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

蓝港
Linekong

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Pan Donghui

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

Ms. Wu Yueqin *(Chairman)*
Mr. Pan Donghui
Ms. Zhao Yifang
Mr. Zhang Xiangdong

Remuneration Committee

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

Nomination Committee

Mr. Wang Feng *(Chairman)*
Mr. Pan Donghui
Ms. Zhao Yifang
Mr. Zhang Xiangdong
Ms. Wu Yueqin

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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No. 248 Queen's Road East
Wanchai
Hong Kong

AUDITORS

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

Corporate Information

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

Xiamen International Bank, Beijing Xicheng District Sub-branch
Woori Bank, Beijing Head Office
China Merchants Bank, Beijing Datun Road Sub-branch
Industrial and Commercial Bank of China, Tianjin Xiyuan Sub-branch
Bank of Communications, Wangjing Sub-branch

GEM STOCK CODE

8267

COMPANY WEBSITE

www.linekong.com

Chairman's Statement

On behalf of the board of Directors (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, 2019 to December 31, 2019 (the "**Reporting Period**").

2019 is still a challenging year as the market environment of the media and entertainment industry and the entertainment industry was far from optimistic. Concentration of resources to the dominant enterprises in the game industry, more stringent approval policy of online game publication and severe competition within the industry have brought enormous challenges to the development of enterprises. Under this backdrop, we continued to adopt prudent operating strategies. Despite a decrease in revenue in 2019, our loss continued to reduce significantly. We believe such adjustments will facilitate favorable development of the Group in the long run. In 2019, our game business, one of our businesses, continued to focus on the expansion of game market in key overseas regions (namely Japan and Korea). We also focused on the development of female-oriented mobile games and casual games and the extension of IP values of games. In respect of our filming business, another principal business, we have enhanced the talent recruitment and training and enriched the IP reserve, so as to create a foundation for the matrix promotion of works.

In 2019, the Group achieved the following results in its principal businesses:

1. The open-beta testing of "Uproar in Heaven (鬧鬧天宮) ", the Group's self-developed product, was officially launched on March 28, 2019 and was distributed under the Tencent A.C.E Program. As a MOBA game, "Uproar in Heaven (鬧鬧天宮)" has been well received by nearly ten millions of registered players since its release. With its fascinating Chinese-painting-style artistic and casual battling system, the game achieved top ranking in several platform ranking lists, such as iOS free download chart, the best seller list of TapTap, etc. right after the kick-off of its testing. It was also recommended by the Apple App Store on its homepage and received positive coverage by various media in the industry. The game has entered into a stable long-term operation stage. The Group will continue to work together with the Tencent A.C.E Program to offer exciting gaming experience to players through continuous updates.

2. In order to further expand its product line and enhance the competitiveness of the Group in the casual game market, the Group has established its casual game development team, which is designated for the development of products such as hyper-casual games, moderate casual games, strategy games and female-oriented games.

3. The Group continuously endeavored in overseas game 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 the South Korea mobile game market, "一夢江湖" (formerly known as "楚留香") ("검은달" in Korean), a game developed by NetEase, was issued on March 18 2020. In addition, the Group has focused on the expansion of Japan market, following our overseas expansion in South Korea and planned to launch the mobile version of the classic IP game "Ys VIII" in Japan. In the Tokyo Game Show (TGS) held in September 2019, the Group offered a demo of the mobile version of "Ys VIII" on site, attracted a long queue of players and reported by well-known Japanese media of the industry, such as 4Gamer and Famitsu (Fami通).

4. There were developments in the filming business of the Group — "Linekong Pictures". In January 2019, the exclusive broadcasting of "Long For You 2 (我與你的光年距離2)" on Mango TV and Youku has completed and received favourable comments from the internet drama market and welcomed by audience for its high quality. The Group cooperated with Mango TV and produced a romantic drama, "Love The Way You Are (身為一個胖子)" in the first half of 2019, which started the broadcasting on Mango TV on December 18, 2019. The drama was very popular during its broadcasting period, and was spreaded by major internet channels such as Tik Tok, Weibo, Kuaishou and bilibili. In addition, "原來你是這樣的顧先生", a new drama cooperated with Tencent, started filming in Chengdu on December 19, 2019.

5. Over the past years, the Group has attached great importance in building a talent team, in particular the positions of producers for filming business and the screenwriting team. We have recruited and trained many outstanding talents which has ensured a sufficiency of talents to support the matrix product layout of our filming business in 2020. In 2019, Linekong Pictures further diversified its IP reserve, including prime drama (頭部劇) and secondary drama (腰部劇). After more than three years of endeavors, in 2020, the quantity and quality of products of the Group are expected to be further boosted and the sustainability of our prime and secondary products will be ensured.

Chairman's Statement

Looking forward to 2020, in respect of our gaming business, in addition to the strategy of developing prime products, we will also attach more importance to the distribution business in major markets such as Korea and Japan. We will continue to enhance the commercial value of our IP and put more efforts in team building. Key projects such as the Korean version of "一夢江湖" and the mobile version of "Ys VIII: Lacrimosa of DANA" will be launched in the year, and several self-developed products will also be launched in China. In respect of our filming business, we will develop a matrix product layout. "原來你是這樣的顧先生", a new drama cooperated with Tencent, is expected to be delivered and released in 2020. Our nostalgic painting style animation, "Ancient Music Records (古樂風華錄)", and the youth and adventure themed IP project, "Tales of Sea of Clouds (雲海藏山傳)" (formerly known as the "Tomb Guardian (鎮墓獸)", co-authored by Cai Jun and Tianxia Bachang) are scheduled to start filming in September and July 2020, respectively. Key projects of the Group, including "哏兒", a new-type drama, and "花好月又圓", an original IP of Linekong Pictures, will start filming in 2020. Furthermore, a film adapted from "與君相戀100次", a top Japanese romance film released in 2016, will also start filming in 2020.

We truly understand that the brand value of Linekong Interactive is responsible to the communities, our shareholders and all employees. We would like to take this opportunity to express our gratitude to our shareholders and investors for their long-term support and trust, and we also want to thank all employees for their valuable contributions to Linekong Interactive during this challenging and opportunistic period. In 2020, we will continue to be pragmatic and customer-oriented in developing prime products, as well as create 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 51, 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 and 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 the senior vice president in charge of digital entertainment and sales and marketing from January 2006 to March 2007. Mr. Wang has over 22 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 46, 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 21 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 33, 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 a 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 obtained his Master of Engineering from Huazhong University of Science and Technology in June 2010.

Mr. Wang Jin (also known as Yan Yusong), aged 46, 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 21 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 49, 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 61, 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 42, 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 17 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 43, 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 17 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 37, 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 17 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

In 2019, the management of Linekong Interactive continued to adopt a relatively stable operating strategy and substantially narrowed down the losses. The management is of the view that in the long run, the future development of the Group will be benefited from such adjustments. Set out below is the review and analysis of the business development of the Group during the period from January 1, 2019 to December 31, 2019.

1. PROMOTING RESEARCH AND DEVELOPMENT OF NEW PRODUCTS AND ACCELERATING EXPANSION OF OVERSEAS GAME MARKETS BY LINEKONG GAMES

The open-beta testing of "Uproar in Heaven (鬧鬧天宮)" was launched on March 28, 2019 and was distributed under the Tencent A.C.E Program. As a light MOBA game, "Uproar in Heaven (鬧鬧天宮)" has been well received by nearly ten millions of registered players since its release and is currently in a stable long-term operation stage. The Group will continue to work together with the Tencent A.C.E Program to offer exciting gaming experience to players through continuous updates.

In order to further expand its product line and enhance the competitiveness of the Group in the casual game market, Linekong Interactive has established its casual game development team, which is designated for the development of products such as hyper-casual games, moderate casual games, strategy games and female-oriented games.

On March 18, 2020, game business of the Group in South Korea officially distributed "一夢江湖" (formerly known as "楚留香") ("검은달" in Korean), a game developed by NetEase.

Based on our research and analysis of overseas markets, the Group has focused on the expansion of Japan market, following our overseas expansion in South Korea. Our Japan distribution team was established in the first quarter of 2019, the members of which have experience in publishing Top 30 best-selling games in Japan. Linekong Interactive is going to launch the mobile version of "Ys VIII", a classic Japanese ARPG game, in Japan. The Group has been licensed to exclusively adapt and globally distribute the mobile version of "Ys VIII" and has engaged well-known Japanese writers to refine and upgrade the plot of the game and a number of famous Japanese painters to create modern artworks. In the Tokyo Game Show (TGS) held in September 2019, the Group offered a demo of the mobile version of "Ys VIII" on site, attracted a long queue of players and reported by well-known Japanese media of the industry, such as 4Gamer and Famitsu (Fami通). The adaption of the mobile version of "Ys VIII" is fully supervised by Falcom and the game is expected to be officially launched in 2020.

In addition, as of the Reporting Period, games such as "Nueva Salida (大航海之路)" (Korean Server) and "Daybreak Legends (黎明之光)" have continued to contribute profit to the Group. The Group will continue to promote and operate "Nueva Salida (大航海之路)" (Korean Server) and "Daybreak Legends (黎明之光)" globally.

2. LINEKONG PICTURES WILL ENTER A PHASE OF MATRIX PRODUCT DEVELOPMENT IN 2020, ENSURING THAT PRIME DRAMAS AND SECONDARY DRAMAS WILL CONTINUE TO BE WELL-RECEIVED

In 2020, Linekong Pictures will enter a phase of matrix product development to focus on target audiences and ensure that its prime dramas and secondary dramas will continue to be well-received.

After over three years of experience and accumulation of brands, Linekong Pictures has a series of outstanding drama reserves, including prime drama (頭部劇), secondary drama (腰部劇) and micro drama (微劇). "Ancient Music Records (古樂風華錄)" and "Tales of Sea of Clouds (雲海藏山傳)", formerly known as "the Tomb Guardian (鎮墓獸)", which are scheduled to start filming in September and July 2020, respectively, are the Group's prime IPs (頭部IP). A nostalgic animated IP, "Ancient Music Records (古樂風華錄)", was included and ranked first in the 2017 List of National Items for Reforms and Development (改革發展項目庫2017年入庫名額) by promoting Chinese traditional music with nostalgic painting style. The comic on which the drama was based was included in the 2016 Mobility Supporting Plan for Chinese Original Comic and Animation (2016年原動力中國原創動漫出版扶持計劃) by the State Administration of Press, Publication, Radio, Film and Television (國家廣電總局).

Management Discussion and Analysis

LINEKONG PICTURES WILL ENTER A PHASE OF MATRIX PRODUCT DEVELOPMENT IN 2020, ENSURING THAT PRIME DRAMAS AND SECONDARY DRAMAS WILL CONTINUE TO BE WELL-RECEIVED *(Continued)*

After the completion of three selected secondary dramas including "Long For You (我與你的光年距離)", "Unexpected (來到你的世界)" and "Long For You 2 (我與你的光年距離2)", the Group cooperated with Mango TV and produced a romantic drama, "Love The Way You Are (身為一個胖子)" in the first half of 2019. Broadcasting of "Love The Way You Are (身為一個胖子)" started on Mango TV on December 18, 2019 and received overwhelming responses from the audiences during the broadcast. The drama was spontaneously shared among the audiences on major internet platforms such as TikTok, Weibo, Kuaishou and bilibili. In addition, filming of "原來你是這樣的顧先生", a new drama jointly produced with Tencent, has officially started in Chengdu on December 19, 2019. More than half of the project filming has been completed currently and the drama is scheduled to be delivered and broadcast in 2020. The ancient romantic drama "花好月又圓", an original IP of the Group, will start filming in the first half of 2020. It is about a rich girl becomes a busker after an accident, while an illiterate musician is going to be married with an army general's family and pretending to be a well-educated rich girl. "哏兒" is a new-type drama filled with traditional cultural treasures, such as crosstalk, Peking Opera, Ping Opera and drama, will start filming in 2020. In addition, Linekong Pictures follows the current hottest trend of short videos and plans to produce a real-life micro drama adapting "和女兒的日常", an animation with a high score of 8.7 on Douban.com.

In the filming sector, the filming of "與君相戀100次", which is adapted by the Group based on a top Japanese romance film released in 2016, will start in 2020.

During the Reporting Period, artist agency business of the Group also had relatively sound development. A contracted artist of Linekong Pictures, Zhang Ge, who is a potential actress born after 2000, was among the hot searches on Weibo Hot Searches twice due to the role of Xiao Ai in "Go Go Squid (親愛的，熱愛的)" in 2019. Moreover, Linekong Pictures has signed contracts with various actors of the new generation, such as Ding Jiawen.

In 2020, the Group will focus on major works, including self-development business of games, deployment of causal games, expansion in the Japan market and matrix product development of various film and television projects. The Group will adhere to its practical and customer-oriented principle to create high quality products and offer fascinating entertainment.

Management Discussion and Analysis

FINANCIAL REVIEW

The following table sets out our consolidated statement of loss for the years ended December 31, 2018 and 2019, together with changes (expressed in approximate percentages) from 2018 to 2019:

	For the year ended December 31,				
	2019		2018		Change
	RMB'000	*Approximate %*	*RMB'000*	*Approximate %*	*approximate %*
Revenue	**226,030**	**100.0**	457,790	100.0	(50.6)
Cost of revenue	**(154,892)**	**(68.5)**	(286,390)	(62.6)	(45.9)
Gross profit	**71,138**	**31.5**	171,400	37.4	(58.5)
Selling and marketing expenses	**(30,804)**	**(13.6)**	(103,756)	(22.7)	(70.3)
Administrative expenses	**(69,587)**	**(30.8)**	(91,775)	(20.0)	(24.2)
Research and development expenses	**(27,000)**	**(11.9)**	(67,860)	(14.8)	(60.2)
Net impairment losses on receivables	**(1,099)**	**(0.5)**	(3,253)	(0.7)	(66.2)
Other operating income — net	**4,950**	**2.2**	4,679	1.0	5.8
Operating loss	**(52,402)**	**(23.2)**	(90,565)	(19.8)	(42.1)
Other losses — net	**(60,517)**	**(26.8)**	(54,463)	(11.9)	11.1
Finance income/(costs) — net	**1,325**	**0.6**	(1,349)	(0.3)	(198.2)
Share of profit/(losses) of investments using equity accounting	**2,026**	**0.9**	(12,411)	(2.7)	(116.3)
Loss before income tax	**(109,568)**	**(48.5)**	(158,788)	(34.7)	(31.0)
Income tax expense	**(2,635)**	**(1.2)**	(4,226)	(0.9)	(37.6)
Loss for the year	**(112,203)**	**(49.6)**	(163,014)	(35.6)	(31.2)
Non-IFRSs Measure:					
Adjusted net loss (unaudited)	**(43,134)**	**(19.1)**	(93,651)	(20.5)	(53.9)

Revenue

The Group's revenue amounted to approximately RMB226.0 million for the year ended December 31, 2019, representing a decrease of approximately 50.6% from that of approximately RMB457.8 million for the year ended December 31, 2018.

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

	For the year ended December 31,			
	2019		2018	
	RMB'000	*Approximate %*	*RMB'000*	*Approximate %*
Development and operations of online games	**170,050**	**75.2**	334,160	73.0
Production and licensing of film rights and others	**55,980**	**24.8**	123,630	27.0
Total	**226,030**	**100.0**	457,790	100.0

For the year ended December 31, 2019, the revenue contributed by game business was approximately RMB170.0 million, representing a decrease of approximately 49.1% or RMB164.1 million as compared with the corresponding period of 2018, which was attributable to the decrease in new games released in 2019 than in 2018 and decrease in revenue from existing games. The Group has implemented strategies to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of the Group's film business, the Group recognised revenue of approximately RMB56.0 million from production and licensing of film rights and others for the year ended December 31, 2019, representing a decrease of approximately 54.7% as compared to approximately RMB123.6 million for the year ended December 31, 2018. The decrease was mainly due to the delay of production schedule of a TV drama in 2019.

