving through daily work to improve efficient resource utilisation.

Office supplies management: The Company selects energy-saving and environmentally-friendly products and encourages paper recycling.
Office electricity management: The Company selects energy-saving electronic appliances and illuminating systems and encourages natural lighting. Employees are required to turn off electronic appliances before leaving.
Office water management: The Company encourages employees to save water and asks them to shut off the taps after use.



(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).

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 2018 was up to 116.2 tonnes.

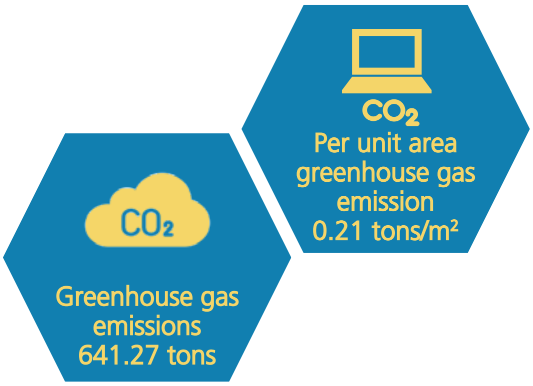
According to the property of Linekong's operation, there is no physical product produced. The impact on the environment and natural resources caused by the Company is considerably limited. Therefore, considering the materiality, the Key Performance Indicators, A2.5-Packing Materials used for Finished Products and A3.1 The Environment and Natural Resources are not applicable to the Report.

Environmental, Social and Governance Report

2. GREEN OPERATION *(Continued)*

2.2 Emission reduction

The Company's daily operation, which is basically office work, mainly produces greenhouse gases (directly and indirectly) and office wastes. The Company carries out strict management for fuel and electricity consumption and tries to practice green office and green transportation. Lights are used as needed and switched off when nobody is nearby. It is also encouraged to use public transport so as to improve energy efficiency and reduce the emission of greenhouse gases and exhaust gases. With regard to office waste, the Company continuously promotes the concept of paperless office by encouraging employees to transfer information by e-mail instead of paper documents and adopt the used paper as far as possible in need of papers. Office supplies that are available for reuse are collected and reused by the Company, and their useful life is extended. In 2018, the Company generated 6.16 tonnes of office wastes and engaged a property company and waste handlers for disposal.



(1) 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.

(2) 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*.

(3) 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.

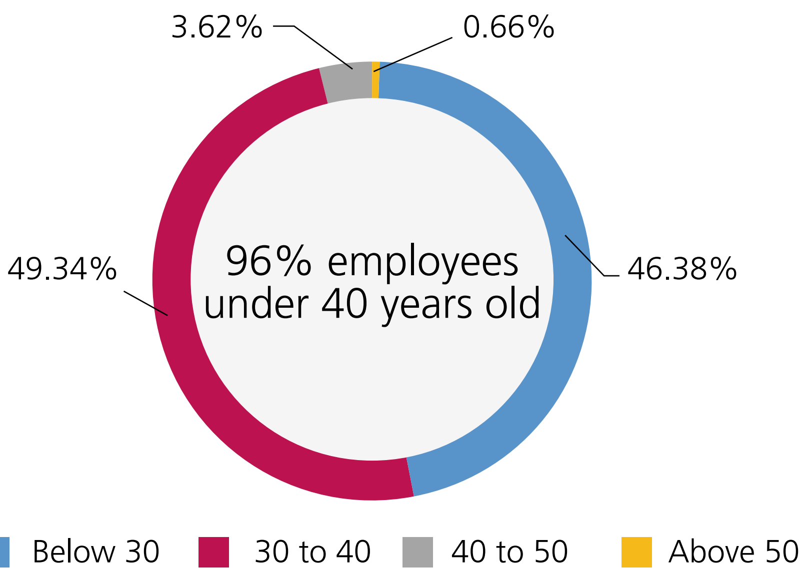
Electronic wastes generated from operating activities such as waste servers and office computers are treated by professional recycling companies. The components suitable for reuse after treatment will be taken as spare parts so as to extend the actual use cycle of related electronic equipment and reduce the damage to the environment. For waste toner cartridges and waste lead acid batteries, the Company arranges for special person to collect them and safekeep them in the designated regulatory areas. A qualified processing organisation is entrusted to handle the hazardous wastes. In 2018, the Company did not treat the hazardous wastes.

Environmental, Social and Governance Report

3. EMPLOYEE CARE

The Company adheres to three values of "sincere voice", "unified action" and "innovative curiosity" and has built an excellent team with high cohesiveness, sense of mission, sense of responsibility and fighting capacity.

Employees' age profile



3.1 Employee rights and interests

The Company strictly complies 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 Social Insurance Law of the People's Republic of China and the *Law of the People's Republic of China on Prevention and Control of Occupational Diseases*, which make requirements for the company in terms of operation compliance, legal employment and health and safety. We make great efforts to optimise the employment system, protect employee rights and interests and pay close attention to employees' physical and mental health and development.

Employment policy: Linekong Interactive has developed *Employee Handbook* and other internal regulations in respect of environment, employment, remuneration, working hours, training, welfare, holidays and other benefits for employees' rights and interests, and tries to provide employees with a good working environment and development space. The Company is committed to creating a diverse, harmonious and fair environment where no one is discriminated by race, gender, age or religion and everyone enjoys equal opportunities of employment and promotion. In addition, the Company actively uses young and innovative talents and optimises the personnel deployment so that employees may realise personal value at their positions and employees' enthusiasm and human resource utilisation may be improved. The company's human resources policy prohibits child labor and forced labor. In 2018, there was no employment of child or forced labour in the Company.

Remuneration system: Linekong Interactive develops a remuneration system based on the value of positions in accordance with the principle of "being competitive externally, fair internally and provide incentives for employees". In order to further attract and retain outstanding talents, the Company has established various forms of incentives to give employees a corresponding return, and combined the short-term, medium-term and long-term economic benefits of employees with the development of the Company, so that employees and the Company become a community of interests.

Staff benefits: The Company pays social insurance in full and on time for employees and offers legal holidays, annual leave, marital leave, bereavement leave, maternity leave and other paid holidays. Besides, Linekong Interactive also provides additional benefits for our employees, including commercial insurance, birthday leave, gift voucher, cash award, gift award, group tour, etc. Employees during pregnancy and breast-feeding period enjoy special care policies regarding working hours and labour protection. Baby care rooms are also provided within the Company, giving female employees comfortable working conditions.

In order to enrich employees' spare time, the Company carries out a variety of festival activities during important holidays such as Dragon Boat Festival, Father's Day, Mother's Day and Mid-Autumn Festival. Various interest clubs are also flourishing in the Company, enriching the spiritual and cultural lives of employees and enhancing their cohesive force and teamwork capabilities.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.1 Employee rights and interests *(Continued)*

Employee communication: The Company has a variety of internal communication channels, such as mail and communication meeting, so that employees' requests and suggestions can be heard and answered. The HR department promptly follows up the feedback from employees and fully communicates with the Company's management to properly respond to employee opinions.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.2 Health and safety

Employee health: Linekong Interactive strictly complies with China's laws and regulations on occupational health and safety and industry standards to ensure employees' health and safety. The Company provides free medical examinations for all employees every year and establishes employee occupational health files. It distributes anti-haze masks to employees in case of air pollution (haze for example), provides efficient air purifiers in workplace and prepares daily emergency medicines to provide a healthy working environment for employees.

Security of office areas: The Company equips ergonomic workstations for employees as a part of its effort to create a safe office environment. Clear and concise cautions are posted at locations with potential risks to remind the employees.

Safety training: Employees are organised from time to time to join in the trainings on safety knowledge (fire control for example). A fire evacuation drill was held at the office location by Linekong Interactive together with the property management company in 2018. Through the drill, the awareness of fire control management of all departments was enhanced, the emergency response ability of the employees was improved, and the cooperation with external organisations, such as the property management company and the fire brigade, were strengthened.

Environmental, Social and Governance Report

3. EMPLOYEE CARE *(Continued)*

3.3 Training and development

Linekong Interactive adheres to the people-oriented core concept, and always focuses on personnel training and development. In 2018, a total of 51% of male employees and 45% of female employees participated in various trainings. Among them, 57% of management and 49% of other employees participated in the trainings.

In 2018, the Company continued to adopt the training development system based on the characteristics of "Orca", the mascot of Linekong Interactive, making every employee a training participant and the ultimate beneficiary and achieving improvement in overall capabilities of the Company and all divisions.

Corresponding to new employee orientation training
The Company's new employee orientation training imparts the contents such as the company development history, core business modules and employee survival guidelines through on-site sharing and other activities, and helps them quickly adapt to the Company

Corresponding to the internal and external professional sharing
The Company' provides employees with internal and external sharing and communication, including experience sharing and industry trends in various professional fields, creates an open and continuous learning atmosphere for the team and develops a learning organisation culture while effectively solving business problems.

Corresponding to the horizontal training of all departments and the vertical infiltration of professions
Personnel training is carried out by departmental sharing and other ways. The departments arranges employees toparticipate in external sharing and exchange according to the actual situation, and then shares the information internally. Communications are also arranged among the staff from different departments in different forms and on flexible topics.

Corresponding to the mentor team of Linekong Interactive's voice
In 2018, the Company set up a strong team of mentors and a program named "Innovating mentors" for the new graduates who are about to enter the company. Since the new graduates enter the Company, they are coached from all aspects such as profession and career, and receive continuous feedback to continuously improve themselves.

Training development system — "the Orca"

The Company made internal and external training materials into videos and shared with employees through the self-developed online video learning platform "Linekong Learning", so that overseas employees and employees who missed the trainings are also able to learn the contents conveniently and comprehensively so as to truly realise full participation and common promotion. The platform also offers general micro-courses such as performance management, conference management and time management to enrich the basic abilities of employees.

Environmental, Social and Governance Report

4. RESPONSIBLE OPERATION

Linekong Interactive intends to improve the quality of products and services, 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 attaches great importance to suppliers' quality of products and services, social responsibility management and corporate reputation. In the selection of suppliers, the procurement and demand departments conduct full inspection of suppliers' qualification, experience, technical quality and cost performance according to the actual business requirements, paying close attention to their performance in environmental and social responsibility.

The Company confirms the supplier qualification (such as ISO9001 Authentication) during the procurement, and strictly checks the factory quality inspection report of the products to ensure that the purchased products meet the applicable standards of Linekong Interactive. For major procurement, some personnel are designated to visit the supplier's production plant, third-party freight transport centre and the origin of raw materials for field investigation, during which the technical level and production operation of suppliers and the working conditions of the workers are examined.

The Company attaches much importance to mutual benefit and win-win relationship with suppliers based on establishing and consolidating long-term strategic partnerships with suppliers and under the principles of mutual benefit, complementary advantages, honesty and credit. We resolutely will not pursue cooperation and business achievements at the expense of professional standards on integrity, like business bribery. In respect of the procurement process, the Company formulates a series of policies and systems such as the *Procurement Management System* (including supplier management) and the *Reporting Management System*. As a basis for anti-corruption and anti-money laundering, the Company establishes an open and transparent procurement system, putting an end to business bribery to create a fair and clean environment for suppliers.

4.2 Product responsibilities

Linekong Interactive has been strengthening the R&D and operation capabilities of its core game business over years. Furthermore, it has continued to deepen its efforts in pan-entertainment business (movie for example). With the mission of "creating fun and excitement", it tries to be an IP Maker that covers "movie-animation-game" business and strives to become a leading global entertainment company, bringing more interactive entertainment experiences to millions of young people.

Linekong Interactive at ChinaJoy 2018

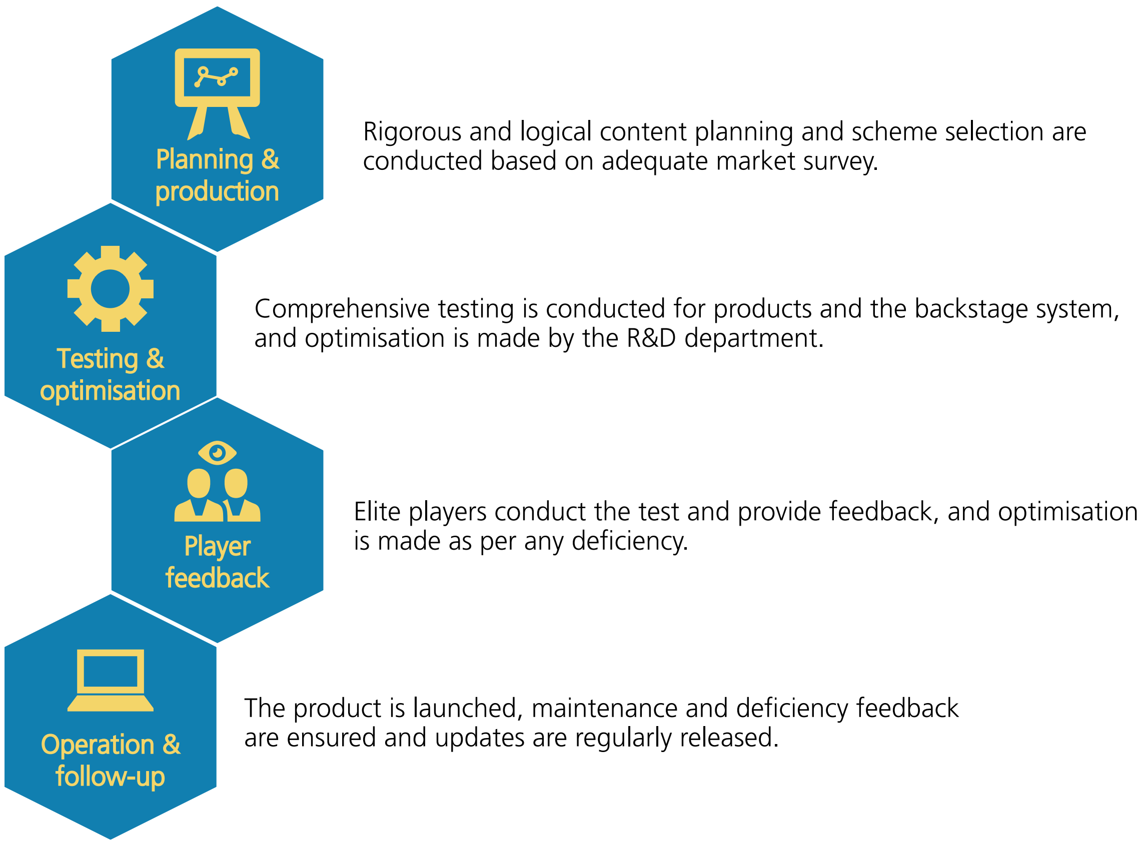
Environmental, Social and Governance Report

4. RESPONSIBLE OPERATION *(Continued)*

4.2 Product responsibilities *(Continued)*

Product quality guarantee

The Company has improved the project development and management system, developed project norms and prepared detailed standard procedures for planning, project testing, updating and system protection.



Product manufacturing procedure

Awards in respect of products in 2018

- The most reliable brand in Internet audio-visual sector — DoNews Awards 2018 *(Linekong Pictures)*
- The best Internet drama in 2018 — Summit of Chief Entertainment Officer *(Unexpected)*
- New Elite of Internet movie in 2018 — Golden Bud Internet Movie Ceremony *(Linekong Pictures)*
- The best overseas release of the game sector — DoNews Awards 2018 *(Daybreak)*
- The most popular game in 2018 — You Ding Award *(Uproar in Heaven)*
- Candidate for the Best Look Award — TapTap Annual Game Award Ceremony *(Uproar in Heaven)*

Environmental, Social and Governance Report

4. RESPONSIBLE OPERATION *(Continued)*

4.2 Product responsibilities *(Continued)*

Standardisation of advertising campaign

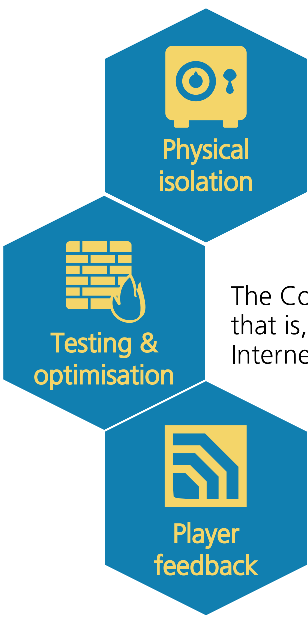
The Company strictly complies with the laws and regulations relating to products and customers such as the *Advertising Law of the People's Republic of China*, and has developed the *Linekong Interactive Advertising Process*. We regularly update the management system on advertisements and labels of products and services, and strictly adhere to the process during each advertising campaign. Any advertising campaign with serious misrepresentation is eliminated. If any violations are found, timely correction will be taken.

Protection of intellectual property

The Company attaches great importance to the application and maintenance of its own intellectual property, abides by the relevant laws and regulations such as the *Patent Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, and closely follows the updates. The Company strengthens the management of intellectual property and gradually improves the Company's policies and systems for intellectual property registration and protection so that the intellectual property may offer incentives to corporate innovation in addition to its roles in leading, protecting and evaluating employee creativities. While protecting its own intellectual properties, the Company also fully respects the intellectual properties of other entities. By the end of 2018, the Company owned 1,081 intellectual properties, 945 trademarks and 136 copyrights.

Before any product/project is launched, the legal department of the Company will engage a professional organisation to evaluate whether the trademark or copyright infringes the existing intellectual property of other entities. During the operation/issuance period of a product/project, the legal department also entrusts a professional organisation to conduct ongoing intellectual property investigations to avoid potential infringements between themselves and other entities. When it is necessary to obtain authorisation from an existing intellectual property owner, the Company will take proactive and lawful actions for such purpose.

The Company manages the R&D department, which is closely related with intellectual property, 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.



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.

The Company adopts the isolation 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 authority management.

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

Information control of R&D department

Environmental, Social and Governance Report

4. RESPONSIBLE OPERATION *(Continued)*

4.2 Product responsibilities *(Continued)*

Listening to customers

The Company has set up a comprehensive service system including free customer service hotline, WeChat customer service and QQ customer service. 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. 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". Complaints are to be resolved within the time limit of three working days. The investigation can be closed only when the complainant is satisfied with the solution. In order to minimise the impact, Linekong Interactive regularly analyses and solves the relatively common opinions in a uniform way. In 2018, customers' overall satisfaction with the Company was 89.99%. The Company received 11 complaints, and the handling rate was 100% and the re-visiting ratio was 100%.

Protection of customer privacy

Linekong Interactive complies with the requirements of the *Network Security Law and the Information Security Technology — Personal Information Security Specification* for enterprise network products, security services, cross-border data transmission and personal information protection. From the users' perspective, the Company gives priority to personal information and data protection, and tries to be a powerful assistant to protect users' privacy so as to provide users with good privacy protection, enhance mutual benefit and mutual trust with users, create a safe network environment and promote the healthy development of the network ecology. Linekong Interactive has a data management system and a multi-dimensional privacy protection mechanism to make data protection strategies policy-backed and the data management processes standardised. In terms of data security technology, the Company uses data encryption, data masking and other technologies to ensure user data security in all aspects. The Company's platform development department has established a secure and reliable data protection system to provide strong protection for user data. User data security is ensured by all-round monitoring through prevention, in-process protection and retrospect. For the security of background data, the Company has also built a protection solution covering all processes, including data query approval, access account control, IP management control and data encryption, further strengthening the information protection system.

The Company has prepared the *Service Quality Management System* and the *Confidential Work Management System*, strictly requiring employees to protect for customer privacy. All R&D employees are required to sign a *Non-Disclosure Agreement*. The customer service centre in frequent contact with the customer information is kept off key privacy information of customers by technical means with access to necessary information. In 2018, no event related to the leakage of customer information occurred in the Company.

4.3 Anti-corruption

In the daily operations and management, the Company strictly abides by the Company law of the People's Republic of China, anti-money laundering law of the People's Republic of China and codes of ethics on anti-corruption and anti-money laundering, keeps pace with the revisions and updates of relevant laws and regulations of the relevant state departments on anti-corruption and anti-money laundering, and carefully checks the Company's operations and management to ensure that the daily operations of the Company are in line with the supervision and control of the laws and regulations on anti-corruption and anti-money laundering.

The *Reporting Management System* developed by the Company provides channels and guidelines for reporting any misconduct, improper conduct or illegal action in the Company. For the prevention of corruption and money laundering, the Company has set up a reporting e-mail and a reporting hotline. If an employee finds any misconduct, improper conduct or illegal action in the Company, he or she may directly notify a division leader, report to the reporting e-mail or the reporting hotline or report directly to the Chairman of the review committee. All reports are handled in a prudent and confidential manner. We further improved our discretionary power in 2018, sorting out and optimising the problems identified in the audit. In 2018, the Company did not find any major violations related to corruption, bribery, fraud and money laundering.

4.4 Community investment

The Company attaches great importance to establishing a stable and effective communication mechanism with the community. In pursuit of corporate development, it insists on serving the society, repaying the society and actively undertaking social responsibility. In practising community charity activities, the Company actively learns the needs and status of the community, hears the expectations of the community, and considers the impact on the community in its business activities. As a company dominated by young people, the Company recruits and trains fresh graduates every year from its place of registration and improves their skills, promoting local employment, activating the economy and facilitating regional prosperity. The Company is demonstrating itself with actions to spread warmth to the society, carry forward values on public welfare and contribute its part to building a harmonious society.

Directors' Report

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a well-known platform operator of interactive entertainment contents, it owns two core brands in the entertainment industry, namely Linekong Games and Linekong Pictures. 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, 2018.

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 9 to 18 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, 2018 are set out in the consolidated statement of comprehensive loss on page 81 of this annual report.

The Company has adopted a dividend policy (the "**Dividend Policy**") in December 2018. Pursuant to the Dividend Policy, the Company's payment of dividends and the related amount shall be determined at discretion of the Board based on the following factors:

(a) the general financial position and operating results of the Group;

(b) the actual and future operations and liquidity position of the Group;

(c) the expected working capital requirements and future plans on expansion of the Group;

(d) the debt to equity ratio and debt level of the Group;

(e) any restrictions on contracts of the Group;

(f) the retained earnings and distributable reserves of the Company and each of the members of the Group;

(g) the Shareholders' and investors' expectation and industry practices;

(h) the general market condition and prospect; and

(i) any other factors that the Board considers appropriate.

The Dividend Policy is subject to continuing review by the Board, and the Board reserves rights to update, modify, amend and/or terminate this Dividend Policy at its absolute discretion from time to time.

The Board did not recommend the payment of a final dividend for the year ended December 31, 2018.

Directors' Report

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 21, 2019. 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 18, 2019 to Friday, June 21, 2019, 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 17, 2019.

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 160 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, respectively. As at December 31, 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HKD1,414.2 million. This includes the Company's share premium in the amount of approximately HKD1,963.8 million as at December 31, 2018, 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.

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

Sales from the Group's five largest customers accounted for approximately 29.7% of the Group's total sales for the year and of which, sale from the largest customer, who purchases our film rights, accounted for 14.2% of the Group's total sales. 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 also the Group's customers. In 2018, no single paying player contributed more than 1% of the Group's revenue.

Purchases from the Group's five largest suppliers, who are mainly our game operation distributors and licensed game developer, accounted for approximately 35.1% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 14.8%.

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' Report

DIRECTORS

The Directors for the year ended December 31, 2018 and as at the date of this report were as follows:

Executive Directors

Mr. Wang Feng *(Chairman)*	(appointed on May 24, 2007; ceased to be the chief executive officer on June 15, 2018)
Ms. Liao Mingxiang *(Chief Executive Officer)*	(appointed on May 24, 2007; appointed as the chief executive officer on June 15, 2018)
Mr. Chen Hao *(Vice President)*	(appointed on May 11, 2018)
Mr. Wang Jin (also known as Yan Yusong) *(Vice President)*	(appointed on May 11, 2018)
Mr. Qian Zhonghua	(appointed as non-executive Director on June 11, 2015 and re-designated as executive Director with effect from February 3, 2017; resigned as executive Director with effect from February 15, 2018)
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

Ms. Zhao Yifang	(appointed on June 11, 2015)
Mr. Zhang Xiangdong	(appointed on April 24, 2014)
Ms. Wu Yueqin	(appointed on May 29, 2018)
Mr. Ma Ji	(resigned on May 29, 2018)
Mr. Wang Xiaodong	(retired on June 15, 2018)

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.

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, 2018.

Directors' Report

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 8 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, 2018, 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, respectively.

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, 2018, 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 5)
Mr. Wang Feng (Note 1)	Interest of controlled Corporation	66,576,160(L)	21.48%
	Beneficial owner	12,640,380(L)	
Ms. Liao Mingxiang (Note 2)	Interest of controlled Corporation	12,168,720(L)	4.11%
	Beneficial owner	2,985,769(L)	
Mr. Chen Hao (Note 3)	Beneficial owner	1,575,841(L)	0.43%
Mr. Wang Jin (Note 4)	Beneficial owner	300,000(L)	0.08%

(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. In addition, Mr. Wang Feng holds 4,207,072 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, 2018, 100% of the RSUs have been vested.

(2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 Shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 Shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 174,000 Shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares subject to vesting. As of December 31, 2018, 100% of the RSUs have been vested.