Management Discussion and Analysis

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

	For the year ended December 31,			
	2019		2018	
	RMB'000	*Approximate %*	*RMB'000*	*Approximate %*
Self-developed games	**58,885**	**34.6**	86,104	25.8
Licensed games	**111,165**	**65.4**	248,056	74.2
Total	**170,050**	**100.0**	334,160	100.0

	For the year ended December 31,			
	2019		2018	
	RMB'000	*Approximate %*	*RMB'000*	*Approximate %*
Sales of in-game virtual items	**136,000**	**80.0**	309,516	92.6
License fee and technical support fee	**34,050**	**20.0**	24,644	7.4
Total	**170,050**	**100.0**	334,160	100.0

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

	For the year ended December 31,			
	2019		2018	
	RMB'000	*Approximate %*	*RMB'000*	*Approximate %*
China (including Hong Kong, Macau and Taiwan)	**139,505**	**61.7**	259,373	56.7
Overseas countries and regions	**86,525**	**38.3**	198,417	43.3
Total	**226,030**	**100.0**	457,790	100.0

Cost of revenue

The Group's cost for the year ended December 31, 2019 was approximately RMB154.9 million, representing a decrease of approximately 45.9% from approximately RMB286.4 million for the year ended December 31, 2018.

For the year ended December 31, 2019, the cost incurred by game business was approximately RMB109.4 million, representing a decrease of approximately 47.9% or RMB100.7 million as compared with the corresponding period of 2018, which was due to the decrease in distribution of new games in 2019.

In respect of the Group's film business, the cost incurred by production and licensing of film rights and others recognised was approximately RMB45.5 million for the year ended December 31, 2019, representing a decrease of approximately 40.4% or RMB30.8 million as compared with the corresponding period of 2018. Such decrease was mainly attributable to the delay of production schedule of a TV drama.

Management Discussion and Analysis

Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2019 was approximately RMB71.1 million, representing a decrease of approximately 58.5% from approximately RMB171.4 million for the year ended December 31, 2018. The decrease in the Group's gross profit was primarily due to the decrease in new games released and decrease in revenue from existing games.

The Group's gross profit margin for the year ended December 31, 2019 was approximately 31.5%, representing a decrease of approximately 5.9% as compared to approximately 37.4% for the year ended December 31, 2018. The decrease in the Group's gross profit margin was primarily due to the decrease in gross profit margin of the Group's film business as compared with 2018.

For the year ended December 31, 2019, the gross profit margin of the Group's game business was approximately 35.7%, representing a decrease of approximately 1.5% as compared with the corresponding period of 2018. The gross profit margin of film business and others was approximately 18.8%, representing a decrease of approximately 19.5% as compared with the corresponding period of 2018, which was mainly due to the change of sales arrangement of film business from granting copyright to copyright customization model with relatively stable profits.

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended December 31, 2019 were approximately RMB30.8 million, representing a decrease of approximately 70.3% from approximately RMB103.8 million for the year ended December 31, 2018. The decrease in selling and marketing expenses was primarily due to the decrease in advertising and promotion expenses incurred by new games distribution.

Administrative expenses

The Group's administrative expenses for the year ended December 31, 2019 were approximately RMB69.6 million, representing a decrease of approximately 24.2% from approximately RMB91.8 million for the year ended December 31, 2018. 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, 2019 were approximately RMB61.3 million, representing a decrease of approximately 17.3% from approximately RMB74.1 million for the year ended December 31, 2018. The decrease in administrative expenses was primarily due to the decrease in expenses so as to meet the needs of the business and development strategies of the Company.

Research and development expenses

The Group's research and development expenses for the year ended December 31, 2019 were approximately RMB27.0 million, representing a decrease of approximately 60.2% from approximately RMB67.9 million for the year ended December 31, 2018. The decrease in research and development expenses was primarily due to decrease in salary expenses as a result of reduction in headcounts for improving efficiency so as to meet the needs of the business and development strategies of the Company.

Net impairment losses on receivables

The Group's net impairment losses on receivables for the year ended December 31, 2019 were approximately RMB1.1 million, representing a decrease of approximately 66.2% from approximately RMB3.3 million for the year ended December 31, 2018.

Other operating income — net

The Group's other operating income — net for the year ended December 31, 2019 was approximately RMB5.0 million, while other operating income — net was approximately RMB4.7 million for the year ended December 31, 2018, representing an increase of approximately 5.8%. The increase of the Group's other operating income for the year was mainly due to the increase in foreign exchange gains.

Management Discussion and Analysis

Operating loss

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

	For the year ended December 31,		
	2019	2018	Change
	RMB'000	*RMB'000*	*approximate %*
Operating (loss)/profit			
Game Business	**(44,847)**	(105,226)	(57.4)
Film Business	**(7,555)**	14,661	
Total	**(52,402)**	(90,565)	(42.1)

With the efforts of management, the operating loss of the gaming business in 2019 was reduced by 57.4%, despite the harsh environment of the industry. The operating loss of our film business was mainly due to the decrease of gross profit due to the change of sales arrangement of film business during the period.

Other losses — net

The Group's other losses-net for the year ended December 31, 2019 were approximately RMB60.5 million, representing an increase in loss of approximately 11.1% from other losses-net of approximately RMB54.5 million for the year ended December 31, 2018, which was mainly due to the changes in fair value of the financial instruments held by the Group.

Finance income/(costs) — net

The Group's finance income-net for the year ended December 31, 2019 was approximately RMB1.3 million, while finance costs-net of approximately RMB1.3 million for the year ended December 31, 2018, which was mainly due to the increase in interest income attributable to increased efficiency in the use of capital for the year.

Share of profit/(losses) of an investment using equity accounting

The Group's share of profit of an investment using equity accounting for the year ended December 31, 2019 was approximately RMB2.0 million, while share of loss of approximately RMB12.4 million for the year ended December 31, 2018, which was mainly due to the operating income generated by Fuze Entertainment Co., Ltd. ("**Fuze**"), our investee.

Income tax expense

The Group's income tax expense for the year ended December 31, 2019 was approximately RMB2.6 million, representing a decrease of approximately 37.6% from the Group's income tax expense of approximately RMB4.2 million for the year ended December 31, 2018 which was mainly due to the decrease in taxable income of some subsidiaries in 2019.

Loss for the year

As a result of the foregoing, loss attributable to owners of the Company for the year ended December 31, 2019 was approximately RMB108.7 million, representing a decrease of approximately 34.9% from approximately RMB166.9 million for the year ended December 31, 2018.

Management Discussion and Analysis

Non-IFRSs measure — adjusted net loss

To supplement our consolidated financial statements presented in accordance with the International Financial Reporting Standards ("**IFRS**"), 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 charged to/(reversal of) share-based compensation expenses, one-off compensation for loss of office paid, impairment on loans to third parties, loss arising from disposal of an investment using equity accounting, fair value loss from financial assets at fair value through profit or loss and fair value loss from an associate measured 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,		
	2019	2018	Change
	RMB'000	*RMB'000*	*approximate %*
Loss for the year	**(112,203)**	(163,014)	(31.2)
Charged to/(reversal of) share-based compensation expenses	**(2,611)**	2,498	—
One-off compensation for loss of office paid	**(5,941)**	(18,273)	(67.5)
Impairment on loans to third parties	**(20,319)**	—	—
Loss arising from disposal of an investment using equity accounting	**(4,500)**	—	—
Fair value loss from financial assets at fair value through profit or loss	**(33,132)**	(53,258)	(37.8)
Fair value loss from an associate measured at fair value through profit or loss	**(2,566)**	(330)	677.6
Adjusted net loss (unaudited)	**(43,134)**	(93,651)	(53.9)

The Group's adjusted net loss for the year ended December 31, 2019 was approximately RMB43.1 million, representing a decrease of 53.9% as compared to the adjusted net loss of approximately RMB93.7 million for the year ended December 31, 2018. The adjusted net loss decreased as compared to 2018 was due to the combined effect of the following factors: (1) the decrease in advertising and marketing expenses for games distribution; and (2) the decrease in salary expenses as a result of reduction in headcounts for improving efficiency.

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 charged to/(reversal of) share-based compensation expenses, one-off compensation for loss of office paid, impairment on loans to third parties, loss arising from disposal of an investment using equity accounting, fair value loss from financial assets at fair value through profit or loss and fair value loss from an associate measured 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.

LIQUIDITY AND FINANCIAL RESOURCES

In 2019, 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**" or "**Listing**") which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the year ended December 31, 2019, 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.

Management Discussion and Analysis

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

As at December 31, 2019, we had cash and cash equivalents of approximately RMB96.5 million (as at December 31, 2018: approximately RMB176.6 million), which primarily consisted of cash at bank and other financial institutions and cash in hand and which were mainly denominated in Hong Kong dollars ("**HKD**") (as to approximately 37.0%), U.S. dollars ("**USD**") (as to approximately 34.4%), Renminbi (as to approximately 27.2%) and other currencies (as to approximately 1.4%).

As at December 31, 2019, we had short-term bank deposits of RMB128.0 million (as at December 31, 2018: approximately RMB102.9 million). Approximately RMB230.9 million (as at December 31, 2018: RMB233.8 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, 2018: RMB199.1 million) provided by the bank. Such facility will expire within one year.

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 2020, 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, 2019, our total capital expenditure amounted to approximately RMB60.2 million (2018: approximately RMB31.4 million), including expenditures on film rights and films in progress of approximately RMB16.1 million (2018: approximately RMB5.9 million), the purchase of furniture and office equipment of approximately RMB0.1 million (2018: approximately RMB0.4 million), server and other equipment of approximately RMB1.5 million (2018: approximately RMB0.1 million), trademarks and licenses of approximately RMB42.2 million (2018: approximately RMB23.8 million) and computer software of approximately RMB0.3 million (2018: approximately RMB1.2 million). As of the end of the Reporting Period, we have no committed capital expenditures, and the capital expenditures for 2020 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.

BORROWING AND GEARING RATIO

As at December 31, 2019, the bank loans borrowed by the Group amounted to RMB199.1 million (as at December 31, 2018: RMB199.1 million), which were fixed rate loans for a term of one year. As at December 31, 2019, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 41.1% (as at December 31, 2018: approximately 38.8%).

CHARGE ON GROUP ASSETS

As at December 31, 2019, restricted deposits of approximately RMB230.9 million of the Group were pledged to secure bank borrowings (as at December 31, 2018: RMB233.8 million).

Management Discussion and Analysis

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2019, the Group had 175 employees (as at December 31, 2018: 284), 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, 2019, respectively:

	As at December 31,			
	2019		2018	
Function	***Number of Employees***	***Approximate % of total employees***	*Number of Employees*	*Approximate % of total employees*
Research and development	**30**	**17.1**	128	45.0
Game publishing	**91**	**52.0**	86	30.3
General and administrative	**33**	**18.9**	46	16.2
Film business	**21**	**12.0**	24	8.5
Total	**175**	**100.0**	284	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 RMB75.3 million for the year ended December 31, 2019 (2018: approximately RMB147.5 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. Share-based compensation expenses in connection with the RSU Scheme and the Share Option Scheme for the year ended December 31, 2019 were approximately RMB2.6 million, while the reversal of share-based compensation expenses for the year ended December 31, 2018 were approximately RMB2.5 million.

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.

Management Discussion and Analysis

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, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended December 31, 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at the date of this report, the Group did not have plans for material investments and capital assets for 2020.

SIGNIFICANT INVESTMENT HELD DURING THE REPORTING PERIOD

As of December 31, 2019, the significant investment held by the Group includes the following:

- Fuze Entertainment Co., Ltd ("**Fuze**"), a company which is engaged in development and sales of smart device recorded a slight revenue and it was undergoing a business transformation (note 11 to the consolidated financial statements);
- Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "**Jikebang Fund**"), a private equity fund with no significant change in the fair value (note 12 to the consolidated financial statements);
- Certain equity investments in unlisted companies (note 13 to the consolidated financial statements).

CONTINGENT LIABILITIES

As at December 31, 2019, the Group did not have any significant contingent liabilities (as at December 31, 2018: Nil).

FOREIGN EXCHANGE RISK

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

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from overseas cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended December 31, 2019.

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, 2019.

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, 2019 is set out as follows:

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

Non-executive Director
Mr. Pan Donghui

Independent non-executive Directors
Ms. Zhao Yifang
Mr. Zhang Xiangdong
Ms. Wu Yueqin

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 2019, 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 and has been renewed for another term of three years on February 3, 2020. 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 19, 2020.

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, 2019.

Corporate Governance Report

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each of the Directors attended one training in 2019, including the training 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	C&R
Ms. Liao Mingxiang *(Chief Executive Officer)*	1	C&R
Mr. Chen Hao *(Vice President)*	1	C&R
Mr. Wang Jin *(also known as Yan Yusong) (Vice President)*	1	C&R
Non-executive Director		
Mr. Pan Donghui	1	C&R
Independent Non-executive Directors		
Ms. Zhao Yifang	1	C&R
Mr. Zhang Xiangdong	1	C&R
Ms. Wu Yueqin	1	C&R

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 and Ms. Liao Mingxiang, our executive Directors, Ms. Zhao Yifang and Ms. Wu Yueqin, 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, 2019.

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 Mr. Pan Donghui, our non-executive Director, Ms. Zhao Yifang, Mr. Zhang Xiangdong and Ms. Wu Yueqin, 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 those Directors who offered themselves for re-election at the 2018 annual general meeting.

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 (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, 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, took effect 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, our independent non-executive Director, and other members include Mr. Pan Donghui, our non-executive Director, Mr. Zhang Xiangdong and Ms. Zhao Yifang, our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM'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, 2019 as well as the consolidated financial statements for the three months ended March 31, 2019, six months ended June 30, 2019 and nine months ended September 30, 2019 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, 2019 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. Agenda 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, 2019, six 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)*	6	6
Ms. Liao Mingxiang *(Chief Executive Officer)*	6	6
Mr. Chen Hao *(Vice President)*	6	6
Mr. Wang Jin (also known as Yan Yusong) *(Vice President)*	6	6
Non-executive Director		
Mr. Pan Donghui	6	6
Independent Non-executive Directors		
Ms. Zhao Yifang	6	6
Mr. Zhang Xiangdong	6	6
Ms. Wu Yueqin	6	6

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, 2019, the Company convened and held one general meeting, namely the 2018 annual general meeting held on June 21, 2019, 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 and Ms. Wu Yueqin.

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Audit Committee Meeting

For the year ended December 31, 2019, 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)*	4	4
Ms. Zhao Yifang	4	4
Mr. Zhang Xiangdong	4	4

Nomination Committee Meeting

For the year ended December 31, 2019, one Nomination Committee meeting was held. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng *(Chairman of Nomination Committee)*	1	1
Non-executive Director		
Mr. Pan Donghui	1	1
Independent Non-executive Directors		
Ms. Zhao Yifang	1	1
Mr. Zhang Xiangdong	1	1
Ms. Wu Yueqin	1	1

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Remuneration Committee Meeting

For the year ended December 31, 2019, three 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	3	3
Ms. Liao Mingxiang	3	3
Independent Non-executive Directors		
Mr. Zhang Xiangdong *(Chairman of Remuneration Committee)*	3	3
Ms. Zhao Yifang	3	3
Ms. Wu Yueqin	3	3

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, 2019 is set out below:

Remuneration band	Number of persons
HKD0 to HKD500,000	4
HKD1,000,001 to HKD1,500,000	1

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in note 27 and note 38 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 Services 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 Chartered Governance Institute (formerly known as 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, 2019, 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, 2019, the fees paid/payable to PricewaterhouseCoopers for the audit of the financial statements of the Group were approximately RMB2.4 million.

For the year ended December 31, 2019, the fee paid/payable to PricewaterhouseCoopers for non-audit services was approximately RMB1.2 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 2019. 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, 2019, 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, 2019, 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:

- In 2019, with the concentration of resources to the dominant enterprises in the gaming industry and more stringent approval policy of online game publication, competition within the industry intensified. As the market environment of the media and entertainment industry was far from optimistic, the Group had to cope with enormous challenges in terms of development. In 2020, in respect of our gaming business, in addition to the strategy of developing prime products, we will expand the distribution business in robust markets such as Korea and Japan. In respect of our filming business, a matrix product layout will be adopted to reduce risks.

- 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 gaming and filming businesses of the Group are affected by domestic policies. If there is any unfavourable domestic policy on gaming and filming businesses, 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, 2019.

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

The Environmental, Social and Governance Report ("**the Report**") is to present the performance of Linekong Interactive Group Co., Ltd. ("**Linekong Interactive**", "**the Company**" or "**we**") on environment, society and governance ("**ESG**") in 2019 in an objective and fair manner.

The Report is prepared mainly with reference to the Environmental, Social and Governance Reporting Guide ("**the Guide**") contained in Appendix 20 to the GEM listing rules of The Stock Exchange of Hong Kong Limited ("**The Exchange**"). The Report covers 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 of the Report is to disclose to stakeholders the management measures and performance of the Company in 2019 in terms of the environment, society and governance. During the preparation of the Report, we strive to make information in line with the four reporting principles of materiality, quantitative, balance and consistency required by The Exchange.

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 MANAMGEMENT SYSTEM

1.1 Overview of ESG management

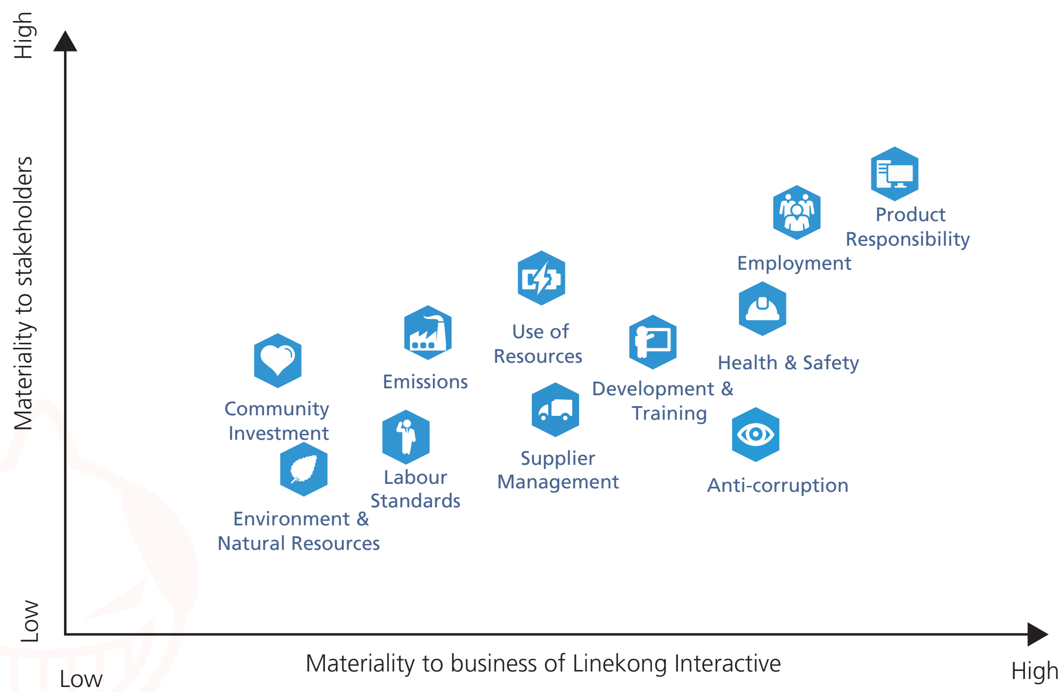
Carrying on the vision of "becoming a leading global entertainment enterprise", Linekong Interactive is committed to "have fun, have brilliant" and thrives in the internet industry. As an influential interactive entertainment company in China, Linekong Interactive takes initiative in fulfilling the social responsibility and promoting the practice of green office, seeking for the growth together with employees and partners, making great efforts on product innovation and information security, and contributing to the community development. In the Internet era, Linekong Interactive has gradually integrated the concept of sustainable development into its operations taking into considerations of all stakeholders, whilst enhancing its ESG management to contribute to the global sustainable development.

Environmental, Social and Governance Report

1.2 Stakeholder engagement

With great appreciation of the participation from stakeholders in operating activities, the Company has established communication mechanism and feedback system to ensure clear communication channels. The Company has identified major stakeholders related to the Company's operation, including the government and regulators, shareholders and investors, employees, customers, suppliers, media and neighbouring communities. The Company has actively responded 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 meeting, internal announcements, feedback mechanism for employee comments, company activities, 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 and 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, emissions, environment and natural resources
Neighbouring Community	Promotion of employment, community activities, etc.	Community investment and employment



Environmental, Social and Governance Report

2. GREEN OPERATION

Linekong Interactive is well aware of the importance of environmental protection and resource conservation, and thus takes the initiative to fulfil our social responsibilities. In 2019, Linekong Interactive continued to implement the green operation with the concept of green development. Strictly conforming to 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*, the Company made great efforts to save resources and reduce emission.

2.1 Resource conservation

As a non-manufacturing company, the Company's resource consumption in the process of operation mainly includes electricity consumption, fuel consumed by the official vehicles, paper and water. The Company has formulated the *Rules for Energy Management in Linekong Interactive Group Office Area* to provide guidance for energy conservation and consumption reduction in its office. In 2019, the Company actively carried out following resource-saving measures:

Adoption of the cloud servers: The Company migrated more than 90% of its online services to cloud servers this year. Compared with the traditional physical sever room, the cloud server supplier adopts large cluster virtualisation technology to conduct parallel computing, reducing the number of servers engaged, as well as energy consumption.

Optimisation of server rooms: The Company makes integration of the local server rooms to realise the replacement of several old servers with advanced one through the construction of virtualised environment and the use of new model servers with high configuration, thus reducing hardware used and energy consumption.

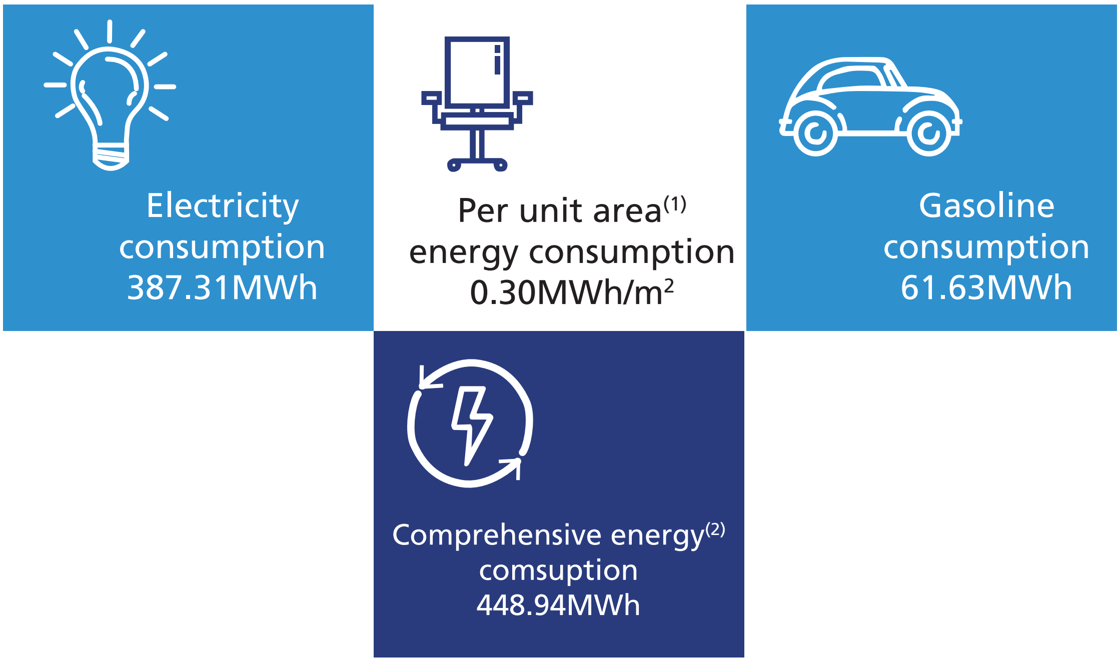
Management of office facilities: The Company uses more energy-saving and environmental friendly office appliances and facilities, such as energy-saving lamps, and conducts regular maintenance of air conditioners to maintain good energy efficiency.

Green office: The Company promotes paperless green office and encorages paper reuse. We also advocate the use of electrical appliances as needed and turn off these appliances after use. In addition, we integrate the methods and excellent practices of saving resources and consumables in the *Employee Handbook* to improve employees' awareness of resources utilisation.

Green travel: The Company encourages travel by public transportation and promotes green travel to improve energy efficiency.

Environmental, Social and Governance Report

Regarding the water consumption, water for office of Linekong Interactive is supplied by the property management company of the office building. In 2019, the Company had no issues in sourcing water. The Company advocates water conservation and places water conservation slogans at office, encouraging employees to save water. Since the office is rented and the Company shares the sanitary facilities with other companies in the office building, it is impracticable to separately measure its water consumption. According to the statistics available, the Company purchased 33.9 tons of bottled drinking water in 2019.



(1) In this year, the Company terminated the lease of certain office areas, and the total office areas of the Company was 1,500m².

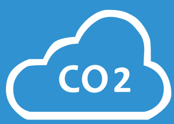
(2) The comprehensive energy consumption is calculated based on the direct and indirect energy consumption, by the conversion factors in the General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589–2008).

Considering that there is no physical production involved in the Company's operation and based on the principle of materiality, the key performance indicators, A2.5-total packaging materials used for finished products and A3-the environment and natural resources are not disclosed in the Report.

Environmental, Social and Governance Report

2.2 Emission reduction

The Company's daily operation, which is office work, mainly produces greenhouse gases(1), office wastes, electronic wastes and hazardous wastes including waste toner cartridges.



Greenhouse gas emissions(2)
(Scope 1 & Scope 2(3))
291.20 tons

Per unit area greenhouse gas emission
0.19 tons/m^2

(1) Due to the nature of the business of Linekong Interactive, the 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 (Revised in 2019).

(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 (purchased or acquired) consumed internally by the Company.

With respect to the management of office wastes and waste electronic products, the Company dismantles and continues to use components, which are still functional from waste electronic products for the purpose of minimising wastes. In addition, the Company commissioned qualified recycling agency to recycle waste electronic products, including waste servers and office computers. As the office wastes on the entire floor are disposed of by the property management company, the Company's office wastes cannot be calculated separately.

In terms of hazardous waste management, the Company develops detailed disposal procedures for hazardous wastes, and the IT Department is responsible for the management of waste toner cartridge and lead-acid accumulators. During 2019, 34.50kg of waste toner cartridges produced by the Company's own printers were disposed of by a qualified third party agency(4). Hazardous waste generated by the Company this year was 0.19 kg/person. During 2019, the Company replaced and transferred 2,400kg of waste lead-acid accumulators to its supplier for disposal.

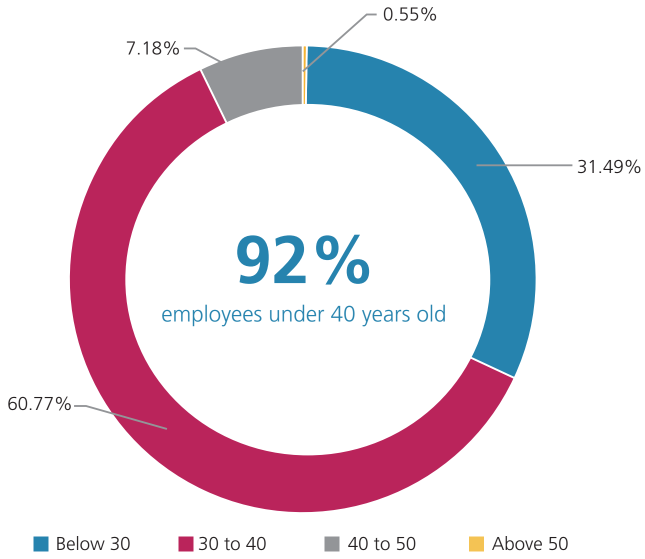
(4) The Company rented many printers and maintained some of its own printers. The rented printers are directly managed by the printer supplier while the waste toner cartridge generated were disposed by the supplier.

Environmental, Social and Governance Report

3. EMPLOYEE CARE

Employees are the most valuable assets of the Company, and we believe that the growth of employees is the foundation for the Company's sustainable development. The Company adheres to three values of "be honest, be straightforward", "be collaborative, be motivated" and "be curious, be different" and has built an excellent team with high cohesiveness, a strong sense of faith and great vitality. We effectively protect the legitimate rights and interests of our employees and provide them with rightful benefits. Apart, we attach great importance to their health and safety and invest in talent cultivation, aiming to achieve mutual development with our employees. In 2019, there were 181 employees in the Company, including 105 male employees and 76 female employees.

Employees' age profile



3.1 Employee rights and interests

Strictly abiding by the relevant 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* and the *Provisions of Beijing Municipality on Labour Contracts*, Linekong Interactive has developed the *Employee Handbook* and other internal regulations to clarify the standard rules and procedures related to the employment and remuneration for employees, in protecting legitimate rights and interests of each employee. Furthermore, the Company's human resource policy prohibits child labour or forced labour.

During the epidemic outbreak caused by the COVID-19, Linekong Interactive developed a series of measures to safeguard the legitimate rights and interests of our employees, as well as their health and safety. The Company provided additional leaves before the Spring Festival for employees to prepare for personal epidemic prevention measures. The Company extended the Spring Festival holidays and postponed the resumption of operations twice to ensure health and safety of our employees. The Company required employees arriving in Beijing to take a 14-day quarantine and work remotely from home before the end of the quarantine. The employees were also required to take temperature in the morning and evening every day (including weekends) and to submit relevant information according to the requirements of the office building management company and the sub-district office. Meanwhile, the Company encouraged online meetings to reduce chances for gathering. The Company provided employees with adequate protective materials, including masks, disinfectant wipes, etc. upon when and after returning to office from the extended holidays. Strictly implementing the relevant provisions on epidemic control in Beijing, the Company adopted the work shift system to reduce the number of employees working in office, thus protecting their health and safety. The Company also provided further safeguards for employees by shortening the working hours, reducing personnel density in office, and ordering meals for employees during the epidemic period.

Environmental, Social and Governance Report

Employment policy

The Company is committed to creating a harmonious, innovative, fair and diverse environment where no one is discriminated by gender, age, ethnic group, race or religion and everyone enjoys equal opportunities of employment and promotion. The Company develops detailed employee recruitment and resignation systems based on the Company's actual operation. In addition, the Company actively aims to recruit talent with innovation, develop talent, and achieve the best effective and efficient deployment of resources. We also endeavour to providing opportunities and a career platform for our employees to demonstrate their potential and achieve their development goals whilst fulfilling their positions.

Remuneration system

Linekong Interactive develops a comprehensive remuneration system based on the performance and contribution of employees with the principles of "being competitive externally, fair internally and provide incentives for employees". In attracting and retaining outstanding talent, the Company has established various incentives schemes taking into consideration of short-term, medium term and long-term developments of employees to promote a long-term mutual development of both employees and the Company.

Employee rights and benefits

The Company strictly complies with the working hours for employees stipulated in the labour contract, 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. We also provide various kinds of welfare benefits to our employees so that they can feel care from the Company. The Company also provides additional benefits for our employees, including commercial insurance, birthday leave, festival gift, group tour, etc. Linekong Interactive takes employees' opinions seriously and provides special assistance to those in need. We offer special care for pregnant or nursing female employees in terms of salary, working hours, labour protection, etc., and provide support for those in difficulty.