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)*

Notes: (Continued)

(3) Mr. Chen Hao is interested in 1,575,841 Shares including 475,841 RSUs granted to him under the RSU Scheme entitling him to receive 475,841 Shares subject to vesting. As of December 31, 2018, approximately 47.46% of the RSUs granted to him have been vested. Mr. Chen Hao is also interested in 1,100,000 share options granted to him under the share option scheme of the Company entitling him to receive 1,100,000 Shares upon exercise of the share options. 100,000 of the share options were granted to him on October 9, 2015 and 1,000,000 of the share options were granted to him on January 18, 2017. As of December 31, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this report.

(4) Mr. Wang Jin is interested in 300,000 share options granted to him on June 15, 2016 under the share option scheme of the Company entitling him to receive 300,000 Shares upon exercise of the share options. As of December 31, 2018, none of the share options has been exercised. For further details, please refer to the section headed "Share Option Scheme" in this report.

(5) As of December 31, 2018, the Company issued 368,730,964 Shares.

Save as disclosed above, as of December 31, 2018, 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, 2018, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other 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, 2018, 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:

Substantial Shareholder(s)

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 5)
Wangfeng Management Limited (Note 1)	Beneficial owner	66,576,160 (L)	18.06%
Zhu Li (Note 2)	Interest of spouse	79,216,540 (L)	21.48%
China Momentum Fund, L.P. (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun China Momentum Fund GP, Ltd. (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Financial Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
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	38,472,086 (L)	10.43%
TCT (BVI) Limited (Note 4)	Trustee of a trust	38,472,086 (L)	10.43%
Premier Selection Limited (Note 4)	Nominee for another person	38,472,086 (L)	10.43%

(L) Long position (S) Short position

Directors' Report

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

Substantial Shareholder(s) *(Continued)*

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 in by Mr. Wang Feng under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executives' 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, 2018, Fosun International Limited is 70.72% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of December 31, 2018, Mr. Guo Guangchang owns approximately 85.29% in the issued share capital of Fosun International Holdings Ltd..

4. The Core Trust Company Limited, being the RSU trustee, directly holds the entire issued share capital of TCT (BVI) Limited, which in turn directly holds the entire issued share capital of Premier Selection Limited (the RSU nominee), which originally held 42,161,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of December 31, 2018, 9,087,455 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 38,472,086 underlying Shares, including a total of 11,720,918 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 475,841 RSUs granted to Mr. Chen Hao. On March 29, 2018, April 3, 2018, April 4, 2018, November 29, 2018, December 3, 2018, December 4, 2018, December 5, 2018, December 6, 2018, December 7, 2018, December 10, 2018, December 13, 2018, December 14, 2018, December 21, 2018, December 27, 2018 and December 28, 2018, the Company had directed The Core Trust Company Limited to purchase and hold on-market 415,000 Shares, 320,000 Shares, 250,000 Shares, 2,000 Shares, 215,500 Shares, 80,000 Shares, 275,000 Shares, 275,500 Shares, 5,000 Shares, 260,000 Shares, 120,000 Shares, 117,000 Shares, 367,500 Shares, 144,000 Shares and 338,500 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.

5. As of December 31, 2018, the Company issued 368,730,964 Shares.

Directors' Report

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

Other Shareholder(s)

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

(L) Long position (S) Short position

Notes:

1. 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.

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

3. As of December 31, 2018, the Company issued 368,730,964 Shares.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2018, 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.

(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.

Directors' Report

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

Share Incentive Scheme *(Continued)*

(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.

On December 31, 2018, 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 1,231,520 underlying shares granted to 13 grantees had been lapsed during the year ended December 31, 2018. As of December 31, 2018, 29,641,294 RSUs have been vested unconditionally and there were 250,000 RSUs granted but not yet vested.

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 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 and details 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.

Directors' Report

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

Share Option Scheme *(Continued)*

(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.

As at the date of this report, the number of shares available for issue under the Share Option Scheme (excluding those under share options granted but not yet exercised) amounted to 29,315,298 shares, representing approximately 7.95% of the issued Shares.

(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.

(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.

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

Share Option Scheme *(Continued)*

(g) Duration and remaining life 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 (i.e. from December 19, 2014 to December 18, 2024), 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.

(h) Time of vesting and exercise of option

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfillment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option.

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised. Such terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders. If an option-holder is transferred to work in the PRC or another country and still continues to hold a salaried office or employment under a contract with a member of our Group or associated companies of our Company, and as a result of that transfer, he either (i) suffers a tax disadvantage in relation to his options (this being shown to the satisfaction of the Board); or (ii) becomes subject to restrictions on his ability to exercise his Options or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired on exercise because of the security laws or exchange control laws of the PRC or the country to which he is transferred, then the Board may allow him to exercise his options, vested or unvested, during the period starting three months before and ending three months after the transfer takes place.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

Directors' Report

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

Share Option Scheme *(Continued)*

Movement of Share Options

For the year ended December 31, 2018, details of the movement of outstanding share options of the Company are as follows:

Category	Date of grant	Option period	Share Options granted	Exercise price per share *HKD*	Closing Price of the Shares immediately before the date of grant *HKD*	Outstanding balance as at January 1, 2018	During the reporting period: Granted	Exercised	Cancelled	Lapsed	Outstanding balance as at December 31, 2018	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 *(note 2)*	8.10	8.10	462,298	–	–	–	–	462,298	–	–
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	5,910,000 *(note 3)*	7.18	7.18	3,765,625	–	–	–	909,375	2,856,250	–	480,625
Mr. Chen Hao (Director since May 11, 2018)	October 9, 2015	October 9, 2015 to October 8, 2025	100,000 *(note 3)*	7.18	7.18	100,000	–	–	–	–	100,000	–	25,000
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,450,000 *(note 4)*	4.366	4.18	1,112,500	–	–	–	437,500	675,000	–	250,000
Mr. Wang Jin (Director since May 11, 2018)	June 15, 2016	June 15, 2016 to June 14, 2026	300,000 *(note 4)*	4.366	4.18	300,000	–	–	–	–	300,000	–	75,000
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	8,225,000 *(note 5)*	3.10	3.10	6,700,000	–	–	–	4,212,500	2,487,500	–	1,928,125
Mr. Chen Hao (Director since May 11, 2018)	January 18, 2017	January 18, 2017 to January 17, 2027	1,000,000 *(note 5)*	3.10	3.10	1,000,000	–	–	–	–	1,000,000	–	375,000

Notes:

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

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

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

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

Directors' Report

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

Share Option Scheme *(Continued)*

Notes: (Continued)

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

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

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

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

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

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

Directors' Report

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

Share Option Scheme *(Continued)*

Notes: (Continued)

(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

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, 2018.

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.

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.

Directors' Report

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.

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.

Directors' Report

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, 2018, the revenue and net loss subject to the Contractual Arrangements are RMB307.4 million and RMB102.6 million (amounted to approximately 67.1% and 62.9% of the total revenue and net loss of the Group), respectively.

As at December 31, 2018, the total assets subject to the Contractual Arrangements is RMB222.3 million, amounted to approximately 24.8% 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.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

Withdrawal from the 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.

Since the entering into the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement, the financing environment in China has been inactive. In order to minimize the Company's exposure to potential risks, the Board decides not to proceed with the transactions under the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement for the time being, and to concentrate the Company's resources in developing its gaming and movie businesses. The Board believes that Linekong Online continues to conduct the transactions under the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement may not be in the best interest of the Company and the shareholders as a whole. The signing parties to the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement also agreed to the withdrawal by Linekong Online from the relevant agreements and the transactions contemplated thereunder. Therefore, the signing parties to the Shareholders' Contribution Agreement and the signing parties to the Limited Partnership Contribution Agreement entered into a termination agreement with Linekong Online, respectively, on November 20, 2018, so as to allow Linekong Online to withdraw from the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement and to terminate its rights and obligations contemplated thereunder. Pursuant to which, the parties agreed that (after arm's length negotiation), among other things: (i) Linekong Online shall fully withdraw from the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement and its rights and obligations under the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement shall cease accordingly; and (ii) the parties shall have no rights, claims, liabilities, demand, and costs and expenses against Linekong Online in connection with the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement and the transactions contemplated thereunder.

As at the date of this report, Feng Hua Investment has been established and Feng Hua Partners has yet to be established. Pursuant to the arrangements abovementioned, Linekong Online ceased to be a shareholder of Feng Hua Investment. Save as the minimal administrative costs incurred by Linekong Online for the establishment of Feng Hua Investment, the withdrawal from the Shareholders' Contribution Agreement and the Limited Partnership Contribution Agreement by Linekong Online has no adverse impact on the operation of existing business and the financial position of the Group.

Details of the above transactions are set out in the announcements of the Company dated August 24, 2017 and November 20, 2018.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

Termination of the Disposals of Equity Interest in Horgos Pictures

On August 24, 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.

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

Since the limited partners of Lanfeng Investment are an entity established by Mr. Wang Feng and an entity established by Ms. Liao Mingxiang, the Directors of the Company; therefore 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.

Since the entering into the Lanfeng Agreement and the Lanhai Culture Agreement, Horgos Pictures, in addition to the independent investment filming mode, has developed its customized drama filming mode which required lower capital usage, resulting in improvement of its operating performance. The Board considers that continuing to conduct the transaction under the Lanfeng Agreement and the Lanhai Culture Agreement may not be in the best interest of the Company and the shareholders as a whole. Both Lanfeng Investment and Lanhai Culture intended to agree not to proceed with the aforesaid transaction. Therefore, the parties to the Lanfeng Agreement and the Lanhai Culture Agreement have entered into a separate termination agreement respectively on September 28, 2018 for the termination of the Lanfeng Agreement and the Lanhai Culture Agreement, pursuant to which after arm's length negotiation, the parties have agreed, among other things: (i) the Lanfeng Agreement and the Lanhai Culture Agreement shall be fully terminated and the respective rights and obligations of the parties thereunder shall cease; and (ii) the parties shall have no rights, claims, liabilities, demand, and costs and expenses against the other party in connection with the Lanfeng Agreement and the Lanhai Culture Agreement and any transactions contemplated thereunder.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

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

According to the plan of the Group, Horgos Pictures will continue to explore with the accurate market demands from young females born after 1995 and 2000 by focusing on productions with themes of romantic fantasy and school days drama, such as the recently aired "Long For You (我與你的光年距離)", "Unexpected (來到你的世界)" and "Long For You 2 (我與你的光年距離2)", and "As a Fatty" (身為一個胖子) which is at the stage of script development. In addition, leveraging on its Group's Game Business, Horgos Pictures will achieve a win-win situation for games and movies production, such as exquisite historical dramas IP "Tomb Guardian — Revelation (鎮墓獸 • 天啟)" and "Ancient Music Records (古樂風華錄)".

The Board considers that the termination of the Lanfeng Agreement and the Lanhai Culture Agreement has no material adverse impact on the existing business operation and financial position of the Group.

Details of the above transactions are set out in the announcements of the Company dated August 24, 2017 and September 28, 2018.

Transfer of Equity Interest in Hainan Tianchen to Linekong Online

On July 19, 2018, Linekong Online, a wholly-owned subsidiary of the Company, entered into the A equity transfer agreement (the "**A Equity Transfer Agreement**") with Gongqingcheng Guangnian Investment Management Partnership (Limited Partnership) ("**Guangnian Investment**") and the B equity transfer agreement (the "**B Equity Transfer Agreement**") with Gongqingcheng Minghe Investment Management Partnership (Limited Partnership) ("**Minghe Investment**"), respectively. Pursuant to the A Equity Transfer Agreement, Guangnian Investment agreed to transfer and Linekong Online agreed to accept 13.39% equity interest held in Hainan Tianchen Network Technology Co., Ltd. ("**Hainan Tianchen**"). Pursuant to the B Equity Transfer Agreement, Minghe Investment agreed to transfer and Linekong Online agreed to accept 1.61% equity interest held in Hainan Tianchen. Upon completion of the transactions contemplated under the Equity Transfer Agreements, Linekong Online became a shareholder of Hainan Tianchen and Hainan Tianchen is held as to 32.75%, 3.33%, 15.00% and 48.92% by Guangnian Investment, Minghe Investment, Linekong Online and 20 other shareholders (which are mainly financial investors and employees of Hainan Tianchen), respectively.

Hainan Tianchen, Mr. Wang Feng, Linekong Online, Guangnian Investment, Minghe Investment and the other 20 shareholders of Hainan Tianchen on July 19, 2018 further entered into the Shareholders' Agreement so as to regulate the ownership, management and operations of Hainan Tianchen upon completion of the transactions contemplated under the Equity Transfer Agreements.