The Company holds annual meetings and organises team-building activities to actively create a favourable working environment for employees. The Company also organises various kinds of hobby clubs to enrich lifestyle of employees and enhance their cohesiveness and excellence in teamwork. The Company organizes a variety of festival activities during important holidays such as Dragon Boat Festival, Father's Day, Mother's Day and Mid-Autumn Festival to promote employees to relax and enjoy whilst working hard.

Annual meetings

Environmental, Social and Governance Report

Employee benefit-employee birthday party: In order to express our best wishes to the employees, we send birthday cards to employees on their birthdays with special wishes and count the total number of days the employee joined the Company as of the birthday. In addition, we invite employees whose birthdays are in the same month to attend and participate in various fun celebrating activities such as LEGO phone cover DIY, blind box lottery, birthday newspaper, birthday bazaar, etc., to allow our employees feel the warmth and care from the Company.

Employee benefit-festival activities: The Company organises cultural activities for employees in special festivals such as Chinese Valentine's Day and Christmas. For example, the Company organised a Qiqiao Carnival on the Chinese Valentine's Day festival. This event is a series of DIY game activities namely "Qiqiao Needle-Threading", "Handmade Flowers for Love", "Rainbow-Coloured and Feathered Costumes" and "Movable Words for Poems". Employees received and used the flower-made message slips in lucky draw for various kinds of gifts. We embraced Chinese traditional cultural custom in these DIY activities to give our employees more joy and fun and hence enhanced mutual understanding and team cohesiveness.

Festival activities

Employee communication

Linekong Interactive cares about employees' viewpoints on working environment. Employees are encouraged to raise their opinions or suggestions to the Company's Administration Department through offline or online communication channels. The Company will timely follow up, respond to employees' views, and fully discuss these views with the management.

3.2 Health and safety

The Company safeguards employees' physical and mental health and the safety at working places. Abiding by the *Labour Law of the People's Republic of China*, the *Regulation on Work-Related Injury Insurance*, the *Fire Protection Law of the People's Republic of China*, other relevant laws and regulations and industrial standards, Linekong Interactive is committed to ensure the health and safety of employees.

Employee health

The Company establishes employee occupational health records and provides free medical examinations for all employees. The Company also provides practical supports and distributes protective masks to employees in case of air pollution (haze for example), prepares efficient air purifiers in workplace and prepares daily emergency medicines, in order to safeguard employees' health and safety.

During the period of COVID-19 epidemic, Linekong Interactive daily cleans and disinfects public areas, and regularly ventilates offices to prevent the spread of the virus and protect employees' safety and health. The Company also has provided anti-epidemic supplies for employees including alcohol wipes, masks, disposable gloves, and set up designated trashcans.

Environmental, Social and Governance Report

Office safety

In daily operations, Linekong Interactive is committed to providing employees with a safe office environment. In addition to restricted access controls, we also conduct routine inspections of higher risk locations in our office and post clear and concise safety tips to further protect the safety of our employees and our customers.

Safety training

Employees are organised to participate in trainings on safety knowledge, such as firefighting training. We held a fire drill at the workplace together with the property management company to ensure employees' ability to deal with fire emergency and equip with safety knowledge of emergency evacuation in cooperation with external organisations, such as fire-fighting forces.

Fire drills

Environmental, Social and Governance Report

3.3 Training and development

Being people-oriented, Linekong Interactive is concerned with talent training and development. In order to meet the developmental needs of employees in different positions, the Company provides knowledge sharing channels for employees to learn knowledge of management, professional skills and general technical skills. The Company also organises various sharing programmes at the enterprise level. The Company aims to create a learning-oriented corporate culture, and hence encourages employees to improve skills and achieve career development. "Linekong Learning" a self-developed online video learning mini programme based on WeChat is used to upload internal and external training materials in the forms of videos and text records and allow employees to learn online at their convenience. The platform offers management and soft skill courses such as performance management, conference management and time management to develop the fundamental competencies of employees.

Training

Training case-new employee orientation training: "Orca newcomers' Village "was a training program for our new employees. In this program, our new employees are given to understand the Company's development history, core business modules, employee guide and other contents through interactive classroom sharing and tips activities. This aimed to help them quickly integrate into the Company.

Training case-core members training class: we invited Linekong Interactive CEO to conduct a lecture on "Being the Engine of the Team" to core members of the Company. The CEO vividly shared his rich theoretical and practical experience with 50 core employees. This had inspired our core members with confidence in the Company, with clear expectations and key messages from the Company delivered in the lecture, whilst promoting opportunities for them to enhance their personal capabilities.

Training case-business experience sharing activities: Linekong Interactive invited senior gaming media professionals to conduct experience sharing activities with gaming R & D and distribution team, and discussed key topics such as leisure games overseas development and overseas excellent publishers and products, so that the teams can better understand overseas game market. The sharing broadened our team's vision and insights, promoting more creativity and innovation.

Training case– core members team building: In 2019, with the participation of middle and senior managers of Linekong Interactive, the Company organised a two-day closed core members' team building activity. During the team building activity, a well-known management expert delivered a business management course to the managers and discussed and shared views on key practical issues faced in business development and team management. This enhanced their knowledge on best practice management models in raising their capabilities and skills in their roles as middle and senior management whilst increasing team cohesiveness.

Environmental, Social and Governance Report

3.4 Cultivation of corporate culture

Linekong Interactive uses Orca, a species of killer whale that has its language and clans, to represent and help to promote the Company's dynamic corporate culture. Through various cultural development efforts, we strive for the vision of "becoming a leading global entertainment enterprise".

A new media platform (i.e. the Orca-family official WeChat account), accessible to employees, is adopted to timely announce and share corporate information and internal activities of the Company with rich and interesting contents on corporate culture. This included information on training programs/courses, festival activities and annual meeting reviews. In addition, this incorporated a menu display specifically on employees' social welfare activities where our employees can conveniently look for relevant information on social welfare benefits such as wedding gifts, childbirth gifts, and other benefits.

4. RESPONSIBLE OPERATION

Linekong Interactive actively collaborates with suppliers, listens to customers' voices, improves product quality, upholds business integrity and strives for innovation, committing to continuously providing our customers with high-quality products.

4.1 Supply chain management

When selecting product and service suppliers, Linekong Interactive focuses on the service quality, reputation and performance of social responsibilities of suppliers. Based on the actual business requirements, the Company's Procurement Department cooperates with the purchasing department to rigorously inspect the supplier's qualifications, experience, technical quality, cost performance and other factors, and strictly examines technical quality report of products upon delivery to ensure purchased products meet applicable standards. As at the end of 2019, the Company had 58 suppliers, including 2 in East China, 4 in South China, 44 in North China, 1 in Southwest China, 2 in Hong Kong, Macao and Taiwan, and 5 from overseas.

For major procurement, the Company's Procurement Department together with the originating department conduct on-site investigations and assessments of various aspects of the suppliers including factory, third-party freight centres, and raw material production sites. The assessment scope covers the supplier's production and operational conditions, technical quality, and work environment of the productions and operations.

With a view to establishing long-term cooperative relationships with suppliers for mutual benefit, the Company has formulated the *Procurement Management Policy* (covering supplier management) to manage the cooperation with suppliers. The Company's Internal Control Department strictly controls the procurement process and supplier selection to ensure compliance and transparency and eliminate commercial bribery, in an effort to build a green, fair and clean supply chain with suppliers.

Environmental, Social and Governance Report

4.2 Product responsibilities

Product quality guarantee

The Company has developed a quality control process for all products and projects over their entire life cycle to ensure quality from early R & D planning, project optimisation, iterative upgrades, system stability to product healthy content.

R & D and planning: Adequate and rigorous preliminary market feasibility is conducted and suitable content is chosen for project or product launch.

Testing and optimisation: Comprehensive testing is conducted for products and the back-end systems, and optimisation is conducted by the R & D Department.

Iteration and upgrade: The feedback and comments from users are critically analysed and reviewed after the product is launched, high-quality suggestions are adopted for enhancement and upgrade.

System stability: Maintenance during product launch and operation is conducted to maintain normal product operation.

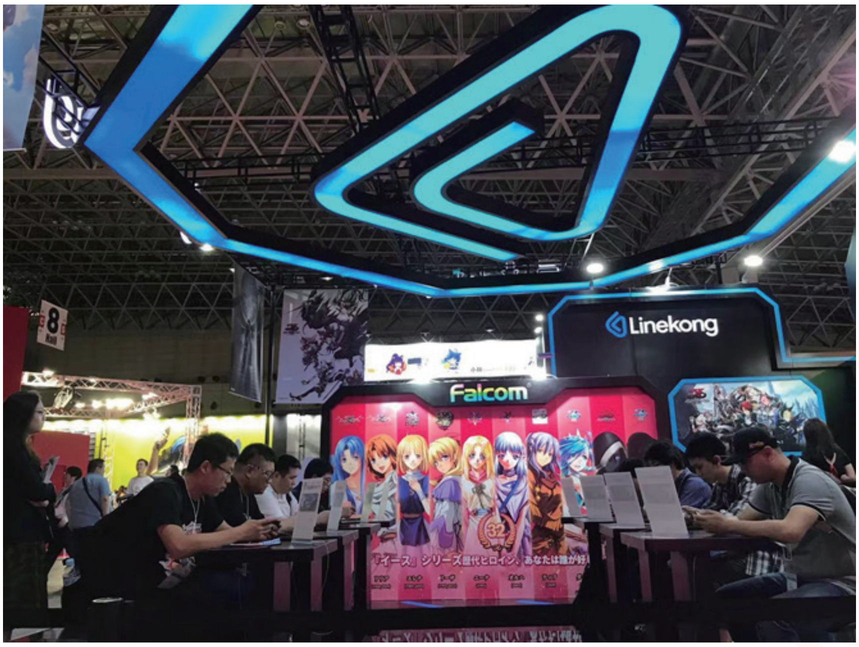
Appropriate content: Causes for sensitive, harmful or negative contents are identified and blocked; when the sensitive contents are updated, the Company will also immediately update the product.

Environmental, Social and Governance Report

Product case — Linekong Interactive at Tokyo Game Show 2019

In September 2019, Linekong Interactive exhibited our game product Ys VIII:Lacrimosa of Dana in the Tokyo Game Show 2019 (TGS) for an on-site trial experience, and attracted a large number of players with a long queue to experience our game. Many well-known industry media in Japan, such as 4Gamer and Famitsu, reported on Ys VIII:Lacrimosa of Dana.

Linekong Interactive at TGS 2019 (1)



Linekong Interactive at TGS 2019 (2)

Environmental, Social and Governance Report

Awards won by the products of Linekong Interactive in 2019 are as follows:

Award	Awarded by
Outstanding Global Game Publisher of the Year	CCG EXPO 2019
Most Expected Online Drama of the Year	"Power List" Film Industry Conference
Best Innovative Company in the Internet Industry	The 10th DoNews RenRen Awards Ceremony
Most Valuable Drama Producer of the Year	CEIS China Entertainment Industry Summit 2020
Cross-Industry Influencer of the Year	The 5th China Brand Entertainment Annual Ceremony

Management of advertising and trademark

Pursuant to the *Advertising Law of the People's Republic of China* and the *Trademark Law of the People's Republic of China* and other laws and regulations, Linekong Interactive has developed the *Linekong Interactive Advertising Process*, and regularly updates the policies on advertisements and trademarks. While protecting the Company's own trademark, the Company also avoids infringement of the relevant rights and interests of others. The Company ensures the authenticity of advertising contents, and avoids misleading information to the public in the Company's advertisements to eliminate risks of any violations.

Protection of intellectual property

Pursuant to the *Patent Law of the People's Republic of China* and the *Trademark Law of the People's Republic of China* and other laws and regulations, Linekong Interactive proactively identifies and manages key risks of intellectual property management within the Company.

Intellectual property management

The development, operation, and publishing of products and projects
During the development, operation, and publishing of products and projects, the Legal Department and other relevant functional departments of the Company employs professional institutions to investigate issues relating to trademarks, copyrights, and existing intellectual properties to prevent products and projects from passively infringing other existing intellectual properties.

Business personnel management
In the management of product-related business personnel, the Company provides intellectual property-related trainings for business personnel, inculcates concepts and awareness related to intellectual property protection, and prevents project contents from being leaked or disclosed at confidential stage and from being imitated, copied, and used by other entities.

Cooperation with partners
When cooperating with partners to develop or promote products and projects, the Company makes clear agreements with the partners on related issues such as the maintenance and ownership of intellectual property of related cooperation achievements, so as to avoid any disputes between the Company and the partners on the ownership, protection of rights, distribution of income, etc., and to prevent leakage of confidential information including other technical and trade secrets during the cooperation.

Environmental, Social and Governance Report

Linekong Interactive continues to strengthen management of intellectual property, with significant emphasis on proper application and maintenance of our own intellectual property, aiming to maximise the use of intellectual property in stimulating, leading, protecting and evaluating our innovation. Where considered necessary, the Company shall legally obtain formal prior authorisation for use of any intellectual property owned by others. As at the end of 2019, the Company had 1,183 intellectual properties, 1,030 trademarks and 135 copyrights.

Listening to customers

The Company has formulated the *Complaint Handling Process of Linekong Interactive Customer Service Centre* and has established customer communication channels including free customer service hotline, WeChat customer service, and QQ customer service to build a comprehensive communication channel with our customers. The Company hired a professional customer service provider this year to improve the efficiency of customer service. In order to ensure the service quality of the service provider, all recruitment interviews and trainings for the on-site personnel are performed by our staff at the supervisor level or above from Linekong Interactive Customer Service Department. The customer service supervisor and quality inspection supervisor of our Customer Service Department are responsible for daily supervising and providing guidance to the outsourced employees onsite to ensure quality and professionalism of the service.

We manage customer complaints through adopting the policies and principles of "clear responsibilities, clear accountabilities, clear escalation reporting process, prompt response, business integrity and compliance, timely recording and behavioural attitude of putting ourselves in customers' shoes". Any customer complaints must be handled within three working days. In 2019, we achieved an overall customer satisfaction rate of 90.20% and 4 complaints were reported with a processing rate of 100% and a return rate of 100%.

Information security

Pursuant to the *Network Security Law and the Information Security Technology — Personal Information Security Specification* and other law and regulations, Linekong Interactive provides customers with an excellent product experience while closely securing customer privacy. The Company has prepared the *Service Quality Management System* and the *Confidential Work Management System*, and has signed a Non-Disclosure Agreement with relevant employees to properly manage information confidentiality. The Company has a dedicated Information Security Management Team responsible for managing and supervising the Company's information security, project security and equipment security. For positions frequently accessing customer information, the Company adopts a logical access control to ensure the normal operation of the business and prevent unauthorised access to customer information. .

The Company has developed a strategy for responding to information leakage, encompassing root cause analysis, impact assessment and response measures to reduce the negative impact arising from information leakage.

Anti-addiction measures for minors

Pursuant to the *Notice of Preventing Minors from Indulging in Online Games* by the General Administration of Press and Publication, Linekong Interactive carries out measures to prevent minors from addiction to online games. All game users are required to use valid ID for game account registration, the length of time that minors spend on online games is strictly controlled and the provision of paid services to minors is restricted. Linekong Interactive has implemented an automated anti-addiction system on all our online products for detecting and monitoring minors.

Environmental, Social and Governance Report

4.3 Anti-corruption

In the daily operations and management, Linekong Interactive 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 other laws and regulations. The Company promptly monitors the revises and updates of relevant laws and regulations of the state departments on anti-corruption and anti-money laundering. We periodically evaluate our operations and management to ensure that the daily operations of the Company are in line with 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 of any misconduct, improper conduct or illegal acts within our operations. If anyone is aware of any misconduct, improper conduct or illegal acts, relating to corruption and money laundering, he or she may report to the reporting e-mail, the reporting hotline or report directly to the leader of Anti-corruption Department and the chairman of the Audit Committee. All these reporting are handled in a prudent and confidential manner, where the Company takes necessary protection measures in safeguarding confidentiality of whistle-blowers, and firmly prohibits retaliation against the whistle-blowers. The Company strengthened its internal audit policies and supervision on anti-corruption in 2019 to further effectively prevent corruption.