According to the GEM Listing Rules, Guangnian Investment and Minghe Investment are each an associate of Mr. Wang Feng and Ms. Liao Mingxiang, respectively, both of whom are executive Directors of the Company. Each of Guangnian Investment and Minghe Investment is therefore a connected person of the Company. Therefore, the transactions contemplated under the A Equity Transfer Agreement and the B Equity Transfer Agreement constitute connected transactions for the Company under the GEM Listing Rules. With respect to the A Equity Transfer Agreement, as some of the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules exceed 0.1% but are less than 5%, the transaction contemplated thereunder is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Rule 20.74(2) of the GEM Listing Rules. With respect to the B Equity Transfer Agreement, as all the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules are less than 5% and the total consideration is less than HK$3,000,000, the transaction contemplated thereunder is fully exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 20.74(1) of the GEM Listing Rules. In order to allow the Shareholders to be informed of the full picture of the transfer of equity interest in Hainan Tianchen to Linekong Online, the Company voluntarily discloses the information in relation to the B Equity Transfer Agreement and the transaction contemplated thereunder to its Shareholders.

Details of the transactions in relation to the transfer of equity interest in Hainan Tianchen to Linekong Online are set out in the announcement of the Company dated July 19, 2018.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

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, 2018, there was no transaction conducted under the Contractual Arrangements.

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, 2018;

(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, 2018.

Save as disclosed above, 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, 2018.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 34 to the consolidated financial statements in this annual report. Save for those described in the paragraph headed "Connected and Continuing Connected Transactions" above, none of these related party transactions constitutes a discloseable connected transaction as defined under the GEM Listing Rules, and in respect of the transactions disclosed, 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 March 29, 2018, April 3, 2018, April 4, 2018, November 29, 2018, December 3, 2018, December 4, 2018, December 5, 2018, December 6, 2018, December 7, 2018, December 10, 2018, December 13, 2018, December 14, 2018, December 21, 2018, December 27, 2018 and December 28, 2018, the Company had directed The Core Trust Company Limited, being the RSU Trustee assisting with the administration and vesting of RSUs granted pursuant to the RSU Scheme adopted by the Company, to purchase and hold on-market 415,000 shares, 320,000 shares, 250,000 shares, 2,000 shares, 215,500 shares, 80,000 shares, 275,000 shares, 275,500 shares, 5,000 shares, 260,000 shares, 120,000 shares, 117,000 shares, 367,500 shares, 144,000 shares and 338,500 shares, respectively, of the ordinary shares of the Company (collectively, the "**Share Purchases**"), which will be used to satisfy the RSUs upon exercise.

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

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated March 29, 2018, April 3, 2018, April 4, 2018, November 29, 2018, December 3, 2018, December 4, 2018, December 5, 2018, December 6, 2018, December 7, 2018, December 10, 2018, December 13, 2018, December 14, 2018, December 21, 2018, December 27, 2018 and December 28, 2018, respectively.

Grant of Share Options

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

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

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

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

Directors' Report

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

Resignation and Retirement of Directors

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

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

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

USE OF IPO PROCEEDS

The 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, 2018, the Group's IPO Proceeds have been utilised as follows:

	Net proceeds *in million HKD*	Amounts utilised as of December 31, 2017 *in million HKD*	Amounts utilised in 2018 *in million HKD*	Amounts unutilised *in million HKD*
Overseas expansions (expanding our business in overseas markets)	137.2	81.7	38.0	17.5
Potential strategic acquisition or investment in companies in online game or related businesses	68.6	36.6	–	32.0
Creating pan entertainment environment	157.8	58.2	64.0	35.6
Licensing more high quality games with different genres and themes from Chinese and overseas game developers and the operation of such games	68.6	61.4	4.0	3.2
Research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content	137.2	77.6	57.9	1.7
Providing funding for our working capital and other general corporate purposes	34.3	–	6.4	27.9
Investing in our technology platform, including developing and improving our game development tools and purchase of commercialized game engines developed by third parties	34.3	–	0.9	33.4
Mastering user usage flow entry point via developing intellectual hardware and mobile phone software	48.2	9.4	–	38.8
	686.2	324.9	171.2	190.1

As of December 31, 2018, approximately HKD190.1 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. Among the unutilised proceeds, those reserved for overseas expansions business are expected to be fully utilised in 2019; funding reserved for acquisition will be utilised in accordance with the progress of our potential acquisition projects; all the proceeds for pan-entertainment development purpose will be utilised in 2019 and 2020 according to the progress of shooting of TV dramas; we will utilise the funding reserved for working capital purpose in the Company's operations; funding for investing in our technology platform will be used in 2019 to purchase and develop new game engines; and funding for development of intellectual hardware and mobile phone software for mastering user usage flow entry point will be utilised in accordance with the development progress in 2019.

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.

Directors' Report

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 32 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, the annual confirmation of his or her independence pursuant to Rule 5.09 of the GEM Listing Rules in writing 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, 2018 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.

CHANGE OF AUDITOR

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

DONATIONS

No donation has been made by the Group/Company during the year ended December 31, 2018.

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2018, neither the Company nor any of its subsidiaries have entered into equity-linked agreements.

ON BEHALF OF THE BOARD
Wang Feng
Chairman

March 29, 2019

Independent Auditor's Report

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 79 to 159, which comprise:

- the consolidated balance sheet as of December 31, 2018;
- 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, 2018, 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, www.pwchk.com

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 at fair value through profit or loss — unlisted securities

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, 2018, the Group has generated revenue from sales of in-game virtual items of RMB309.5 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 at fair value through profit or loss — unlisted securities

Refer to note 3.3 to the consolidated financial statements

As of December 31, 2018, the Group has level 3 financial assets at fair value through profit or loss — unlisted securities of RMB89.4 million.

One or more significant input of the valuation for level 3 financial assets at fair value through profit or loss — unlisted securities are not based on active market prices, observable market data.

Management assessed and measured the level 3 financial assets at fair value through profit or loss — unlisted securities 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 at fair value through profit or loss — unlisted securities 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

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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 THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 is 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 Brian Ming Yan Choi.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2019

Consolidated Balance Sheet

		As of December 31,	
		2018	2017
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**3,001**	6,850
Intangible assets	7	**29,586**	34,310
Films rights and films in progress	8	**14,564**	48,372
Investments using equity accounting	11	**42,756**	52,268
An associate measured at fair value through profit or loss	12	**44,000**	44,330
Available-for-sale financial assets	9	**–**	94,973
Financial assets at fair value through profit or loss	13	**89,395**	16,602
Deferred income tax assets — net	14	**1,764**	2,975
Other receivables	16	**3,506**	6,539
Other non-current assets	17	**232**	118
		228,804	307,337
Current assets			
Trade receivables	15	**31,499**	52,340
Other receivables	16	**32,901**	29,739
Other current assets	17	**72,165**	77,455
Available-for-sale financial assets	9	**–**	12,446
Financial assets at fair value through profit or loss	13	**17,000**	17,447
Short-term bank deposits	18	**102,948**	–
Restricted deposits	19	**233,831**	188,236
Cash and cash equivalents	19	**176,555**	349,563
		666,899	727,226
Total assets		**895,703**	1,034,563

Consolidated Balance Sheet *(Continued)*

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	20	**59**	59
Share premium	20	**1,720,690**	1,720,690
Shares held for RSU Scheme	20	**(5,822)**	(3,578)
Reserves	21	**405,894**	390,603
Accumulated losses		**(1,581,781)**	(1,435,377)
		539,040	672,397
Non-controlling interests		**9,287**	3,760
Total equity		**548,327**	676,157
Liabilities			
Non-current liabilities			
Contract liabilities	25	**2,987**	4,256
		2,987	4,256
Current liabilities			
Bank borrowings	23	**199,100**	136,719
Trade and other payables	24	**87,219**	121,007
Current income tax liabilities		**6,714**	7,893
Contract liabilities	25	**51,356**	88,531
		344,389	354,150
Total liabilities		**347,376**	358,406
Total equity and liabilities		**895,703**	1,034,563

The notes on pages 85 to 159 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 79 to 159 were approved by the Board of Directors on March 29, 2019 and were signed on its behalf.

Wang Feng
Director

Liao Mingxiang
Director

Consolidated Statement of Comprehensive Loss

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Revenue	5	**457,790**	494,733
Cost of revenue	26	**(286,390)**	(294,610)
Gross profit		**171,400**	200,123
Selling and marketing expenses	26	**(103,756)**	(186,344)
Administrative expenses	26	**(91,775)**	(103,443)
Research and development expenses	26	**(67,860)**	(132,407)
Net impairment losses on financial assets	26	**(3,253)**	(1,934)
Other operating income — net		**4,679**	240
Operating loss		**(90,565)**	(223,765)
Other (losses)/gains — net	28	**(54,463)**	30,739
Finance (costs)/income — net	29	**(1,349)**	3,334
Share of loss of investments using equity accounting	11	**(12,411)**	(45,780)
Impairment of investments using equity accounting	11	**–**	(69,300)
Loss before income tax		**(158,788)**	(304,772)
Income tax (expense)/credit	30	**(4,226)**	10,009
Loss for the year		**(163,014)**	(294,763)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		**–**	14,953
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		**–**	(17,991)
— Share of other comprehensive income/(loss) of investments accounted for using the equity method, net of tax		**2,899**	(4,885)
Items that will not be reclassified to profit or loss:			
— Currency translation differences		**25,323**	(40,677)
Other comprehensive income/(loss) for the year, net of tax		**28,222**	(48,600)
Total comprehensive loss for the year		**(134,792)**	(343,363)
Loss attributable to:			
Owners of the Company		**(166,876)**	(294,098)
Non-controlling interests		**3,862**	(665)
Loss for the year		**(163,014)**	(294,763)
Total comprehensive loss attributable to:			
Owners of the Company		**(138,608)**	(342,744)
Non-controlling interests		**3,816**	(619)
Total comprehensive loss for the year		**(134,792)**	(343,363)
Loss per share (expressed in RMB per share)			
— Basic	31(a)	**(0.47)**	(0.84)
— Diluted	31(b)	**(0.47)**	(0.84)

The notes on pages 85 to 159 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 as of January 1, 2017		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(294,098)	(294,098)	(665)	(294,763)
Other comprehensive income/(loss)									
— 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 as of December 31, 2017		59	1,720,690	(3,578)	390,603	(1,435,377)	672,397	3,760	676,157

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 as of December 31, 2017		**59**	**1,720,690**	**(3,578)**	**390,603**	**(1,435,377)**	**672,397**	**3,760**	**676,157**
Change in accounting policy	2.1.1(a)(I)	–	–	–	(22,400)	22,400	–	–	–
Balance as of January 1, 2018		**59**	**1,720,690**	**(3,578)**	**368,203**	**(1,412,977)**	**672,397**	**3,760**	**676,157**
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(166,876)	(166,876)	3,862	(163,014)
Other comprehensive income/(loss)									
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	2,899	–	2,899	–	2,899
— Currency translation differences		–	–	–	25,369	–	25,369	(46)	25,323
Total comprehensive income/(loss) for the year		–	–	–	28,268	(166,876)	(138,608)	3,816	(134,792)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Contribution from shareholders		–	–	–	11,598	–	11,598	–	11,598
Increase in ownership interest in subsidiaries without change of control		–	–	–	(1,528)	–	(1,528)	1,528	–
Decrease in ownership interest in subsidiaries without change of control		–	–	–	(77)	–	(77)	183	106
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		–	–	(2,244)	–	–	(2,244)	–	(2,244)
— Value of employee services	22	–	–	–	(2,498)	–	(2,498)	–	(2,498)
Appropriation to statutory reserves		–	–	–	1,928	(1,928)	–	–	–
Total contributions by and distributions to owners of the Company for the year		–	–	(2,244)	9,423	(1,928)	5,251	1,711	6,962
Balance as of December 31, 2018		**59**	**1,720,690**	**(5,822)**	**405,894**	**(1,581,781)**	**539,040**	**9,287**	**548,327**

The notes on pages 85 to 159 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash used in operations	33(a)	**(64,394)**	(137,320)
Income tax paid-net		**(4,194)**	(442)
Net cash used in operating activities		**(68,588)**	(137,762)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(713)**	(4,071)
Purchase of intangible assets		**(12,840)**	(31,645)
Net cash received from disposal of property, plant and equipment		**111**	450
Purchase of available-for-sale financial assets		**–**	(300,300)
Proceeds from disposal of available-for-sale financial assets		**–**	327,640
Capital injection in an associate measured at fair value through profit or loss	12	**–**	(15,000)
Purchase of financial assets at fair value through profit or loss		**(113,000)**	(2,400)
Proceeds from disposal of financial assets at fair value through profit or loss		**106,747**	1,390
Payments for films in progress		**(5,990)**	(40,650)
Return of prepayments for investment		**–**	4,244
Loan granted to related parties	34	**–**	(2,042)
Loan repayments received from related parties		**2,076**	–
Loan granted to third parties		**(10,000)**	(15,000)
Loan repayments received from third parties		**4,519**	1,300
Increase in restricted deposits		**(33,153)**	(89,132)
(Increase)/decrease in short term bank deposits		**(102,948)**	302,735
Net cash (used in)/generated from investing activities		**(165,191)**	137,519
Cash flows from financing activities			
Proceeds from bank borrowings	23, 33(b)	**241,781**	37,319
Repayment of bank borrowings	23, 33(b)	**(179,400)**	(600)
Interests paid		**(7,554)**	(2,945)
Repurchase of shares for RSU Scheme		**(2,244)**	(3,577)
Net cash generated from financing activities		**52,583**	30,197
Net (decrease)/increase in cash and cash equivalents		**(181,196)**	29,954
Cash and cash equivalents at beginning of year		**349,563**	338,655
Exchange gain/(loss) on cash and cash equivalents		**8,188**	(19,046)
Cash and cash equivalents at end of the year		**176,555**	349,563

The notes on pages 85 to 159 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 GEM (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 "**Game Business**") in the People's Republic of China (the "**PRC**") and other countries and regions, and film business (the "**Film Business**") in the PRC.

The 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, 2018 and 2017, 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 29, 2019.

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 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.

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

(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, 2018:

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

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

Amendments to IFRS effective for the financial year beginning on January 1, 2018 do not have a material impact on the Group's financial information other than IFRS 9, details of which are set out in Note 2.1.1(a)(I).

(I) IFRS 9 "Financial Instruments"

(i) Impact on the financial statements

As explained in Note 2.1.1(a)(I)(ii) below, IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as of December 31, 2017, but are recognised in the opening balance sheet on January 1, 2018.

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

IFRS 9 replaces the provisions of International Accounting Standards ("**IAS**") 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 "Financial Instruments" from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.11. In accordance with the transitional provisions in IFRS 9, comparative figures have not been 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)*

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

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

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

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

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

Note:

(a) Classification and measurement

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

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

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

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)*

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

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

Note: (Continued)

(a) Classification and measurement *(Continued)*

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

	Effect on AFS reserves *RMB'000*	Effect on accumulated losses *RMB'000*
Closing balance as of December 31, 2017 — IAS 39	22,400	(1,435,377)
Reclassify investments from available-for-sale to FVPL**	(22,400)	22,400
Opening balance as of January 1, 2018 — IFRS 9	–	(1,412,977)

** Certain equity investments were reclassified from available-for-sale to FVPL (RMB107,419,000 as of January 1, 2018). Related fair value gains of RMB22,400,000 were transferred from the available-for-sale financial assets reserve to accumulated losses on January 1, 2018.

(b) Impairment of financial assets

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

- trade receivables, and
- other receivables.

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

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

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

The Group has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rule under the modified retrospective approach and the comparative figures have not been restated. Based on the Group's assessment, the accumulated losses as of January 1, 2018 were not adjusted upon the adoption of IFRS 15. See Note 2.24 for the Group's accounting policies for revenue recognition under IFRS 15.

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

A number of new standards and amendments to standards have been issued but not effective for annual period beginning on January 1, 2018, which have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 16	"Leases"	January 1, 2019
Interpretation 23	"Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9	"Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 28	"Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Amendments to IAS 19	"Plan Amendment, Curtailment or Settlement"	January 1, 2019
IFRS 17	"Insurance Contracts"	January 1, 2021
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 16 "Leases"

Nature of change

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

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 16 "Leases" *(Continued)*

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As of December 31, 2018, the Group has non-cancellable operating lease commitments of RMB10,120,000, see note 35.

For the lease commitments the Group expects to recognise right-of-use assets of approximately RMB9,747,000 on January 1, 2019, lease liabilities of RMB9,395,000 (after adjustments for prepayments and accrued lease payments recognised as of December 31, 2018).

The Group expects that the impact of net profit after tax will be immaterial for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RMB7,379,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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, 2019, 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 years ended December 31, 2018 and 2017.

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 income/(loss) 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 income/(loss) 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 private equity 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 ("**CODM**"). The CODM, 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 (costs)/income — net". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive loss within "other operating income — 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.

(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 operating income — 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, 2018 and 2017, 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 developed for self-developed film rights (including internet drama) 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 recognised 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

(i) Classification

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

2.11 Financial assets *(Continued)*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

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

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

(a) Debt instruments

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

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

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

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

Notes to the Consolidated Financial Statements

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

2.11 Financial assets *(Continued)*

(iii) Measurement *(Continued)*

(b) Equity instruments

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

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

(iv) Impairment

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

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

(v) Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until December 31, 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition. See Note 9 for details about each type of financial asset.

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 realise 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 the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.11(i) and 2.11(iii) for further information about the Group's accounting for trade receivables and Note 2.11 (iv) for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

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

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

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

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

Principal agent consideration

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

Recognition of revenue generated from sales of in game virtual items

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

Notes to the Consolidated Financial Statements

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

2.24 Revenue recognition *(Continued)*

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

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

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

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

(ii) Revenue generated from licensing and technical support fees

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

(iii) Revenue generated from the licensing of film rights

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

(iv) Revenue generated from the production of film rights

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

Notes to the Consolidated Financial Statements

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

2.24 Revenue recognition *(Continued)*

Contract assets and contract liabilities

The excess of the cumulative revenue recognised over the cumulative consideration received and due from the contracted customer is recognised as a contract asset on the consolidated balance sheet. On the contrary, the excess of the cumulative consideration received from the contracted customer over the cumulative revenue recognised is recognised as a contract liability recorded in deferred revenue. The contract asset and the contract liability are classified as current and non-current portions based on their respective recovery or settlement periods. As of December 31, 2018, the Group did not have contact assets.

Other receivables and other current/non-current assets were previously presented together in prepayments and other receivables but were presented separately in the balance sheet as of December 31, 2018, to reflect their different nature. The comparative figures as of December 31, 2017 have been restated to conform with the current year's presentation.

Advances disclosed in trade and other payables and deferred revenue were previously presented separately in the balance sheet, but were presented together in contract liabilities as of December 31, 2018, to reflect their similar nature. The comparative figures as of December 31, 2017 have been restated to conform with the current year's presentation.

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 minimise 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 RMB1,085,000 lower/higher for the year ended December 31, 2018 (2017: RMB9,225,000), 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 overseas 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 RMB71,000 lower/higher for the year ended December 31, 2018 (2017: RMB567,000), 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.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Price risk

The Group is exposed to price risk because of investments held by the Group were classified on the consolidated balance sheet either as available for sale or as at fair value through profit or loss as of December 31, 2017, and as at fair value through profit or loss as of December 31, 2018. 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.

As of December 31, 2017, the Group's available-for-sale financial assets were held for capital appreciation and business strategic purposes. The Group did not actively trade these investments. The sensitivity analysis was 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% higher/lower as of December 31, 2017, the other comprehensive income would have been approximately RMB4,035,000 higher/lower. As of December 31, 2017, the Group's financial assets at fair value through profit or loss were held for trading or host equity instruments with redemption features designated in this category. The sensitivity analysis was 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 lower/higher.

As of December 31, 2018, the Group's financial assets at fair value through profit or loss are not held for trading, and had not been elected to present fair value gains and losses in OCI. 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, 2018 would have been approximately RMB4,203,000 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.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(i) Risk management

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 and film publishers in cooperation with the Group. If the strategic relationship with game distribution channels and film publishers is terminated or scaled-back; or if the co-operative arrangements with the game distribution channels and film publishers 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 and film publishers to ensure the effective credit control.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and forward-looking information.

The Group's investment in the debt instrument is considered to be low risk investments. The credibility of the issuer of the debt instrument are monitored on a timely basis for credit deterioration.

(ii) Impairment of financial assets

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

- trade receivables, and
- other receivables.

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Trade receivables and other receivables

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

All of the Group's other receivables are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected loss. The impact as a result of applying the expected credit risk model on transition to IFRS 9 was immaterial.

Trade receivables and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Provision for impairment of trade receivables and other receivables is presented as "net impairment losses on financial assets" within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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

The Group is also exposed to credit risk in relation to wealth management product that is measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments. (RMB17,000,000; 2017: nil).

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Concentration risk

For the Group's Game Business, there was no customer whose revenues individually represent greater than 10% of the total revenues of the Group for the years ended December 31, 2018 and 2017. For the Group's Film Business, there were two and nil customers accounted for more than 10% of the total revenues of the Group for the years ended December 31, 2018 and 2017 respectively, and details are as follows:

	Year ended December 31,	
	2018	2017
Film publisher A	**14.2%**	–
Film publisher B	**12.2%**	–
	26.4%	–

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, 2018 and 2017 are as follows:

	Year ended December 31,	
	2018	2017
Game distribution channel A	**26.7%**	11.7%
Game distribution channel B	**19.4%**	26.6%
	46.1%	38.3%

The trade receivables from game distribution channels and film publishers represented over 10% of trade receivables balances of the Group as of December 31, 2018 and 2017 were as follows:

	As of December 31,	
	2018	2017
Film publisher B	**46.3%**	–
Game distribution channel A	**13.4%**	24.2%
Game distribution channel B	**4.4%**	36.5%
	64.1%	60.7%

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 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*
As of December 31, 2018				
Bank borrowings	**206,563**	**–**	**–**	**206,563**
Trade and other payables (excluding salary and staff welfare payables and other taxes payables)	**70,426**	**–**	**–**	**70,426**
	276,989	**–**	**–**	**276,989**
As of December 31, 2017				
Bank borrowings	143,262	–	–	143,262
Trade and other payables (excluding salary and staff welfare payables and other taxes payables)	88,253	–	–	88,253
	231,515	–	–	231,515

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.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

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*
As of December 31, 2018				
Assets				
An associate measured at fair value through profit or loss	**–**	**–**	**44,000**	**44,000**
Financial assets at fair value through profit or loss				
— Wealth management products	**–**	**–**	**17,000**	**17,000**
— Unlisted securities	**–**	**–**	**89,395**	**89,395**
	–	**–**	**150,395**	**150,395**
As of December 31, 2017				
Assets				
An associate measured at fair value through profit or loss	–	–	44,330	44,330
Financial assets at fair value through profit or loss				
— Listed securities	17,447	–	–	17,447
— Unlisted securities	–	–	16,602	16,602
Available-for-sale financial assets	–	–	107,419	107,419
	17,447	–	168,351	185,798

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

There were no transfers among level 1, 2 and 3 during the year ended December 31, 2018.

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 maximise 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, 2018.

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, 2018 were as follows:

Discount rate:	21%–33%
Terminal growth rate:	3%
Discount for lack of marketability:	7%–28%
Volatility:	34%–59%

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the changes in level 3 financial assets for the years ended December 31, 2018 and 2017, respectively.

	An associate at fair value through profit or loss *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Closing balance as of December 31, 2017	**44,330**	**16,602**	**107,419**	**168,351**
Reclassify investments from available-for-sale to FVPL	**–**	**107,419**	**(107,419)**	**–**
Opening balance as of January 1, 2018	**44,330**	**124,021**	**–**	**168,351**
Additions	**–**	**124,598**	**–**	**124,598**
Disposals	**–**	**(96,682)**	**–**	**(96,682)**
Losses recognised in other (losses)/gains — net	**(330)**	**(45,674)**	**–**	**(46,004)**
Exchange adjustment	**–**	**132**	**–**	**132**
Closing balance as of December 31, 2018	**44,000**	**106,395**	**–**	**150,395**

	An associate at fair value through profit or loss *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Opening balance as of January 1, 2017	19,229	15,637	115,125	149,991
Additions	15,000	2,400	307,620	325,020
Disposals	–	–	(306,052)	(306,052)
Gains/(losses) recognised in other (losses)/gains — net	10,101	(1,274)	–	8,827
Losses recognised in other comprehensive income	–	–	(4,051)	(4,051)
Impairment charges	–	–	(5,223)	(5,223)
Exchange adjustment	–	(161)	–	(161)
Closing balance as of December 31, 2017	44,330	16,602	107,419	168,351

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, 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 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 Group in the analysis. Based on the Group's testing result, the investments in associates did not suffer additional impairment for the year ended December 31, 2018, and no impairment loss was recognised consequently.

(d) 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 Entertainment Co., Ltd. ("**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's 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

The CODM of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

Different businesses require different technologies and marketing strategies. The Company, therefore, separately manages the production and operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. For the year ended December 31, 2018, the Group is organised into two reportable operating segments. The comparative figures have been restated to conform with the current year's presentation.

The Group identifies 2 segments as follows:

— The Game Business, which is primarily engaged in developing and publishing online games in the PRC and other countries and regions;

— The Film Business, which is primarily engaged in licensing self-developed film rights (including internet drama) to third-party publishers and producing films (including internet drama) for specific customers in the PRC.