During 2019, neither the Company nor its employees had any major violations and lawsuits in respect of corruption and money laundering, nor did it have any cases of violations of the relevant integrity regulations by the management of the Company.

4.4 Community investment

The Company strives to establish a continuous and effective communication with the community. Whilst pursuing corporate development, the Company insists on serving society, contributing to society and undertaking social responsibility. In organising community charity activities, the Company understands and listen to the needs and expectations of the community, and considers the impact on the community that may arise from the Company's business activities. The Company focuses on young generation, and recruits and develops fresh graduates every year from its place of registration in promoting local employment, activating the local economy and facilitating regional prosperity. The Company is committed to demonstrating itself with actions to spread warmth to society, promoting values on public welfare and contributing to build a harmonious society.

Directors' Report

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a well-known platform operator of interactive entertainment contents, and 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, 2019.

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 sections of "Corporate Governance Report" set out on pages 19 to 32 and "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, 2019 are set out in the consolidated statement of comprehensive loss on page 82 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, 2019.

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 19, 2020. 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 16, 2020 to Friday, June 19, 2020, 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 15, 2020.

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 22 and note 20 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 154 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 37 and note 21 to the financial statements, respectively. As at December 31, 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HKD1,400.1 million. This includes the Company's share premium in the amount of approximately HKD1,920.8 million as at December 31, 2019, 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 32.8% of the Group's total sales for the year and of which, sale from the largest customer, who purchased our film rights, accounted for 15.4% 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 2019, 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 26.5% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 9.5%.

None of the Directors, or any of his close 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.

COMPLIANCE WITH LAWS AND REGULATIONS

In 2019, the Company complied with laws and regulations which are significant to the Company.

Directors' Report

COMPLIANCE WITH LAWS AND REULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Group is committed to the long-term sustainability of the environment and communities in which it operates. The Group operates its businesses in an environmentally responsible manner, strives to comply with laws and regulations relating to the environmental protection, and implements limited measures to effectively use resources, save energy and reduce wastes. In particular, these measures include waste paper recycling, energy conservation measures and water conservation actions. During the year, there was no material breach of or non-compliance with the laws and regulations relating to environmental protection.

DIRECTORS

The Directors for the year ended December 31, 2019 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)

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)

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, 2019.

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 27 and note 38 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, 2019, 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

Name of Director/chief executive	Capacity/Nature of interest	Total number of shares	Approximate percentage of shareholding (Note 5)
Mr. Wang Feng (Note 1)	Interest of controlled corporation	66,576,160 (L)	21.48%
	Beneficial owner	12,640,380 (L)	
Ms. Liao Mingxiang (Note 2)	Interest of controlled corporation	12,168,720 (L)	7.36%
	Beneficial owner	14,985,769 (L)	
Mr. Wang Jin (Note 3)	Beneficial owner	5,500,000 (L)	1.49%
Mr. Chen Hao (Note 4)	Beneficial owner	3,575,841 (L)	0.97%

(L) Long position (S) Short position

Notes:

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

In addition, Mr. Wang Feng held 4,207,072 Shares and was 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, 2019, 100% of the RSUs have been vested.

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

In addition, Ms. Liao Mingxiang held 174,000 Shares and was interested in (a) 3,500,000 share options granted to her on September 12, 2019 under the Share Option Scheme entitling her to receive 3,500,000 Shares upon exercise; and (b) 11,311,769 RSUs granted to her under the RSU Scheme entitling her to receive 11,311,769 Shares subject to vesting, among which, 2,811,769 RSUs have been vested as of December 31, 2019.

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

(3) The 5,500,000 Shares that Mr. Wang Jin was interested in consisted of (a) 300,000 share options, 1,000,000 share options and 1,600,000 share options granted to him on June 15, 2016, April 1, 2019 and September 12, 2019, respectively, under the Share Option Scheme entitling him to receive an aggregate of 2,900,000 Shares upon exercise; and (b) 2,600,000 RSUs granted to him under the RSU Scheme entitling him to receive 2,600,000 Shares subject to vesting, among which, 585,000 RSUs have been vested as of December 31, 2019.

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

Directors' Report

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

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

Notes: (Continued)

(4) The 3,575,841 Shares that Mr. Chen Hao was interested in consisted of (a) 100,000 share options, 1,000,000 share options and 1,000,000 share options granted to him on October 9, 2015, January 18, 2017 and September 12, 2019, respectively, under the Share Option Scheme entitling him to receive an aggregate of 2,100,000 Shares upon exercise; and (b) 1,475,841 RSUs granted to him under the RSU Scheme entitling him to receive 1,475,841 Shares subject to vesting, among which 325,841 RSUs have been vested as of December 31, 2019.

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

(5) As of December 31, 2019, the Company issued 368,730,964 Shares.

Save as disclosed above, as of December 31, 2019, 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

As of December 31, 2019, the following Directors or the chief executive of the Company are directly or indirectly (other than indirectly by virtue of their interest in the Company) interested in the shares or underlying shares of other member(s) of the Group as follows:

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

Note:

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

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, 2019, 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:

(i) Substantial Shareholder(s)

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 5)
Zhu Li (Note 1)	Interest of spouse	79,216,540 (L)	21.48%
Wangfeng Management Limited (Note 2)	Beneficial owner	66,576,160 (L)	18.06%
Starwish Global Limited (Note 3)	Beneficial owner	52,318,760 (L)	14.19%
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 Momentum Holdings Limited (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 International 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%
Guo Guangchang (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
The Core Trust Company Limited (Note 4)	Trustee of a trust	41,544,086 (L)	11.27%
TCT (BVI) Limited (Note 4)	Trustee of a trust	41,544,086 (L)	11.27%
Premier Selection Limited (Note 4)	Nominee for another person	41,544,086 (L)	11.27%

(L) Long position (S) Short position

Directors' Report

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

(i) Substantial Shareholder(s) *(Continued)*

Notes:

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

2. Mr. Wang Feng, the chairman of the Company and Director, holds the entire issued share capital of Wangfeng Management Limited.

3. Starwish Global Limited is wholly-owned by China Momentum Fund, L.P. ("**China Momentum**"), an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. ("**Fosun China Momentum**") is the general partner of China Momentum and is in turn wholly-owned by Fosun Momentum Holdings Limited ("**Fosun Momentum Holdings**"). Fosun Momentum Holdings is wholly-owned by Fosun Financial Holdings Limited ("**Fosun Financial Holdings**") which is in turn wholly-owned by Fosun International Limited ("**Fosun International**"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00656).

   As of December 31, 2019, based on information available on the Stock Exchange, Fosun International is 70.80% owned by Fosun Holdings Limited ("**Fosun Holdings**") which is in turn wholly-owned by Fosun International Holdings Ltd. ("**Fosun International Holdings**"), a company controlled as to approximately 85.29% by Mr. Guo Guangchang.

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

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

5. As of December 31, 2019, the Company issued 368,730,964 Shares.

Directors' Report

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

(ii) Other Shareholder(s)

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company *(Note 3)*
Ho Chi Sing *(Notes 1&2)*	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%
Zhou Quan *(Note 1)*	Interest of controlled corporation	27,774,323 (L)	7.53%
Fubon Financial Holding Co., Ltd. *(Note 3)*	Interest of controlled corporation	23,739,000 (L)	6.44%
Fubon Life Insurance Co., Ltd. *(Note 3)*	Beneficial owner	23,739,000 (L)	6.44%

(L) Long position (S) Short position

Notes:

1. Each of IDG-Accel China Growth Fund L.P. ("**IDG Fund**", holding 23,061,443 Shares) and IDG-Accel China Growth Fund-A LP. ("**IDG Fund-A**", holding 4,712,880 Shares) is controlled by its sole general partner, IDG-Accel China Growth Fund Associates, L.P. ("**IDG Fund Associates**"), which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. ("**IDG GP Associates**"). IDG GP Associates is held as to 35.00% by each of Mr. Zhou Quan and Mr. Ho Chi Sing.

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

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

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

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

4. As of December 31, 2019, 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, 2019, 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.

As of December 31, 2019, there were 43,851,294 RSUs granted and outstanding, among which 30,501,794 RSUs have been vested. During the 12 months ended December 31, 2019, 13,960,000 RSUs were granted to 21 grantees (including 8,500,000 RSUs to Ms. Liao Mingxiang, 2,600,000 RSUs to Mr. Wang Jin and 1,000,000 RSUs to Mr. Chen Hao, all are our Directors); no RSU was exercised; and no RSU was cancelled or lapsed. From December 31, 2019 to the date of this report, a total of 8,270,000 RSUs have lapsed. In addition, The Core Trust Company Limited, the RSU trustee assisting with the administration and vesting of RSUs granted, purchased 5,273,000 Shares on the Stock Exchange during the 12 months ended December 31, 2019, which will be used to satisfy the RSUs upon exercise.

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, January 18, 2017, April 1, 2019, August 16, 2019 and September 12, 2019, 1,849,192, 6,010,000, 1,750,000, 9,225,000, 1,300,000, 860,000 and 6,900,000 share options were granted with exercise price of HKD8.10, HKD7.18, HKD4.366, HKD3.10, HKD0.88, HKD0.65 and HKD0.72, respectively. Based on the market price of the underlying ordinary share of HKD8.10, HKD7.18, HKD4.366, HKD3.10, HKD0.88, HKD0.65 and HKD0.72 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 27,264,048 shares, representing approximately 7.4% 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.

Directors' Report

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, 2019, details of the movement of outstanding share options of the Company are as follows:

Category	Date of grant	Option period (note 1)	Share options granted	Exercise price	Closing Price of the Shares immediately before the date of grant	Outstanding balance as at January 1, 2019	During the reporting period				Outstanding balance as at December 31, 2019	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
				HKD	HKD								
Ms. Liao Mingxiang	September 12, 2019	September 12, 2019 to September 11, 2029	3,500,000 (note 5)	0.72	0.72	–	3,500,000	–	–	–	3,500,000	–	–
Mr. Chen Hao	October 9, 2015	October 9, 2015 to October 8, 2025	100,000 (note 3)	7.18	7.18	100,000	–	–	–	–	100,000	–	25,000
	January 18, 2017	January 18, 2017 to January 17, 2027	1,000,000 (note 3)	3.10	3.10	100,000	–	–	–	–	1,000,000	–	250,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,000,000 (note 5)	0.72	0.72	–	1,000,000	–	–	–	1,000,000	–	–
Mr. Wang Jin	June 15, 2016	June 15, 2016 to June 14, 2026	300,000 (note 3)	4.366	4.18	300,000	–	–	–	–	300,000	–	75,000
	April 1, 2019	April 1, 2019 to March 31, 2029	1,000,000 (note 4)	0.88	0.88	–	1,000,000	–	–	–	1,000,000	–	585,000
	September 12, 2019	September 12, 2019 to September 11, 2029	1,600,000 (note 5)	0.72	0.72	–	1,600,000	–	–	–	1,600,000	–	–
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 (note 2)	8.10	8.10	462,298	–	–	–	–	462,298	–	–
	October 9, 2015	October 9, 2015 to October 8, 2025	5,910,000 (note 3)	7.18	7.18	2,856,250	–	–	–	77,500	2,778,750	–	192,500
	June 15, 2016	June 15, 2016 to June 14, 2026	1,450,000 (note 3)	4.366	4.18	675,000	–	–	–	–	675,000	–	–
	January 18, 2017	January 18, 2017 to January 17, 2027	8,225,000 (note 3)	3.10	3.10	2,487,500	–	–	–	172,500	2,315,000	–	197,500

Directors' Report

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

Share Option Scheme *(Continued)*

Movement of Share Options *(Continued)*

Category	Date of grant	Option period (note 1)	Share options granted	Exercise price HKD	Closing Price of the Shares immediately before the date of grant HKD	Outstanding balance as at January 1, 2019	During the reporting period Granted	Exercised	Cancelled	Lapsed	Outstanding balance as at December 31, 2019	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
	April 1, 2019	April 1, 2019 to March 31, 2029	300,000 (note 4)	0.88	0.88	–	300,000	–	–	–	300,000	–	175,500
	August 16, 2019	August 16, 2019 to August 15, 2029	860,000 (note 3)	0.65	0.64	–	860,000	–	–	–	860,000	–	–
	September 12, 2019	September 12, 2019 to September 11, 2029	800,000 (note 5)	0.72	0.72	–	800,000	–	–	–	800,000	–	–

Notes:

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

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

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

Directors' Report

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

Share Option Scheme *(Continued)*

Movement of Share Options *(Continued)*

Notes: (Continued)

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

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

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

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

Directors' Report

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

Share Option Scheme *(Continued)*

Movement of Share Options *(Continued)*

Notes: (Continued)

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

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

As at the date of this report, among the 6,900,000 share options granted on September 12, 2019, 4,900,000 share options had lapsed according to their vesting conditions and 2,000,000 share options had been cancelled.

(6) Please refer to the announcements of the Company dated August 12, 2015, October 9, 2015, June 15, 2016, January 18, 2017, April 1, 2019, August 16, 2019, September 12, 2019, January 21, 2020 and February 7, 2020 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, 2019.

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 of December 31, 2019, Linekong Online was owned as to 75.45%, 13.64% and 10.91% by Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu, respectively, where we do not hold any direct equity interest in Linekong Online, and we assert management control over the operations and enjoy all economic benefits of Linekong Online through the Contractual Arrangements. 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.

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.

(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.

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

(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; or (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.

(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; and (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, 2019, the revenue and net loss subject to the Contractual Arrangements are RMB166.0 million and RMB75.8 million (amounted to approximately 73.4% and 67.6% of the total revenue and net loss of the Group), respectively.

As at December 31, 2019, the total assets subject to the Contractual Arrangements is RMB160.9 million, amounted to approximately 21.0% of the total assets of the Group.

Change of circumstances

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

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions

Contractual Arrangements

The Contractual Arrangements constitute non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules. As Mr. Wang Feng is a 19.20% shareholder of the Company (excluding the 8,433,308 RSUs granted to him), a 75.45% registered shareholder of Linekong Online (being a subsidiary of the Company controlled through the Contractual Arrangements), and an executive Director; Ms. Liao Mingxiang is an executive Director and a 13.64% registered shareholder of Linekong Online; and Mr. Zhang Yuyu is a 10.91% registered shareholder of Linekong Online, each of Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu is a connected person of the Company pursuant to 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, 2019, 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, 2019;

(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, 2019.

Save as disclosed above, there were no connected transactions or 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, 2019.

Directors' Report

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 36 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

The Impact of the Novel Coronavirus on the Company

Since early January 2020, the coronavirus outbreak has spread across the Greater China region and beyond, causing disruption to business and economic activities. At this stage, the directors considered that the coronavirus outbreak does not have any significant impact on the Company's business operation subsequent to the year end, except for the Group's film business and Group's various investments. The Group's film production progress was subject to the challenge due to the virus outbreak, and the Group's investments were also exposed to the risk of fluctuations in value due to the market volatility.

The Company will keep continuous attention on the situation of the coronavirus outbreak and react actively to its impact on the financial position and operating results of the Company.