Notes to the Consolidated Financial Statements

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

The CODM assesses the performance of the operating segments based on the operating profit/loss of each reporting segments. The reconciliation of operating profit/loss to loss before income tax is shown in the consolidated income statement. There were no separate segment assets and segment liabilities information provide to the CODM, as the CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Segment revenue:		
Game Business		
— Sales of in-game virtual items	**309,516**	407,326
— License fee and technical support fee	**24,644**	64,715
— Inter-segment transactions	**6,774**	–
	340,934	472,041
Film Business		
— Production and licensing of film rights and others	**123,630**	22,692
Elimination	**(6,774)**	–
Total	**457,790**	494,733
Segments results — operating (loss)/profit:		
— Game Business	**(105,226)**	(200,874)
— Film Business	**14,661**	(22,891)
Total	**(90,565)**	(223,765)

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, 2018 and 2017. Revenue from producing and licensing of films rights (including rights of internet drama) was derived from two and one different external customers for the years ended December 31, 2018 and 2017, respectively.

Notes to the Consolidated Financial Statements

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

A breakdown of revenue derived from the PRC, South Korea and other overseas countries and regions for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Revenue from external customers:		
— PRC	**259,373**	353,424
— South Korea	**111,576**	136,476
— Other overseas countries and regions	**86,841**	4,833
	457,790	494,733

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,	
	2018	2017
	RMB'000	*RMB'000*
— PRC	**40,981**	83,829
— South Korea	**6,402**	2,685
— Other overseas countries and regions	**–**	3,136
	47,383	89,650

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*
As of January 1, 2017					
Cost	11,674	22,798	4,058	13,470	52,000
Accumulated depreciation	(7,649)	(20,858)	(1,644)	(8,200)	(38,351)
Net book amount	4,025	1,940	2,414	5,270	13,649
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
As of 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
Year ended December 31, 2018					
Opening net book amount	**2,332**	**2,531**	**1,433**	**554**	**6,850**
Additions	**351**	**82**	**–**	**–**	**433**
Depreciation	**(1,616)**	**(1,109)**	**(679)**	**(554)**	**(3,958)**
Disposals	**(272)**	**(52)**	**–**	**–**	**(324)**
Closing net book amount	**795**	**1,452**	**754**	**–**	**3,001**
As of December 31, 2018					
Cost	**11,031**	**19,313**	**3,698**	**8,764**	**42,806**
Accumulated depreciation	**(10,236)**	**(17,861)**	**(2,944)**	**(8,764)**	**(39,805)**
Net book amount	**795**	**1,452**	**754**	**–**	**3,001**

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

	Year ended December 31,	
	2018 *RMB'000*	2017 *RMB'000*
Cost of revenue	**937**	2,276
Administrative expenses	**2,432**	4,228
Selling and marketing expenses	**157**	725
Research and development expenses	**432**	3,200
	3,958	10,429

Notes to the Consolidated Financial Statements

7. INTANGIBLE ASSETS

	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
As of January 1, 2017			
Cost	71,714	4,119	75,833
Accumulated impairment	(5,807)	–	(5,807)
Accumulated amortisation	(27,675)	(2,945)	(30,620)
Net book amount	38,232	1,174	39,406
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
As of 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
Year ended December 31, 2018			
Opening net book amount	**33,350**	**960**	**34,310**
Additions	**23,796**	**1,219**	**25,015**
Amortisation	**(13,522)**	**(836)**	**(14,358)**
Disposals	**(9,816)**	**(275)**	**(10,091)**
Impairment	**(5,290)**	**–**	**(5,290)**
Closing net book amount	**28,518**	**1,068**	**29,586**
As of December 31, 2018			
Cost	**61,437**	**5,772**	**67,209**
Accumulated amortisation	**(32,919)**	**(4,704)**	**(37,623)**
Net book amount	**28,518**	**1,068**	**29,586**

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cost of revenue	**10,097**	11,409
Administrative expenses	**337**	286
Selling and marketing expenses	**219**	122
Research and development expenses	**3,705**	5,017
	14,358	16,834

Notes to the Consolidated Financial Statements

8. FILMS RIGHTS AND FILMS IN PROGRESS

	As of December 31, 2018 RMB'000	2017 RMB'000
Film rights and films in progress		
— Under production/production yet to commence	**14,564**	48,372

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Beginning of the year	**48,372**	24,418
Additions	**5,927**	41,171
Recognised in cost of revenue	**(31,561)**	(17,217)
Impairment	**(8,174)**	–
End of the year	**14,564**	48,372

9. FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortised cost RMB'000	Assets at fair value through profit or loss RMB'000	Total RMB'000
Assets*			
As of December 31, 2018			
Trade receivables	**31,499**	**–**	**31,499**
Other receivable	**36,407**	**–**	**36,407**
Financial assets at fair value through profit or loss	**–**	**106,395**	**106,395**
An Associate at fair value through profit or loss	**–**	**44,000**	**44,000**
Short-term bank deposits	**102,948**	**–**	**102,948**
Restricted deposits	**233,831**	**–**	**233,831**
Cash and cash equivalents	**176,555**	**–**	**176,555**
	581,240	**150,395**	**731,635**

Notes to the Consolidated Financial Statements

9. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Available-for-sale financial assets *RMB'000*	Loans and receivables *RMB'000*	Assets at fair value through profit or loss *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 receivables	–	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
	107,419	626,417	78,379	812,215

	Liabilities as amortised cost ***RMB'000***
Liabilities	
As of December 31, 2018	
Bank borrowings	**199,100**
Trade and other payables (excluding salary and staff welfare payables and other taxes payables)	**70,426**
	269,526
As of December 31, 2017	
Bank borrowings	136,719
Trade and other payables (excluding salary and staff welfare payables and other taxes payables)	88,253
	224,972

* See Note 2.1.1 for details about the impact from changes in accounting policies.

The Group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Notes to the Consolidated Financial Statements

10. SUBSIDIARIES

The following is a list of the principal subsidiaries (including structured entities) as of December 31, 2018:

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	USD35,000,000	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	100%	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	100%	Game operation/ Hong Kong
Ace Incorporation Limited	Limited liability company	Hong Kong/ September 4, 2015	HKD1	100%	Investment holdings/ Hong Kong
Linekong US Inc. *(Note (i))*	Limited liability company	United States of America ("**US**")/June 12, 2015	USD100	Nil	Game operation, research and development/US

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:					
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
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. (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 ("**Feng and Long**")	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 ("**Horgos Pictures**")	Limited liability company	PRC/June 14, 2016	RMB50,000,000	80.69%	Film and television drama series production and distribution/PRC
Linekong Interactive Entertainment Film (Beijing) Co., Limited	Limited liability company	PRC/August 8, 2016	RMB3,000,000	80.69%	Film and television drama series production and distribution/PRC
Joinus Pictures Culture Media Co., Ltd.	Limited liability company	Hong Kong/ January 19, 2018	HKD5,000,000	80.69%	Film and television drama series production and distribution/Hong Kong

Note:

(i) Linekong US Inc. was dissolved on October 23, 2018.

Notes to the Consolidated Financial Statements

11. INVESTMENTS USING EQUITY ACCOUNTING

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Beginning of the year	**52,268**	176,362
Share of losses	**(12,411)**	(45,780)
Other comprehensive income/(loss)	**2,899**	(4,885)
Currency translation difference	**–**	(4,129)
Impairment charges *(Note (a))*	**–**	(69,300)
End of the year	**42,756**	52,268

Name	Principal activities/ country of incorporation	% Interest held As of December 31, 2018	2017
Fuze Entertainment Co., Ltd. ("**Fuze**")	Smart device development and sale/Cayman Islands	**36.82%**	36.82%
Huaying Jiashi (Beijing) International Culture Media Co., Ltd.("**Huaying**")	Film distribution/PRC	**21.05%**	21.05%

Notes:

(a) Based on the recoverable amount in the impairment assessment of the investment in Fuze performed by management, no impairment loss was recorded for the year ended December 31, 2018 (2017: RMB69,300,000).

Summarised financial information for associates

(i) 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, 2018 RMB'000	2017 RMB'000
Current assets	**143,858**	156,508
Non-current assets	**3,024**	14,270
Current liabilities	**(61,932)**	(62,106)
Net assets	**84,950**	108,672

Notes to the Consolidated Financial Statements

11. INVESTMENTS USING EQUITY ACCOUNTING *(Continued)*

Summarised financial information for associates *(Continued)*

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

Summarised statement of comprehensive loss

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**958**	–
Loss before income tax	**(31,596)**	(120,611)
Net loss	**(31,596)**	(120,611)
Other comprehensive income/(loss)	**7,874**	(13,266)
Total comprehensive loss	**(23,722)**	(133,877)
Total comprehensive loss, the Group's share	**(8,735)**	(49,295)
Amortisation of fair value adjustments	**–**	(1,625)
Total comprehensive loss after adjustment, the Group's share	**(8,735)**	(50,920)

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,	
	2018	2017
	RMB'000	**RMB'000**
Net assets of the associate	**84,950**	108,672
Net assets of the associate, the Group's share	**31,278**	40,013
Goodwill	**69,300**	69,300
Impairment loss	**(69,300)**	(69,300)
Carrying value	**31,278**	40,013

(ii) For the year ended December 31, 2018, the Group's share of Huaying's loss is RMB777,000 (2017: profit RMB255,000). As of December 31, 2018, the carrying value of the Group's investments in Huaying is RMB11,478,000 (December 31, 2017: RMB12,255,000).

Notes to the Consolidated Financial Statements

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

	As of December 31, 2018 RMB'000	2017 RMB'000
Unlisted fund	**44,000**	44,330

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

Note:

On January 4, 2016 and May 8, 2017, Linekong Online 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, and 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 (losses)/gains — net" in the income statement (Note 28).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31, 2018 RMB'000	2017 RMB'000
Included in current assets		
Listed securities -Hong Kong *(Note (a))*	–	17,447
Wealth management products *(Note (c))*	**17,000**	–
	17,000	17,447
Included in non-current assets		
Unlisted securities *(Note (b))*	**89,395**	16,602

Notes:

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

(b) The unlisted securities represent shares held by the Group in certain entities, which are not held for trading, and had not been elected to present fair value gains and losses in OCI.

The significant increase of the balance was mainly caused by the reclassification of investment from available-for-sale to FVPL as described in Note 2.1.1(a).

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.

Notes to the Consolidated Financial Statements

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: (Continued)

(c) Except for the equity investment as mentioned in above (b), the Group purchased certain wealth management products issued by commercial banks in the PRC. These wealth management products are with a variable return and redeemable on demand or with a term less than three months. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on the contracts of wealth management products. As of December 31, 2018, RMB17,000,000 of these investments have been recorded in "financial assets at fair value through profit or loss" in the balance sheet. The related gains have been recorded in "other (losses)/gains — net" in the income statement.

14. DEFERRED INCOME TAX — NET

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets:		
— To be recovered within 12 months	**1,756**	3,487
— To be recovered after 12 months	**4,001**	15,266
	5,757	18,753
Deferred income tax liabilities:		
— To be settled within 12 months	**–**	(577)
— To be settled after 12 months	**(3,993)**	(15,201)
	(3,993)	(15,778)
	1,764	2,975

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Beginning of the year	**2,975**	1,431
Recognised in profit or loss	**(1,211)**	531
Credited to other comprehensive income	**–**	1,013
End of the year	**1,764**	2,975

Notes to the Consolidated Financial Statements

14. 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	Accrued employee benefit expenses	Tax losses	Provision and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
Year ended December 31, 2018					
Beginning of the year	**341**	**27**	**15,701**	**2,684**	**18,753**
Credited/(charged) to profit or loss	**1,252**	**241**	**(11,708)**	**(2,781)**	**(12,996)**
End of the year	**1,593**	**268**	**3,993**	**(97)**	**5,757**

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 RMB425,236,000 as of December 31, 2018 (2017: RMB294,810,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2019 to 2023.