Directors' Report

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, 2019, the Group's IPO Proceeds have been utilised as follows:

	Net proceeds *in million HKD*	Amounts utilised as of December 31, 2018 *in million HKD*	Amounts utilised in 2019 *in million HKD*	Amounts unutilised *in million HKD*
Overseas expansions (expanding our business in overseas markets)	137.2	119.7	17.5	–
Potential strategic acquisition or investment in companies in online game or related businesses	68.6	36.6	15.6	16.4
Creating pan entertainment environment	157.8	122.2	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	65.4	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	135.5	1.7	–
Providing funding for our working capital and other general corporate purposes	34.3	6.4	13.5	14.4
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	25.3	8.1
Mastering user usage flow entry point via developing intellectual hardware and mobile phone software	48.2	9.4	–	38.8
	686.2	496.1	112.4	77.7

As of December 31, 2019, approximately HKD77.7 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, funding reserved for acquisition will be utilised in accordance with the progress of our potential acquisition projects; we will utilise the funding reserved for working capital purpose in the Company's operations; funding for investing in our technology platform will be used in 2020 to purchase and develop new game engines; and funding for development of intellectual hardware and mobile phone software for mastering user usage flow entry point will be utilised in accordance with the development progress in 2020.

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

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, 2019 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, 2019.

EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2019, neither the Company nor any of its subsidiaries have entered into equity-linked agreements.

ON BEHALF OF THE BOARD
Wang Feng
Chairman

March 27, 2020

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 80 to 153, which comprise:

- the consolidated balance sheet as of December 31, 2019;
- 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, 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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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, 2019, the Group has generated revenue from sales of in-game virtual items of RMB136.0 million. The recognition of the revenue generated from sales of in-game virtual items involved the estimation of the lives of in-game 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 the Player Relationship Period, which could impact the amount of the revenue recognised in the current period in relation to the sales of in-game virtual items.	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 the selected games, and compared the results with Player Relationship Period of these games estimated by the 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	How our audit addressed the 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, 2019, the Group has level 3 financial assets at fair value through profit or loss – unlisted securities of RMB59.7 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 and market approach. 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.	Our procedures in relation to the valuation of level 3 financial assets at fair value through profit or loss – unlisted securities included: • We obtained the calculation sheets of fair value estimation of level 3 financial assets at fair value through profit or loss, and tested the accuracy of the calculation sheets. • 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 the underlying assumptions adopted by management in determining the fair value. For market approach, these included the selection of comparable companies and related underlying market data (such as revenue multiples), as well as the discount for lack of marketability. For discounted cash flow method, these included 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 and compared the input data used in the cash flow forecasts against the historical figures, the approved budgets and the business plans. • 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 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 Pai Hung On Hendry.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 27, 2020

Consolidated Balance Sheet

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,462	3,001
Right-of-use assets		746	—
Intangible assets	7	43,246	29,586
Films rights and films in progress	8	21,574	14,564
Investments using equity accounting	11	34,273	42,756
An associate measured at fair value through profit or loss	12	41,434	44,000
Financial assets at fair value through profit or loss	13	59,681	89,395
Deferred income tax assets	14	257	1,764
Other receivables	16	1,124	3,506
Other non-current assets	17	302	232
		205,099	228,804
Current assets			
Trade receivables	15	29,352	31,499
Other receivables	16	23,100	32,901
Other current assets	17	39,473	72,165
Financial assets at fair value through profit or loss	13	13,000	17,000
Short-term bank deposits	18	127,965	102,948
Restricted deposits	19	230,912	233,831
Cash and cash equivalents	19	96,471	176,555
		560,273	666,899
Total assets		765,372	895,703

Consolidated Balance Sheet (Continued)

	Note	As of December 31, 2019 RMB'000	2018 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*	**(10,019)**	(5,822)
Reserves	*21*	**416,225**	405,894
Accumulated losses		**(1,690,739)**	(1,581,781)
		436,216	539,040
Non-controlling interests		**14,351**	9,287
Total equity		**450,567**	548,327
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	*14*	**1,233**	—
Contract liabilities	*25*	**1,860**	2,987
		3,093	2,987
Current liabilities			
Bank borrowings	*23*	**199,100**	199,100
Trade and other payables	*24*	**54,470**	87,219
Current income tax liabilities		**8,329**	6,714
Contract liabilities	*25*	**49,544**	51,356
Lease liabilities		**269**	—
		311,712	344,389
Total liabilities		**314,805**	347,376
Total equity and liabilities		**765,372**	895,703

The notes on pages 86 to 153 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 80 to 153 were approved by the Board of Directors on March 27, 2020 and were signed on its behalf.

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

Consolidated Statement of Comprehensive Loss

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Revenue	5	226,030	457,790
Cost of revenue	26	(154,892)	(286,390)
Gross profit		71,138	171,400
Selling and marketing expenses	26	(30,804)	(103,756)
Administrative expenses	26	(69,587)	(91,775)
Research and development expenses	26	(27,000)	(67,860)
Net impairment losses on receivables	26	(1,099)	(3,253)
Other operating income — net	28	4,950	4,679
Operating loss		(52,402)	(90,565)
Other losses — net	29	(60,517)	(54,463)
Finance income/(costs) — net	30	1,325	(1,349)
Share of profit/(losses) of investments using equity accounting	11	2,026	(12,411)
Loss before income tax		(109,568)	(158,788)
Income tax expense	31	(2,635)	(4,226)
Loss for the year		(112,203)	(163,014)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		1,043	2,899
Items that will not be reclassified to profit or loss:			
— Currency translation differences		5,862	25,323
Other comprehensive income for the year, net of tax		6,905	28,222
Total comprehensive loss for the year		(105,298)	(134,792)
(Loss)/profit attributable to:			
Owners of the Company		(108,654)	(166,876)
Non-controlling interests		(3,549)	3,862
Loss for the year		(112,203)	(163,014)
Total comprehensive (loss)/profit attributable to:			
Owners of the Company		(101,749)	(138,608)
Non-controlling interests		(3,549)	3,816
Total comprehensive loss for the year		(105,298)	(134,792)
Loss per share (expressed in RMB per share)			
— Basic	32(a)	(0.31)	(0.47)
— Diluted	32(b)	(0.31)	(0.47)

The notes on pages 86 to 153 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, 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

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, 2018		59	1,720,690	(5,822)	405,894	(1,581,781)	539,040	9,287	548,327
Change in accounting policy	2.1.1	—	—	—	—	—	—	—	—
Balance as of January 1, 2019		59	1,720,690	(5,822)	405,894	(1,581,781)	539,040	9,287	548,327
Comprehensive (loss)/income									
Loss for the year		—	—	—	—	(108,654)	(108,654)	(3,549)	(112,203)
Other comprehensive income									
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		—	—	—	1,043	—	1,043	—	1,043
— Currency translation differences		—	—	—	5,862	—	5,862	—	5,862
Total comprehensive income/(loss) for the year		—	—	—	6,905	(108,654)	(101,749)	(3,549)	(105,298)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Increase in ownership interest in subsidiaries without change of control		—	—	—	723	—	723	(723)	—
Non-controlling interests arising from an acquisition of a subsidiary		—	—	—	—	—	—	9,124	9,124
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		—	—	(4,197)	—	—	(4,197)	—	(4,197)
— Value of employee services	22	—	—	—	2,399	—	2,399	212	2,611
Appropriation to statutory reserves		—	—	—	304	(304)	—	—	—
Total contributions by and distributions to owners of the Company for the year		—	—	(4,197)	3,426	(304)	(1,075)	8,613	7,538
Balance as of December 31, 2019		59	1,720,690	(10,019)	416,225	(1,690,739)	436,216	14,351	450,567

The notes on pages 86 to 153 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash used in operations	*34(a)*	(8,733)	(64,394)
Income tax paid-net		(376)	(4,194)
Net cash outflow from operating activities		(9,109)	(68,588)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,629)	(713)
Purchase of intangible assets		(20,893)	(12,840)
Net cash received from disposal of property, plant and equipment		620	111
Purchase of financial assets at fair value through profit or loss		(67,101)	(113,000)
Proceeds from disposal of financial assets at fair value through profit or loss		68,779	106,747
Payments for films in progress		(16,100)	(5,990)
Loan repayments received from related parties		—	2,076
Loan granted to third parties		—	(10,000)
Loan repayments received from third parties		2,500	4,519
Decrease/(increase) in restricted deposits		2,919	(33,153)
Decrease in short term bank deposits		191,245	—
Increase in short term bank deposits		(216,262)	(102,948)
Acquisition of a subsidiary, net of cash acquired		15	—
Net cash outflow from investing activities		(55,907)	(165,191)
Cash flows from financing activities			
Proceeds from bank borrowings		—	241,781
Repayment of bank borrowings		—	(179,400)
Interests paid		(9,614)	(7,554)
Repurchase of shares for RSU Scheme		(4,197)	(2,244)
Principal elements of lease payments		(5,441)	—
Net cash (outflow)/inflow from financing activities		(19,252)	52,583
Net decrease in cash and cash equivalents		(84,268)	(181,196)
Cash and cash equivalents at beginning of year		176,555	349,563
Exchange gain on cash and cash equivalents		4,184	8,188
Cash and cash equivalents at end of the year		96,471	176,555

The notes on pages 86 to 153 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 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 in operating 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, 2019 and 2018, 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 27, 2020.

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 new and amended standards, and annual improvement are mandatory for the first time for the Group's financial year beginning on January 1, 2019 and are applicable for the Group:

IFRS 16 "Leases"
Annual improvements 2015-2017 Cycle
IFRIC 23 "Uncertainty over Income Tax Treatments"
"Prepayment Features with Negative Compensation" – Amendments to IFRS 9
"Long-term Interests in Associates and Joint Ventures" – Amendments to IAS 28, and
"Plan Amendment, Curtailment or Settlement" – Amendments to IAS 19

Amendments to IFRS effective for the financial year beginning on January 1, 2019 do not have a material impact on the Group's consolidated financial statements other than IFRS 16 details of which are set out below.

IFRS 16 "Leases"

Impact on the financial statements

The Group has adopted IFRS 16 "Leases" retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019. The new accounting policies are set out in Note 2.27.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.79%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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)*

IFRS 16 "Leases" (continued)

Adjustments recognised on adoption of IFRS 16 (continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

	2019 RMB'000
Operating lease commitments disclosed as of December 31, 2018	10,120
Discounted using the lessee's incremental borrowing rate of at the date of initial application	9,395
Lease liability recognised as of January 1, 2019	9,395
Of which are:	
Current lease liabilities	6,976
Non-current lease liabilities	2,419

Upon the initial application of IFRS 16, the Group elected to measure the initially recognised right-of use assets for leases previously classified as operating leases at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as of December 31, 2018. Accordingly, there was no net impact on the Group's accumulated losses on January 1, 2019. There were also no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

All of the recognised right-of-use assets relate to properties.

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- right-of-use assets – increase by RMB9,788,000,
- prepayments – decrease by RMB393,000,
- lease liabilities – increase by RMB9,395,000.

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

Certain standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial period beginning January 1, 2019, and not expected to have a material impact on consolidated financial statement in the foreseeable future. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards.

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.

(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.

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, 2019 and 2018.

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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries *(continued)*

(ii) Business combination

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquiree's net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in consolidated income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group will report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period does not exceed one year from the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in consolidated statement of comprehensive loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements have the same reporting date.

(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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(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.

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 profit/(losses) of investments using equity accounting" in the income statement.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.4 Associates *(continued)*

(a) Equity method of accounting *(continued)*

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.

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statements of comprehensive loss within "finance income/(costs) — 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.6 Foreign currency translation *(continued)*

(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.

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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

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, 2019 and 2018, 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 2 to 6 years, respectively.

(d) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and joint ventures.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(e) Customer contract and non-compete agreements

Customer contract and non-compete agreements acquired in a business combination are recognised at fair value at the acquisition date and carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated lives of 2 to 6 years.

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

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 be recorded in either 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 fair value through other comprehensive income ("**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 fair value through profit or loss ("**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-net, 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-net. 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-net 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-net in the period in which it arises.

(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-net 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.11 Financial assets *(continued)*

(iv) Impairment

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.

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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

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.

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 drawdown 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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

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.

(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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

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.

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.

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

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

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.24 Revenue recognition *(continued)*

(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.

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, 2019 and 2018, the Group did not have contact assets.

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.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

2.27 Leases

The Group's leases are mainly rentals of offices. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

As explained in note 2.1.1(a) above, the group has changed its accounting policy for leases where the group is the lessee. The new policy is described below and the impact of the change in note 2.1.1(a).

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Notes to the Consolidated Financial Statements

2. Summary of significant accounting policies *(continued)*

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.

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

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognized assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. 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 RMB476,000 lower/higher for the year ended December 31, 2019 (2018: RMB71,000), 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.

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 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 RMB986,000 lower/higher for the year ended December 31, 2019 (2018: RMB1,085,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

(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 and as at fair value through profit or loss. The Group is not exposed to commodity price risk.

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

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, 2019 would have been approximately RMB2,751,000 (2018: 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.

(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 wealth management product 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.

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

The Group has two types of financial assets that are subject to IFRS 9's 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.

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.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

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 receivables is presented as "net impairment losses on receivables". Provision for impairment of loans to third parties with investment purpose is presented as "other losses — net". 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. (2019: RMB13,000,000; 2018: RMB17,000,000).

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, 2019 and 2018. For the Group's Film Business, there were one and two customers accounted for more than 10% of the total revenues of the Group for the years ended December 31, 2019 and 2018 respectively, and details are as follows:

	Year ended December 31, 2019	2018
Film publisher A	**5.8%**	14.2%
Film publisher B	**15.0%**	12.2%
	20.8%	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, 2019 and 2018 are as follows:

	Year ended December 31, 2019	2018
Game distribution channel A	**21.9%**	26.7%
Game distribution channel B	**7.8%**	19.4%
	29.7%	46.1%

The trade receivables from game distribution channel, third-party game publisher and film publisher represented over 10% of trade receivables balances of the Group as of December 31, 2019 and 2018 were as follows:

	As of December 31, 2019	2018
Film publisher B	**30.5%**	46.3%
Third-party game publisher	**20.3%**	—
Game distribution channel A	**6.5%**	13.4%
	57.3%	59.7%

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, 2019				
Bank borrowings	**205,990**	**—**	**—**	**205,990**
Trade and other payables (excluding salary and staff welfare payables and other taxes payables)	**43,550**	**—**	**—**	**43,550**
Lease liabilities	**269**	**—**	**—**	**269**
	249,809	**—**	**—**	**249,809**
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

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).

The Group did not have any financial liabilities that were measured at fair value as of December 31, 2019 and 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As of December 31, 2019				
Assets				
An associate measured at fair value through profit or loss	—	—	41,434	41,434
Financial assets at fair value through profit or loss				
— Wealth management products	—	—	13,000	13,000
— Unlisted securities	—	—	59,681	59,681
	—	—	114,115	114,115
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

There were no transfers among level 1, 2 and 3 during the year ended December 31, 2019.

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 revenue multiples.

The components of the level 3 instruments include investments in unlisted equity securities. As these instruments are not traded in an active market, their fair values have been determined using various applicable methodologies.

	As of December 31, 2019	**Valuation technique**	**Significant unobservable inputs**	**Percentage or ratio range**
Unlisted securities	35,394	Discounted cash flow mode	Discount rate	21% ~ 27%
			Terminal growth rate	3%
			Discount for lack of marketability	12% ~ 27%
			Volatility	33% ~ 61%
Unlisted securities	24,287	Market approach	Revenue multiples of comparable companies	1.06 ~ 3.68
			Discount for lack of marketability	15% ~ 20%

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, 2019 and 2018, respectively.

	An associate at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Opening balance as of January 1, 2018	44,330	124,021	168,351
Additions	—	124,598	124,598
Disposals	—	(96,682)	(96,682)
Losses recognised in other losses — net	(330)	(45,674)	(46,004)
Exchange adjustment	—	132	132
Closing balance as of December 31, 2018	44,000	106,395	150,395
Opening balance as of January 1, 2019	**44,000**	**106,395**	**150,395**
Additions	**—**	**68,153**	**68,153**
Disposals	**—**	**(68,779)**	**(68,779)**
Losses recognised in other losses — net	**(2,566)**	**(33,132)**	**(35,698)**
Exchange adjustment	**—**	**44**	**44**
Closing balance as of December 31, 2019	**41,434**	**72,681**	**114,115**

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 and market approach for various financial assets measured at fair value through profit or loss that are not traded in active markets.