Deferred income tax liabilities:

	Trademarks and licenses	Fair value changes of financial assets	Fair value changes of an associate	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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)
Year ended December 31, 2018				
Beginning of the year	**(76)**	**(12,119)**	**(3,583)**	**(15,778)**
Credited to profit or loss	**76**	**11,626**	**83**	**11,785**
End of the year	**–**	**(493)**	**(3,500)**	**(3,993)**

Notes to the Consolidated Financial Statements

15. TRADE RECEIVABLES

	As of December 31, 2018 RMB'000	2017 RMB'000
Trade receivables	**32,376**	54,297
Less: impairment provision	**(877)**	(1,957)
	31,499	52,340

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

	As of December 31, 2018 RMB'000	2017 RMB'000
0–60 days	**29,474**	46,696
61–90 days	**470**	2,572
91–180 days	**903**	2,293
181–365 days	**752**	744
over 1 year	**777**	1,992
	32,376	54,297

(b) As of December 31, 2018 and 2017, trade receivables of past due but not impaired were RMB3,063,000 and RMB8,763,000, 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, 2018 RMB'000	2017 RMB'000
Outstanding after due dates:		
0–60 days	**1,504**	5,692
61–90 days	**375**	1,330
91–180 days	**951**	1,454
181–365 days	**233**	252
over 1 year	**–**	35
	3,063	8,763

Notes to the Consolidated Financial Statements

15. TRADE RECEIVABLES *(Continued)*

(c) Movements of Group's provision for impairment of trade receivables are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**(1,957)**	(1,274)
Provision for impairment	**(400)**	(1,315)
Receivables written off during the year as uncollectible	**1,480**	632
At end of the year	**(877)**	(1,957)

The provision for impaired trade receivables have been included in "net impairment losses on financial assets" 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 denominated in the following currencies:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
RMB	**22,640**	11,770
USD	**5,106**	25,368
South Korean Won	**2,108**	5,803
HKD	**2,522**	11,356
	32,376	54,297

Notes to the Consolidated Financial Statements

16. OTHER RECEIVABLES

	As of December 31, 2018 RMB'000	2017 RMB'000
Current		
Amount due from related parties *(Note 34)*	**195**	2,042
Loans to employees *(Note (a))*		
— Loans to key management *(Note 34)*	**–**	2,462
— Loans to other employees	**1,093**	2,332
Rental and other deposits	**919**	425
Loans to third parties *(Note (b))*	**22,690**	16,100
Interests receivable	**8,448**	3,238
Others	**2,909**	3,640
	36,254	30,239
Less: provision for impairment of other receivables	**(3,353)**	(500)
	32,901	29,739
Non-current		
Loans to employees *(Note (a))*		
— Loans to other employees	**150**	1,325
Rental and other deposits	**2,083**	3,578
Others	**1,273**	1,636
	3,506	6,539

Movements of the Group's provision for impairment of other receivables are as follows:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
At beginning of the year	**(500)**	–
Provision for impairment *(Note (c))*	**(2,853)**	(619)
Other receivables written off during the year as uncollectible	**–**	119
At end of the year	**(3,353)**	(500)

The provision for impaired other receivables have been included in "net impairment losses on financial assets" 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:

(a) 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.

(b) Loan to third parties are mainly due from film producers for the Group's investment in film projects. The loans are repayable within next 12 months and with a fixed return of 15% ~ 20% (2017: 15% ~ 20%).

(c) Provision for impairment for the year ended December 31, 2018 is mainly due from loan to third parties. Individual assessments have been performed on the recoverability of the loans.

Notes to the Consolidated Financial Statements

17. OTHER ASSETS

	As of December 31, 2018 RMB'000	2017 RMB'000
Current		
Prepaid service charges to game distribution channels	**13,834**	22,100
Prepayment to game developers	**22,094**	27,757
Prepaid rental, advertising cost and others	**8,820**	11,432
Prepayment for films production	**10,914**	–
Deductible value-added tax ("**VAT**") input	**16,503**	16,166
	72,165	77,455
Non-current		
Prepaid service charges to game distribution channels	**232**	118
	232	118

18. SHORT-TERM BANK DEPOSITS

	As of December 31, 2018 RMB'000	2017 RMB'000
Short-term bank deposits	**102,948**	–

19. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	As of December 31, 2018 RMB'000	2017 RMB'000
Cash and cash equivalents		
— Cash at bank and in hand	**174,965**	342,304
— Cash at other financial institutions	**1,590**	7,259
	176,555	349,563
Restricted deposits		
— Matured within 12 months	**233,831**	188,236
	233,831	188,236

Notes to the Consolidated Financial Statements

19. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS *(Continued)*

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2018	2017
	RMB'000	*RMB'000*
RMB	**16,057**	47,503
USD	**107,162**	39,232
HKD	**44,222**	244,367
Others	**9,114**	18,461
	176,555	349,563

Note:

As of December 31, 2018, USD34,070,000, approximately equivalent to RMB233,831,000, (December 31, 2017: USD13,600,000, approximately equivalent to RMB88,865,000 and HKD118,700,000, approximately equivalent to RMB99,371,000) is restricted deposit held at bank as reserve for serving of a loan facility with total a credit line of RMB199,100,000 provided by the bank, and which will expire in 2019.

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	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Shares hold for RSU Scheme
	('000)	*USD'000*	*RMB'000*	*RMB'000*	*RMB'000*
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)
Issued:					
As of January 1, 2018	**368,228**	**10**	**59**	**1,720,690**	**(3,578)**
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	**–**	**–**	**–**	**–**	**(2,244)**
As of December 31, 2018	**368,228**	**10**	**59**	**1,720,690**	**(5,822)**

Notes to the Consolidated Financial Statements

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 as of 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	–	–	–	–	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 as of December 31, 2017	(14,119)	78,176	15,807	286,797	23,942	390,603
Change in accounting policy *(Note 2.1.1(a)(I))*	**–**	**–**	**–**	**–**	**(22,400)**	**(22,400)**
Balance as of January 1, 2018	**(14,119)**	**78,176**	**15,807**	**286,797**	**1,542**	**368,203**
Appropriation to statutory reserves	**–**	**–**	**1,928**	**–**	**–**	**1,928**
Contribution from shareholders	**11,598**	**–**	**–**	**–**	**–**	**11,598**
Share of other comprehensive income of investments using equity method, net of tax *(Note 11)*	**–**	**–**	**–**	**–**	**2,899**	**2,899**
Increase in ownership interest in subsidiaries without change of control	**(1,528)**	**–**	**–**	**–**	**–**	**(1,528)**
Decrease in ownership interest in subsidiaries without change of control	**(77)**	**–**	**–**	**–**	**–**	**(77)**
Employee share option and RSU scheme:						
— Value of employee services *(Note 22)*	**–**	**–**	**–**	**(2,498)**	**–**	**(2,498)**
Currency translation differences	**–**	**25,369**	**–**	**–**	**–**	**25,369**
Balance as of December 31, 2018	**(4,126)**	**103,545**	**17,735**	**284,299**	**4,441**	**405,894**

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 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, 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,	
	2018	2017
Beginning of the year	**2,970,210**	5,348,162
Granted	**–**	1,805,385
Lapsed	**(1,231,520)**	(889,718)
Vested	**(1,488,690)**	(3,293,619)
End of the year	**250,000**	2,970,210

As of December 31, 2018 and 2017, 29,641,294 and 28,152,604 RSUs have been vested unconditionally, respectively.

(ii) Shares held for RSU Scheme

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

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to "other reserves" as deemed contribution from shareholders. As a result of the vesting of 1,488,690 RSUs during the year ended December 31, 2018, costs of these RSUs totally approximately RMB229 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,			
	2018		2017	
	Average Exercise Price	**Number of share options**	Average Exercise Price	Number of share options
Beginning of the year	**HKD4.58**	**13,440,423**	HKD6.63	6,654,798
Granted		**–**	HKD3.10	9,225,000
Lapsed	**HKD3.87**	**(5,559,375)**	HKD4.59	(2,439,375)
Exercised		**–**		–
End of the year	**HKD5.08**	**7,881,048**	HKD4.58	13,440,423

Out of the 7,881,048 outstanding options (December 31, 2017: 13,440,423), 6,289,173 options (December 31, 2017: 3,155,423) were exercisable. Share options outstanding as of December 31, 2018 include 462,298 (December 31, 2017: 462,298) share options, 2,956,250 (December 31, 2017: 3,865,625) share options, 975,000 (December 31, 2017: 1,412,500) and 3,487,500 (December 31, 2017: 7,700,000) 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, 2018 and 2017, 8,000,000 RSUs have been vested unconditionally, respectively, which represents 2% interest of Creative Ace Limited.

Notes to the Consolidated Financial Statements

22. SHARE-BASED PAYMENTS *(Continued)*

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

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

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

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

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

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

(d) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive loss. As of December 31, 2018, the Expected Retention Rate of employees was assessed to be 45% (December 31, 2017: 70%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2017: 100%).

23. BANK BORROWINGS

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

Notes to the Consolidated Financial Statements

23. BANK BORROWINGS *(Continued)*

(a) Bank borrowings are secured by the restricted deposits of RMB233,831,000 (2017: RMB188,236,000) (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 4.79% (2017: 2.55%–4.42%)

(d) Borrowings are repayable as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**199,100**	136,719

(e) As of December 31, 2018, the Group's borrowings were denominated in RMB.

24. TRADE AND OTHER PAYABLES

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Trade payables *(Note (i))*	**43,499**	50,532
Accrued expenses and liabilities	**21,244**	37,604
Salary and staff welfare payables	**15,150**	29,165
Amount due to a related party *(Note 34)*	**5,438**	–
Other taxes payables	**1,643**	3,589
Interests payable	**245**	117
	87,219	121,007

Note:

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
0–180 days	**35,837**	44,708
181–365 days	**4,096**	1,034
1–2 years	**701**	1,515
2–3 years	**325**	605
over 3 years	**2,540**	2,670
	43,499	50,532

Notes to the Consolidated Financial Statements

25. CONTRACT LIABILITIES

	As of December 31, 2018 RMB'000	2017 RMB'000
Current		
— Sales of in-game virtual items *(Note (i))*	**45,333**	62,863
— License fee and technical support fee	**5,349**	25,507
— Others	**674**	161
	51,356	88,531
Non-current		
— Sales of in-game virtual items *(Note (i))*	**1,431**	742
— License fee and technical support fee	**1,556**	1,985
— Others	**–**	1,529
	2,987	4,256

Note:

(i) Contract liabilities 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, 2018 and 2017. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games, as described in Note 2.24. Including in the contract liabilities balance above, contract liabilities arising from such treatment was approximately RMB6,168,000 as of December 31, 2018 (December 31, 2017: RMB6,011,000).

Notes to the Consolidated Financial Statements

26. EXPENSES BY NATURE

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Service charges by game distribution channels	**110,303**	161,338
Content fee to game developers	**38,822**	46,208
Bandwidth and server custody fees	**15,594**	17,380
Film rights recognised as cost of revenue	**31,561**	17,217
Film production cost	**39,349**	–
Payment handling costs	**287**	326
Employee benefit expenses (excluding share-based compensation expenses) *(Note 27 (a))*	**150,013**	190,794
(Reversal of)/charged to share-based compensation expenses	**(2,498)**	12,807
Depreciation of property, plant and equipment *(Note 6)*	**3,958**	10,429
Amortisation and impairment of intangible assets *(Note 7)*	**19,648**	21,454
Impairment charges on trade and other receivables *(Note 15, 16)*	**3,253**	1,934
Impairment of films rights and films in progress	**8,174**	–
Prepayment write-off	**7,330**	13,862
Promotion and advertising expenses	**79,327**	159,366
Traveling and entertainment expenses	**6,220**	5,486
Office rental expenses	**14,229**	15,308
Other professional service fees	**12,387**	11,465
Game development outsourcing costs	**4,633**	16,281
Utilities and office expenses	**3,046**	4,188
Auditors' remuneration		
— Audit services	**3,630**	4,360
— Non-audit services	**680**	420
Others	**3,088**	8,115
Total	**553,034**	718,738

27. EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**124,185**	142,743
Pension costs — defined contribution plans	**6,055**	6,202
Other social security costs, housing benefits and other employee benefits	**19,773**	41,849
(Reversal of)/charged to share-based compensation expenses	**(2,498)**	12,807
	147,515	203,601

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.

Notes to the Consolidated Financial Statements

27. EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2018 and 2017 include 4 and 1 directors whose emoluments are reflected in the analysis presented in Note 37(a), respectively. The aggregate amounts of emoluments for the remaining 1 and 4 individuals for each of the years ended December 31, 2018 and 2017 are set out below:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Wages and salaries	**1,219**	3,544
Pension costs — defined contribution plans	**38**	152
Other social security costs, housing benefits and other employee benefits	**8**	190
Share-based compensation expenses	**–**	10,292
	1,265	14,178

The emoluments payable to these individuals for the years ended December 31, 2018 and 2017 fell within the following bands:

	Year ended December 31,	
	2018	2017
Emoluments band		
HKD1,000,001 to HKD1,500,000	**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
	1	4

28. OTHER (LOSSES)/GAINS — NET

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loss arising from liquidation of a subsidiary	**(875)**	–
Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	**(53,258)**	1,873
Fair value (loss)/gain from an associate measured at fair value through profit or loss	**(330)**	10,101
Impairment charges on available-for-sale financial assets	**–**	(5,223)
Gain on disposal of available-for-sale financial assets	**–**	23,988
	(54,463)	30,739

Notes to the Consolidated Financial Statements

29. FINANCE (COSTS)/INCOME — NET

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Finance income		
Interest income on bank deposits	**6,167**	5,568
Interest income on loans to related parties	**32**	–
Interest income on loans to third parties	**1,834**	2,112
Finance costs		
Interest cost on bank borrowings	**(7,682)**	(2,988)
Foreign exchange losses, net	**(1,700)**	(1,358)
Finance (costs)/income — net	**(1,349)**	3,334

30. INCOME TAX EXPENSE/(CREDIT)

The income tax expense/(credit) of the Group for each of the years ended December 31, 2018 and 2017 is analysed as follows:

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Current income tax:		
— Current income tax of this year	**3,015**	7,621
— Exemption of tax provision *(Note (c) (i))*	**–**	(17,099)
Total current income tax	**3,015**	(9,478)
Deferred income tax	**1,211**	(531)
Income tax expense/(credit)	**4,226**	(10,009)

(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.