Notes to the Consolidated Financial Statements

4. Critical accounting estimates and judgments *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(c) Impairment of goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period in accordance with the accounting policies stated in note 2.10. Goodwill are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Both calculations require the use of estimates. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. In estimating the value in use of assets, various assumptions, including future cash flows to be associated with the non-current assets (such as future sales forecast, expected capital expenditure and working capital requirements) and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

The goodwill arising from the acquisition of Guangzhou Hongyu Network Technology Co., Limited ("**Guangzhou Hongyu**") amounted to RMB3,394,000. The Group has assessed the recoverable amount of the CGU with goodwill and concluded that goodwill has not been impaired. The recoverable amounts of the CGUs with goodwill have been determined based on value in use calculation, which use cash flow projections as at 31 December 2019. These cash flow projections are derived from the approved business plan which has a forecast covering a period of five years and have incorporated necessary updates.

The key assumptions used in the value in use calculations are set out in note 7.

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 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 considered 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 using equity accounting.

Notes to the Consolidated Financial Statements

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.

The Company separately manages the production and operation of each segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance. For the year ended December 31, 2019 and 2018, the Group is organised into two reportable operating segments.

The Group identifies 2 segments as follows:

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

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

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Segment revenue:		
Game Business		
— Sales of in-game virtual items	**136,000**	309,516
— License fee and technical support fee	**34,050**	24,644
— Inter-segment transactions	**—**	6,774
	170,050	340,934
Film Business		
— Production and licensing of film rights and others	**55,980**	123,630
Elimination	**—**	(6,774)
Total	**226,030**	457,790
Segments results — operating (loss)/profit:		
— Game Business	**(44,847)**	(105,226)
— Film Business	**(7,555)**	14,661
Total	**(52,402)**	(90,565)

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, 2019 and 2018. Revenue from producing and licensing of films rights (including rights of internet drama) was derived from two external customers for the years ended December 31, 2019 and 2018.

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, 2019 and 2018 is as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Revenue from external customers:		
— PRC	**139,505**	259,373
— South Korea	**67,812**	111,576
— Other overseas countries and regions	**18,713**	86,841
	226,030	457,790

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,	
	2019	2018
	RMB'000	RMB'000
— PRC	**66,920**	40,981
— South Korea	**1,410**	6,402
	68,330	47,383

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, 2018					
Cost	13,080	24,406	3,698	11,718	52,902
Accumulated depreciation	(10,748)	(21,875)	(2,265)	(11,164)	(46,052)
Net book amount	2,332	2,531	1,433	554	6,850
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
Year ended December 31, 2019					
Opening net book amount	**795**	**1,452**	**754**	**—**	**3,001**
Additions	**102**	**1,528**	**—**	**—**	**1,630**
Depreciation	**(699)**	**(850)**	**(360)**	**—**	**(1,909)**
Disposals	**(26)**	**(46)**	**(188)**	**—**	**(260)**
Closing net book amount	**172**	**2,084**	**206**	**—**	**2,462**
As of December 31, 2019					
Cost	**7,407**	**16,223**	**2,607**	**6,351**	**32,588**
Accumulated depreciation	**(7,235)**	**(14,139)**	**(2,401)**	**(6,351)**	**(30,126)**
Net book amount	**172**	**2,084**	**206**	**—**	**2,462**

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

	Year ended December 31, **2019** RMB'000	2018 RMB'000
Cost of revenue	**899**	937
Administrative expenses	**840**	2,432
Selling and marketing expenses	**91**	157
Research and development expenses	**79**	432
	1,909	3,958

Notes to the Consolidated Financial Statements

7. Intangible assets

	Goodwill RMB'000	Customer contract and non-compete agreements RMB'000	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
As of January 1, 2018					
Cost	—	—	84,584	4,853	89,437
Accumulated impairment	—	—	(9,550)	—	(9,550)
Accumulated amortisation	—	—	(41,684)	(3,893)	(45,577)
Net book amount	—	—	33,350	960	34,310
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
Year ended December 31, 2019					
Opening net book amount	**—**	**—**	**28,518**	**1,068**	**29,586**
Additions	**—**	**—**	**42,223**	**281**	**42,504**
Acquisition of a subsidiary *(note 35)*	**3,394**	**6,070**	**—**	**—**	**9,464**
Amortisation	**—**	**(1,140)**	**(14,264)**	**(672)**	**(16,076)**
Disposals	**—**	**—**	**(6,926)**	**—**	**(6,926)**
Impairment	**—**	**—**	**(15,306)**	**—**	**(15,306)**
Closing net book amount	**3,394**	**4,930**	**34,245**	**677**	**43,246**
As of December 31, 2019					
Cost	**3,394**	**6,070**	**85,311**	**6,051**	**100,826**
Accumulated impairment	**—**	**—**	**(10,179)**	**—**	**(10,179)**
Accumulated amortisation	**—**	**(1,140)**	**(40,887)**	**(5,374)**	**(47,401)**
Net book amount	**3,394**	**4,930**	**34,245**	**677**	**43,246**

Notes to the Consolidated Financial Statements

7. Intangible assets *(continued)*

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Cost of revenue	**10,777**	10,097
Administrative expenses	**2,061**	337
Selling and marketing expenses	**118**	219
Research and development expenses	**3,120**	3,705
	16,076	14,358

Management reviews the business performance based on type of business and monitor goodwill at cash generating unit (CGU).

The goodwill of the Group amounted to RMB3,394,000 was attributable to the acquisition of Guangzhou Hongyu. See note 35 for further information.

The Group completed its annual impairment test on goodwill for the CGU by comparing its recoverable amounts to the carrying amounts as at December 31, 2019. The recoverable amount of the CGU is determined based on value in use calculations.

The calculation in value in model uses pre-tax cash flow projections covering a five-year period using the average revenue growth rate approximately 10%, with a terminal value related to the future cash flow of the CGU extrapolated using constant projections of cash flows beyond the five-year period, plus 3% sustainable growth rate as a constant benchmark expecting after five years cash flow, to make a conclusion for the ultimate value of future CGU cash flow. The discount rate used is 30%.

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

8. Films rights and films in progress

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Film rights and films in progress		
— Under production/production yet to commence	**21,574**	14,564

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Beginning of the year	**14,564**	48,372
Additions	**16,100**	5,927
Recognised in cost of revenue	**(740)**	(31,561)
Impairment	**(8,350)**	(8,174)
End of the year	**21,574**	14,564

Notes to the Consolidated Financial Statements

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, 2019			
Trade receivables	**29,352**	**—**	**29,352**
Other receivables	**24,224**	**—**	**24,224**
Financial assets at fair value through profit or loss	**—**	**72,681**	**72,681**
An associate at fair value through profit or loss	**—**	**41,434**	**41,434**
Short-term bank deposits	**—**	**127,965**	**127,965**
Restricted deposits	**—**	**230,912**	**230,912**
Cash and cash equivalents	**—**	**96,471**	**96,471**
	53,576	**569,463**	**623,039**
As of December 31, 2018			
Trade receivables	31,499	—	31,499
Other receivables	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

	Liabilities at amortised cost RMB'000
Liabilities	
As of December 31, 2019	
Bank borrowings	**199,100**
Trade and other payables (excluding salary and staff welfare payables and other taxes payables)	**43,550**
Lease liabilities	**269**
	242,919
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

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, 2019:

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

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	82.19%	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	82.19%	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	82.19%	Film and television drama series production and distribution/ Hong Kong
Guangzhou Hongyu Network Technology Co., Limited	Limited liability company	PRC/October 13, 2017	RMB1,285,714	22.22% (with 67% voting rights)	Game research and development/ PRC

Notes to the Consolidated Financial Statements

11. Investments using equity accounting

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Beginning of the year	42,756	52,268
Share of profit/(losses)	2,026	(12,411)
Other comprehensive income	1,043	2,899
Disposal	(11,552)	—
End of the year	34,273	42,756

Name	Principal activities/ country of incorporation	% Interest held as of December 31, 2019	2018	Note
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	10.525%	21.05%	*(a)*

Note:

(a) As at December 30, 2019, the Group entered into an agreement to sell 10.525% equity interest of Huaying. With the equity interest held by the Company decreased to 10.525%, the Group does not have significant influence after the transaction. The remaining equity held by the Group is treated as "financial assets at fair value through profit or loss". For the year ended December 31, 2019, the Group's share of Huaying's profit is RMB75,000 (2018: loss RMB777,000).

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,	
	2019	2018
	RMB'000	RMB'000
Current assets	145,717	143,858
Non-current assets	3,239	3,024
Current liabilities	(55,873)	(61,932)
Net assets	93,083	84,950

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,	
	2019	2018
	RMB'000	RMB'000
Revenue	2,511	958
Profit/(loss) before income tax	5,300	(31,596)
Net profit/(loss)	5,300	(31,596)
Other comprehensive income	2,833	7,874
Total comprehensive income/(loss)	8,133	(23,722)
Total comprehensive income/(loss), the Group's share	2,995	(8,735)

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,	
	2019	2018
	RMB'000	RMB'000
Net assets of the associate	93,083	84,950
Net assets of the associate, the Group's share	34,273	31,278
Goodwill	69,300	69,300
Impairment loss	(69,300)	(69,300)
Carrying value	34,273	31,278

Notes to the Consolidated Financial Statements

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Unlisted fund	**41,434**	44,000

Name	Principal activities/ country of incorporation	% Interest held as of December 31, 2019	2018
Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "**Jikebang Fund**")	Investment holding as a private equity fund/PRC	**31.19%**	31.19%

Note:

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 – net" in the income statement (Note 29).

13. Financial assets at fair value through profit or loss

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Included in current assets		
Wealth management products *(Note (a))*	**13,000**	17,000
Included in non-current assets		
Unlisted securities *(Note (b))*	**59,681**	89,395

Notes:

(a) The Group purchased certain wealth management products issued by commercial banks in the PRC. These wealth management products are with a variable return and redeemable on demand or with a term less than three months. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on the contracts of wealth management products. As of December 31, 2019 and 2018, RMB13,000,000 and 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 – net" in the income statement.

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

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 and market approach as disclosed in Note 3.3. The fair value are within level 3 of the fair value hierarchy.

Notes to the Consolidated Financial Statements

14. Deferred income tax

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

	As of December 31, 2019 RMB'000	2018 RMB'000
Deferred income tax assets:		
— To be recovered within 12 months	257	1,756
— To be recovered after 12 months	—	4,001
	257	5,757
Deferred income tax liabilities:		
— To be settled within 12 months	—	—
— To be settled after 12 months	(1,233)	(3,993)
	(1,233)	(3,993)

For the purpose of presentation in the consolidated balance statement, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Deferred income tax assets	257	1,764
Deferred income tax liabilities	(1,233)	–

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

Deferred income tax assets:

	Deferred revenue RMB'000	Accrued employee benefit expenses RMB'000	Tax losses RMB'000	Provision and others RMB'000	Total RMB'000
Year ended December 31, 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
Year ended December 31, 2019					
Beginning of the year	1,593	268	3,993	(97)	5,757
Credited/(charged) to profit or loss	(1,593)	(268)	(3,993)	354	(5,500)
End of the year	—	—	—	257	257

Notes to the Consolidated Financial Statements

14. Deferred income tax *(continued)*

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 RMB421,570,000 as of December 31, 2019 (2018: RMB425,236,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2020 to 2024.

Deferred income tax liabilities:

	Customer contract and non-compete agreements RMB'000	Trademarks and licenses RMB'000	Fair value changes of financial assets RMB'000	Fair value changes of an associate RMB'000	Total RMB'000
Year ended December 31, 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)
Year ended December 31, 2019					
Beginning of the year	**—**	**—**	**(493)**	**(3,500)**	**(3,993)**
Acquisition of a subsidiary *(note 35(b))*	**(1,444)**	**—**	**—**	**—**	**(1,444)**
Credited to profit or loss	**211**	**—**	**493**	**3,500**	**4,204**
End of the year	**(1,233)**	**—**	**—**	**—**	**(1,233)**

Notes to the Consolidated Financial Statements

15. Trade receivables

	As of December 31, 2019 RMB'000	2018 RMB'000
Trade receivables	31,246	32,376
Less: impairment provision	(1,894)	(877)
	29,352	31,499

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

	As of December 31, 2019 RMB'000	2018 RMB'000
0-60 days	28,479	29,474
61–90 days	161	470
91–180 days	336	903
181–365 days	567	752
over 1 year	1,703	777
	31,246	32,376

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

	Year Ended December 31, 2019 RMB'000	2018 RMB'000
At beginning of the year	(877)	(1,957)
Provision for impairment	(1,099)	(400)
Receivables written off during the year as uncollectible	82	1,480
At end of the year	(1,894)	(877)

The provision for impaired trade receivables has been included in "net impairment losses on receivables" 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.

(c) The carrying amount of the Group's trade receivables are denominated in the following currencies:

	As of December 31, 2019 RMB'000	2018 RMB'000
RMB	21,959	22,640
USD	6,820	5,106
South Korean Won	1,004	2,108
HKD	1,463	2,522
	31,246	32,376

Notes to the Consolidated Financial Statements

16. Other receivables

	As of December 31, 2019 RMB'000	2018 RMB'000
Current		
Amount due from related parties *(Note 36)*	195	195
Loans to other employees	3,709	1,093
Rental and other deposits	3,283	919
Loans to third parties *(Note (a))*	21,000	22,690
Interests receivable	9,055	8,448
Receivable from disposal of investment using equity accounting	6,000	—
Others	3,530	2,909
	46,772	36,254
Less: provision for impairment of other receivables	(23,672)	(3,353)
	23,100	32,901
Non-current		
Loans to other employees	—	150
Rental and other deposits	—	2,083
Others	1,124	1,273
	1,124	3,506

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

	Year ended December 31, 2019 RMB'000	2018 RMB'000
At beginning of the year	(3,353)	(500)
Provision for impairment *(Note (b))*	(20,319)	(2,853)
At end of the year	(23,672)	(3,353)

The provision for impaired loans to third parties has been included in "other losses-net" in the consolidated statement of comprehensive loss. The provision for impaired other receivables has been included in "net impairment loss on receivables" 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) 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% (2018: 15% ~ 20%).

(b) Provision for impairment for the year ended December 31, 2019 and 2018 is mainly due from loans to third parties and interests receivable. Individual assessments have been performed on the recoverability of the loans.

Notes to the Consolidated Financial Statements

17. Other assets

	As of December 31, 2019 RMB'000	2018 RMB'000
Current		
Prepaid service charges to game distribution channels	11,092	13,834
Prepayment to game developers	5,404	22,094
Prepaid rental, advertising cost and others	5,311	8,820
Prepayment for films production	102	10,914
Deductible value-added tax input	17,564	16,503
	39,473	72,165
Non-current		
Prepaid service charges by game distribution channels	302	232

18. Short-term bank deposits

	As of December 31, 2019 RMB'000	2018 RMB'000
Short-term bank deposits	127,965	102,948

19. Cash and cash equivalents and restricted deposits

	As of December 31, 2019 RMB'000	2018 RMB'000
Cash and cash equivalents		
— Cash at bank and in hand	95,734	174,965
— Cash at other financial institutions	737	1,590
	96,471	176,555
Restricted deposits		
— Matured within 12 months	230,912	233,831
	230,912	233,831

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, 2019 RMB'000	2018 RMB'000
RMB	**26,240**	16,057
USD	**33,182**	107,162
HKD	**35,742**	44,222
Others	**1,307**	9,114
	96,471	176,555

Note:

As of December 31, 2019, USD33,100,000, approximately equivalent to RMB230,912,000, (December 31, 2018: USD34,070,000, approximately equivalent to RMB233,831,000) is restricted deposit held by a commercial bank secured for the bank borrowings amounted of RMB199,100,000(December 31, 2018: RMB199,100,000).