Notes to the Consolidated Financial Statements

30. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

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

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

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the years ended December 31, 2018 and 2017, except for Tianjin 8864, 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:

	2018	2017
Tianjin 8864	**25%**	50% reduction
Feng and Long *(Note (i))*	**50% reduction**	EIT exemption
Horgos Pictures	**EIT exemption**	EIT exemption

According to a policy promulgated by the State Tax Bureau of the PRC, enterprises engage in research and development activities are entitled to claim 175% and 150% of the research and development expenses incurred as tax deductible expenses in determining tax assessable profits ("**Super Deduction**") for the years ended December 31, 2018 and 2017. Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended December 31, 2018 and 2017.

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 EXPENSE/(CREDIT) *(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, 2018, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of December 31, 2018 and 2017, 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,	
	2018	2017
	RMB'000	*RMB'000*
Loss before income tax	**(158,788)**	(304,772)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	**(15,004)**	(41,378)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries *(Note (c) (i))*	**(24,379)**	(19,958)
Income not subject to tax	**(10,548)**	(13,872)
Super Deduction for research and development expenses	**(10,103)**	(8,410)
Expenses not deductible for tax purposes:		
— Share-based compensation	**(644)**	3,507
— Others	**2,326**	22,662
Unrecognised temporary differences *(Note (ii))*	**58,068**	60,551
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	**4,032**	4,094
Exemption of tax provisions *(Note (c) (i))*	**–**	(17,099)
Others	**478**	(106)
Income tax expense/(credit)	**4,226**	(10,009)

Notes to the Consolidated Financial Statements

30. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

(d) PRC withholding Tax ("WHT") *(Continued)*

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, 2018 and 2017. 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.

31. LOSS PER SHARE

(a) Basic

Basic loss per share for the years ended December 31, 2018 and 2017 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,	
	2018	2017
Loss attributable to owners of the Company (RMB'000)	**(166,876)**	(294,098)
Weighted average number of ordinary shares in issue (thousand shares)	**352,871**	352,142
Basic loss per share (expressed in RMB per share)	**(0.47)**	(0.84)

(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 years ended December 31, 2018 and 2017, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the years ended December 31, 2018 and 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the years ended December 31, 2018 and 2017 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, 2018 and 2017.

Notes to the Consolidated Financial Statements

33. CASH FLOW INFORMATION

(a) Cash used in operations

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Loss before income tax		**(158,788)**	(304,772)
Adjustments for:			
— Impairment charges on trade and other receivables	26	**3,253**	1,934
— Impairment charges on available-for-sale financial assets	28	**–**	5,223
— Impairment charges on films rights and films in progress	26	**8,174**	–
— Prepayment write-off	26	**7,330**	13,862
— Depreciation of property, plant and equipment	6	**3,958**	10,429
— Amortisation of intangible assets	7	**14,358**	16,834
— Impairment charges on intangible assets	7	**5,290**	4,620
— (Gain)/loss on disposals of property, plant and equipment		**(77)**	10
— Loss/(gain) on disposals of intangible assets		**1,975**	(1,800)
— Films in progress transferred to cost of sales	26	**31,561**	17,217
— (Reversal of)/charged to share-based compensation expenses	26	**(2,498)**	12,807
— Share of loss of investments using equity accounting	11	**12,411**	45,780
— Impairment of investments using equity accounting	11	**–**	69,300
— Fair value loss/(gain) from an associate measured at fair value through profit or loss	28	**330**	(10,101)
— Interest cost on bank borrowings	29	**7,682**	2,988
— Gain on disposal of available-for-sale financial assets	28	**–**	(23,988)
— Interest income from loans to third parties	29	**(1,834)**	(2,112)
— Interest income from loans to a related party	29	**(32)**	–
— Realised/unrealised fair value losses/(gains) on financial assets at fair value through profit or loss	28	**53,258**	(1,873)
— Loss arising from liquidation of a subsidiary	28	**875**	–
— Foreign exchange losses, net	29	**1,700**	1,358
		(11,074)	(142,284)
Changes in working capital:			
— Trade receivables		**20,441**	25,292
— Other receivables and other assets		**3,279**	13,652
— Trade and other payables		**(38,596)**	(11,910)
— Contract liabilities		**(38,444)**	(22,070)
Cash used in operations		**(64,394)**	(137,320)

Non-cash transactions

There is no significant non-cash transaction for the years ended December 31, 2018 and 2017.

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, 2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**176,555**	349,563
Liquid investments *(Note (i))*	**17,000**	17,447
Borrowings — repayable within one year	**(199,100)**	(136,719)
Net debt	**(5,545)**	230,291
Cash and liquid investments	**193,555**	367,010
Gross debt — fixed interest rates	**(199,100)**	(136,719)
Net debt	**(5,545)**	230,291

	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 January 1, 2017	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
Net cash/(debt) as of January 1, 2018	**349,563**	**17,447**	**(136,719)**	**–**	**230,291**
Cash flows	**(181,196)**	**6,936**	**(62,381)**	**–**	**(236,641)**
Foreign exchange adjustments	**8,188**	**204**	**–**	**–**	**8,392**
Other non-cash movements	**–**	**(7,587)**	**–**	**–**	**(7,587)**
Net cash/(debt) as of December 31, 2018	**176,555**	**17,000**	**(199,100)**	**–**	**(5,545)**

Note:

(i) Liquid investments comprise current investments that are traded in an active market and certain wealth management products issued by commercial banks in the PRC, 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, 2018 and 2017. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Related party transactions

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Services received from		
— Huaying	**2,688**	–
Rendering of management service to		
— Hainan Tianchen Network Technology Co., Ltd. ("**Hainan Tianchen**")	**1,984**	–
— Fuze	**1,371**	–
Rendering of technical service to		
— Hainan Tianchen	**2,566**	–
Sale of property, plant and equipment to		
— Hainan Tianchen	**140**	–
Loan received from		
— Fuze	**5,438**	–
Loans granted to		
— Fuze	**–**	1,200
— Huaying	**–**	842
Interest charged	**–**	92
	14,187	2,134

(b) Balances with related parties

(i) Amount due from related parties

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Zhao Jun	**–**	2,462
Hainan Tianchen	**195**	–
Fuze	**–**	1,200
Huaying	**–**	842
	195	4,504

(ii) Amount due to a related party

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Fuze	**5,438**	–

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, 2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	**8,275**	13,779
Pension costs — defined contribution plans	**363**	563
Other social security costs, housing benefits and other employee benefits	**435**	644
Share-based compensation expenses	**235**	10,955
	9,308	25,941

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, 2018 RMB'000	2017 RMB'000
Purchase of film rights and production of films	**–**	49,964
Capital investment in investees	**–**	16,400
	–	66,364

There were no other significant commitments authorised 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, 2018 RMB'000	2017 RMB'000
Not later than 1 year	**7,379**	14,814
Later than 1 year and not later than 3 years	**2,741**	11,929
	10,120	26,743

Notes to the Consolidated Financial Statements

36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As of December 31, 2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Investments using equity accounting	**31,278**	40,013
Investments in subsidiaries	**680,316**	618,541
	711,594	658,554
Current assets		
Other receivables	**330,707**	342,974
Other current assets	**816**	176
Financial assets at fair value through profit or loss	**–**	17,447
Short-term bank deposits	**75,495**	–
Cash and cash equivalents	**132,343**	192,694
	539,361	553,291
Total assets	**1,250,955**	1,211,845
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**59**	59
Share premium	**1,720,690**	1,720,690
Shares held for RSU Scheme	**(5,822)**	(3,578)
Reserves *(Note (a))*	**419,851**	361,080
Accumulated losses *(Note (a))*	**(895,670)**	(872,938)
Total equity	**1,239,108**	1,205,313
Liabilities		
Current liabilities		
Other payables	**11,847**	6,532
Total liabilities	**11,847**	6,532
Total equity and liabilities	**1,250,955**	1,211,845

The balance sheet of the Company was approved by the Board of Directors on March 29, 2019 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 as of 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 as of December 31, 2017	–	83,663	275,875	1,542	361,080	(872,938)
Balance as of January 1, 2018	**–**	**83,663**	**275,875**	**1,542**	**361,080**	**(872,938)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(22,732)**
Share of other comprehensive income of investments accounted for using the equity method, net of tax *(Note 11)*	**–**	**–**	**–**	**2,899**	**2,899**	**–**
Employee share option and RSU scheme:						
— Value of employee services	**–**	**–**	**(2,575)**	**–**	**(2,575)**	**–**
Currency translation differences	**–**	**58,447**	**–**	**–**	**58,447**	**–**
Balance as of December 31, 2018	**–**	**142,110**	**273,300**	**4,441**	**419,851**	**(895,670)**

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, 2017:

Name	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	
	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note x)	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

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, 2018:

	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 *RMB'000*	Salaries *RMB'000*	Discretionary bonuses *RMB'000*	Housing allowance *RMB'000*	Estimated money value of other benefits (Note x) *RMB'000*	Contributions to a defined contribution retirement benefit plan *RMB'000*	Remunerations paid or receivable in respect of accepting office as director *RMB'000*	*RMB'000*	Total *RMB'000*
Chairman									
Mr. Wang Feng (i)	–	1,653	–	–	154	126	–	–	1,933
Executive directors									
Ms. Liao Mingxiang (ii)	–	1,764	–	–	51	128	–	–	1,943
Mr. Zhao Jun (iii)	–	60	–	–	47	10	–	–	117
Mr. Qian Zhonghua (vi)	–	337	–	–	–	20	–	–	357
Mr. Wang Jin (viii)	–	1,000	–	–	190	128	–	–	1,318
Mr. Chen Hao (viii)	–	630	–	–	769	128	–	–	1,527
Independent non-executive directors									
Mr. Ma Ji (iv)	121	–	–	–	–	–	–	–	121
Mr. Zhang Xiangdong (iv)	286	–	–	–	–	–	–	–	286
Mr. Wang Xiaodong (v)	136	–	–	–	–	–	–	–	136
Ms. Zhao Yifang (v)	286	–	–	–	–	–	–	–	286
Ms. Wu Yueqin (ix)	166	–	–	–	–	–	–	–	166
Non-executive director									
Mr. Pan Donghui (vii)	–	–	–	–	–	–	–	–	–
Total	995	5,444	–	–	1,211	540	–	–	8,190

(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, and Mr. Zhao Jun resigned on February 15, 2018 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. Mr. Ma Ji resigned on May 29, 2018.

(v) Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed on June 11, 2015. Mr. Wang Xiaodong retired on June 15, 2018.

Notes to the Consolidated Financial Statements

37. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

(vi) Mr. Qian Zhonghua was re-designated as executive Director on February 3, 2017 and resigned on February 15, 2018.

(vii) Mr. Pan Donghui was appointed as the non-executive directors of the Company, on February 3, 2017.

(viii) Mr. Wang Jin and Mr. Chen Hao were appointed on May 11, 2018, as the executive director of the Company.

(ix) Ms. Wu Yueqin was appointed on May 29, 2018, as the independent non-executive directors.

(x) Other benefits mainly represent share-based compensation expenses.

(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 (2017: 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 (2017: 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 (2017: 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

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, 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

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, 2018:									
Zhao Jun: *(Note (i))*									
Loan 1	**–**	**2,262**	**–**	**2,262**	**–**	**–**	**Fully repayable on December 31,2017**	**5%**	**Nil**
Loan 2	**–**	**200**	**–**	**213**	**–**	**–**	**Fully repayable on December 31,2018**	**3.7%**	**Nil**

Note:

(i) Mr. Zhao Jun resigned on February 15, 2018 from his role as the executive director of the Company.

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 (2017: 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 (2017: Nil).

Summary of Financial Information

	2018 ***RMB'000***	2017 *RMB'000*	2016 *RMB'000*	2015 *RMB'000*	2014 *RMB'000*
Revenue	**457,790**	494,733	658,442	540,828	678,684
Loss before income tax	**(158,788)**	(304,772)	(140,912)	(51,885)	(151,947)
Loss for the year	**(163,014)**	(294,763)	(157,374)	(53,797)	(154,583)
Total comprehensive (loss)/income for the year	**(134,792)**	(343,363)	(89,768)	2,852	(157,106)
Total assets	**895,703**	1,034,563	1,392,380	1,286,486	1,260,240
Total liabilities	**347,376**	358,406	382,090	217,973	252,944
Total equity and liabilities	**895,703**	1,034,563	1,392,380	1,286,486	1,260,240
Net current assets	**322,510**	373,076	584,926	734,052	957,382
Total assets less current liabilities	**551,314**	680,413	1,116,711	1,071,780	1,016,344