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 RMB'000	Nominal value of ordinary shares RMB'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000
Issued:					
As of January 1, 2018	368,228	10	59	1,720,690	(3,578)
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	—	—	—	—	(2,244)
As of December 31, 2018	368,228	10	59	1,720,690	(5,822)
Issued:					
As of January 1, 2019	**368,228**	**10**	**59**	**1,720,690**	**(5,822)**
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	**—**	**—**	**—**	**—**	**(4,197)**
As of December 31, 2019	**368,228**	**10**	**59**	**1,720,690**	**(10,019)**

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, 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
Balance as of January 1, 2019	(4,126)	103,545	17,735	284,299	4,441	405,894
Appropriation to statutory reserves	—	—	304	—	—	304
Share of other comprehensive income of investments using equity method, net of tax *(Note 11)*	—	—	—	—	1,043	1,043
Increase in ownership interest in subsidiaries without change of control	723	—	—	—	—	723
Employee share option and RSU scheme:						
— Value of employee services *(Note 22)*	—	—	—	2,399	—	2,399
Currency translation differences	—	5,862	—	—	—	5,862
Balance as of December 31, 2019	(3,403)	109,407	18,039	286,698	5,484	416,225

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.

Notes to the Consolidated Financial Statements

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 attract, motivate and retain skilled and experienced personnel, including directors, senior management, and other employees, for the development and expansion of the Group by providing them with the opportunity to own equity interests in the Company, and to reward non-employees who provides or has provided consultancy or other advisory services to the Group.

(i) Grant of the RSUs

On January 21, 2015, October 9, 2015, January 18, 2017, April 1, 2019, August 16, 2019 and September 12, 2019, 2,275,000, 20,000, 1,805,385, 1,300,000, 760,000 and 3,680,000 RSUs under the RSU Scheme were granted to employees, directors and consultants, respectively.

The 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 1,300,000 RSUs granted on April 1, 2019, are vested as follows: 50% on the date of grant, 8.5% each on the date ending 6, 12, 18, 24 and 30 months from the grant date and 7.5% on the date ending 36 months from the grant date.

The 760,000 RSUs granted on August 16, 2019, are vested as follows: 25% on the date ending 12 months from the grant date, 12.5% on every six months from 12 months from the grant date.

The 3,680,000 RSUs granted on September 12, 2019, are vested as follows: 50% on January 1, 2020, 8.5% each on the date ending 6, 12, 18, 24 and 30 months from the grant date and 7.5% on the date ending 36 months from the grant date.

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.

Notes to the Consolidated Financial Statements

22. Share-based payments *(continued)*

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

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

Movements in the number of RSUs outstanding:

	Number of RSUs Year ended December 31, 2019	2018
Beginning of the year	**250,000**	2,970,210
Granted	**5,740,000**	—
Lapsed	**—**	(1,231,520)
Vested	**(860,500)**	(1,488,690)
End of the year	**5,129,500**	250,000

As of December 31, 2019 and 2018, 30,501,794 and 29,641,294 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 860,500 RSUs during the year ended December 31, 2019, costs of these RSUs totally approximately RMB132 was transferred out from treasury shares upon vesting of these RSUs.

(iii) Fair value of RSUs

The fair value of RSUs granted on January 21, 2015, October 9, 2015 and January 18, 2017, April 1, 2019, August 16, 2019 and September 12, 2019 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), HKD3.10 each (equivalent to RMB4,945,015 in total), HKD0.88 each (equivalent to RMB979,000 in total), HKD0.64 each (equivalent to RMB436,000 in total),and HKD0.72 each (equivalent to RMB2,396,000 in total) respectively.

Notes to the Consolidated Financial Statements

22. Share-based payments *(continued)*

(b) Share options

On November 20, 2014, the shareholders of the Company approved the establishment of a share option scheme (the "**Pre-IPO Share Option Scheme**") with an objective to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The Pre-IPO Share Option Scheme will be valid and effective for a period of ten years commencing from December 30, 2014, (the listing date) unless it is terminated earlier in accordance with the rules of Pre-IPO Share Option Scheme.

The exercise price of the option shall be determined by the Board of Directors of the Company, and which shall not be less than the higher of:

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

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

(3) the nominal value of the shares.

(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.

On April 1, 2019, 1,300,000 share options with exercise price of HKD0.88 per share option were granted. The vesting schedule is 50% on the date of grant, 8.5% each on the date ending 6, 12,18,24 and 30 months from the grant date and 7.5% on the date ending 36 months from the grant date.

On August 16, 2019, 860,000 share options with exercise price of HKD0.65 per share option were granted. The vesting schedule is 25% on the date ending 12 months from the grant date, 12.5% 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.

Notes to the Consolidated Financial Statements

22. Share-based payments *(continued)*

(b) Share options *(continued)*

(i) Grant of share options *(continued)*

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

	Year ended December 31,			
	2019		2018	
	Average Exercise Price	Number of share options	Average Exercise Price	Number of share options
Beginning of the year	HKD5.08	7,881,048	HKD4.58	13,440,423
Granted	HKD0.79	2,160,000		—
Lapsed	HKD4.36	(250,000)	HKD3.87	(5,559,375)
End of the year	HKD4.15	9,791,048	HKD5.08	7,881,048

Out of the 9,791,048 outstanding options (December 31, 2018: 7,881,048), 7,789,673 options (December 31, 2018: 6,289,173) were exercisable. Share options outstanding as of December 31, 2019 include 462,298 (December 31, 2018: 462,298) share options, 2,878,750 (December 31, 2018: 2,956,250) share options, 975,000 (December 31, 2018: 975,000) share options, 3,315,000 (December 31, 2018: 3,487,500), 1,300,000 (December 31, 2018: nil) and 860,000 (December 31, 2018: nil) share options, with the exercise price of HKD8.10, HKD7.18, HKD4.366, HKD3.10, HKD0.88 and HKD0.65 per share option, respectively. All these options will expire in 10 years from the grant date.

(ii) Fair value of share options

Based on the market price of the underlying ordinary share of HKD8.10, HKD7.18, HKD4.366, HKD3.10, HKD0.88 and HKD0.65 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, January 18, 2017, April 1,2019 and August 16,2019 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), HKD14,823,000 (approximately equivalent to RMB13,097,000), HKD678,000 (approximately equivalent to RMB580,000) and HKD308,000 (approximately equivalent to RMB277,000) 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	April 1, 2019	August 16, 2019
Risk-free interest rate	1.69%	1.62%	2.50%	1.72%	1.6%	1.07%
Volatility	49.30%	49.70%	52.30%	57.20%	61.00%	61.40%
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.

Notes to the Consolidated Financial Statements

22. Share-based payments *(continued)*

(c) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive loss. As of December 31, 2019, the Expected Retention Rate of employees was assessed to be 70% (December 31, 2018: 45%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2018: 100%).

23. Bank borrowings

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Bank borrowings		
— Secured loans	**199,100**	199,100
Included in:		
Current liabilities	**199,100**	199,100

(a) Bank borrowings are secured by the USD denominated restricted deposits, approximately equivalent to RMB230,912,000 (2018: RMB233,831,000) (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 4.4%-4.57% (2018: 4.79%)

(d) Borrowings are repayable as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Within 1 year	**199,100**	199,100

(e) As of December 31, 2019, the Group's borrowings were denominated in RMB.

Notes to the Consolidated Financial Statements

24. Trade and other payables

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Trade payables *(Note (i))*	**27,641**	43,499
Accrued expenses and liabilities	**10,413**	21,244
Salary and staff welfare payables	**8,493**	15,150
Amount due to a related party *(Note 36(b)(ii))*	**5,438**	5,438
Other taxes payables	**2,427**	1,643
Interests payable	**58**	245
	54,470	87,219

Note:

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
0-180 days	**22,163**	35,837
181-365 days	**1,796**	4,096
1-2 years	**496**	701
2-3 years	**574**	325
over 3 years	**2,612**	2,540
	27,641	43,499

25. Contract liabilities

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Current		
— Sales of in-game virtual items *(Note (i))*	**36,888**	45,333
— License fee and technical support fee	**—**	5,349
— Production and licensing of film rights	**11,426**	—
— Others	**1,230**	674
	49,544	51,356
Non-current		
— Sales of in-game virtual items *(Note (i))*	**1,860**	1,431
— License fee and technical support fee	**—**	1,556
	1,860	2,987

Note:

(i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of December 31, 2019 and December 31, 2018.

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 receivables are analysed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Service charges by game distribution channels	**46,247**	110,303
Content fee to game developers	**15,741**	38,822
Bandwidth and server custody fees	**11,922**	15,594
Film rights recognised as cost of revenue	**740**	31,561
Film production cost	**38,895**	39,349
Payment handling costs	**35**	287
Employee benefit expenses(excluding share-based compensation expenses) *(Note 27(a))*	**72,698**	150,013
Charged to/(reversal of) share-based compensation expenses	**2,611**	(2,498)
Depreciation of property, plant and equipment *(Note 6)*	**1,909**	3,958
Depreciation of right-of-use assets	**4,964**	—
Amortization and impairment of intangible assets *(Note 7)*	**31,382**	19,648
Net impairment losses on receivables *(Note 15, 16)*	**1,099**	3,253
Impairment of films rights and films in progress *(Note 8)*	**8,350**	8,174
Prepayment write-off	**1,926**	7,330
Promotion and advertising expenses	**19,523**	79,327
Traveling and entertainment expenses	**3,816**	6,220
Office rental expenses	**815**	14,229
Other professional service fees	**10,033**	12,387
Game development outsourcing costs	**691**	4,633
Utilities and office expenses	**3,398**	3,046
Auditors' remuneration		
— Audit services	**2,350**	3,630
— Non-audit services	**1,180**	680
Others	**3,057**	3,088
Total	**283,382**	553,034

Notes to the Consolidated Financial Statements

27. Employee benefit expenses

(a) Employee benefit expenses

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	58,563	124,185
Pension costs — defined contribution plans	4,037	6,055
Other social security costs, housing benefits and other employee benefits	10,098	19,773
Charged to/(reversal of) share-based compensation expenses	2,611	(2,498)
	75,309	147,515

Employees of the group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on fixed percentage of 20% of the employees' salary (subject to a floor and cap) as set by local municipal governments to the scheme locally to fund the retirement benefits of the employees.

(b) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2019 and 2018 both include 4 directors whose emoluments are reflected in the analysis presented in Note 38(a). The aggregate amounts of emoluments for the remaining 1 individual for each of the years ended December 31, 2019 and 2018 are set out below:

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	795	1,219
Pension costs — defined contribution plans	50	38
Other social security costs, housing benefits and other employee benefits	81	8
Share-based compensation expenses	276	—
	1,202	1,265

The emoluments payable to the individual for the years ended December 31, 2019 and 2018 fell within the following bands:

	Year ended December 31, 2019	2018
Emoluments band		
HKD1,000,001 to HKD1,500,000	1	1

Notes to the Consolidated Financial Statements

28. Other operating income — net

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Government subsidies	**1,874**	2,015
Foreign exchange gains/(losses), net	**1,899**	(1,022)
Gain on disposals of property, plant and equipment	**365**	77
Gain/(losses) on disposals of intangible assets	**347**	(1,975)
Others	**465**	5,584
	4,950	4,679

29. Other losses — net

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loss arising from liquidation of a subsidiary	**—**	(875)
Impairment on loans to third parties	**(20,319)**	—
Loss arising from disposal of an investment using equity accounting	**(4,500)**	—
Fair value loss from financial assets at fair value through profit or loss	**(33,132)**	(53,258)
Fair value loss from an associate measured at fair value through profit or loss	**(2,566)**	(330)
	(60,517)	(54,463)

30. Finance income/(costs) — net

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Finance income		
Interest income on bank deposits	**9,575**	6,167
Interest income on loans to a related party	**—**	32
Interest income on loans to third parties	**804**	1,834
Finance costs		
Interest cost on bank borrowings	**(9,429)**	(7,682)
Foreign exchange gains/(losses), net	**375**	(1,700)
Finance income/(costs) — net	**1,325**	(1,349)

Notes to the Consolidated Financial Statements

31. Income tax expense

The income tax expense of the Group for each of the years ended December 31, 2019 and 2018 is analysed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Current income tax	1,339	3,015
Deferred income tax	1,296	1,211
Income tax expense	2,635	4,226

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the years ended December 31, 2019 and 2018 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 the years ended December 31, 2019 and 2018, except for certain subsidiaries. The applicable schedules of preferential income tax rate for these subsidiaries are as follows:

- Feng and Long was accredited as software enterprises and entitled to a preferential income tax rate of 12.5% in 2019 and 2018.

- Horgos Pictures was accredited as a new company in economic development zone and exempted from EIT in 2019 and 2018.

- Linekong Online was qualified as "High and New Technology Enterprises" ("**HNTEs**") for a 3-year period and entitled to a preferential income tax rate of 15% in 2019.

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% of the research and development expenses incurred as tax deductible expenses in determining tax assessable profits ("**Super Deduction**") for the years ended December 31, 2019 and 2018. Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements

31. Income tax expense *(continued)*

(d) PRC withholding Tax ("WHT")

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

As of December 31, 2019, 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, 2019 and 2018, 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,	
	2019	2018
	RMB'000	RMB'000
Loss before income tax	(109,568)	(158,788)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	(22,734)	(15,004)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries *(Note (i))*	(2,315)	(24,379)
Income not subject to tax	(6,954)	(10,548)
Super Deduction for research and development expenses	(3,695)	(10,103)
Expenses not deductible for tax purposes:		
— Share-based compensation	653	(644)
— Others	5,461	2,326
Unrecognised temporary differences *(Note (ii))*	31,971	58,068
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	248	4,032
Others	—	478
Income tax expense	2,635	4,226

Notes:

(i) The Company is exempted 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, 2019 and 2018. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.

Notes to the Consolidated Financial Statements

32. Loss per share

(a) Basic

Basic loss per share for the years ended December 31, 2019 and 2018 is calculated by dividing:

(i) the loss of the Group attributable to the owners of the Company of the year;

(ii) the weighted average number of ordinary shares outstanding during the year, adjusted by the number of ordinary shares bought back and held for RSU scheme as treasury shares.

	Year ended December 31,	
	2019	2018
Loss attributable to owners of the Company (RMB'000)	**(108,654)**	(166,876)
Weighted average number of ordinary shares in issue (thousand shares)	**348,934**	352,871
Basic loss per share (expressed in RMB per share)	**(0.31)**	(0.47)

(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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 are the same as basic loss per share of the years.

33. Dividends

No dividends have been paid or declared by the Company during each of the years ended December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements

34. Cash flow information

(a) Cash used in operations

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loss before income tax		**(109,568)**	(158,788)
Adjustments for:			
— Impairment charges on trade and other receivables	*26*	**1,099**	3,253
— Impairment charges on films rights and films in progress	*8*	**8,350**	8,174
— Prepayment write-off	*26*	**1,926**	7,330
— Depreciation of property, plant and equipment	*6*	**1,909**	3,958
— Depreciation of right-of-use assets		**4,964**	—
— Amortisation of intangible assets	*7*	**16,076**	14,358
— Impairment charges on intangible assets	*7*	**15,306**	5,290
— Gain on disposals of property, plant and equipment	*28*	**(365)**	(77)
— (Gain)/loss on disposals of intangible assets	*28*	**(347)**	1,975
— Films in progress transferred to cost of sales	*26*	**740**	31,561
— Charged to/(reversal of) share-based compensation expenses	*26*	**2,611**	(2,498)
— Share of (profit)/losses of investments using equity accounting	*11*	**(2,026)**	12,411
— Impairment on loans to third parties	*29*	**20,319**	—
— Fair value loss from an associate measured at fair value through profit or loss	*29*	**2,566**	330
— Interest cost on bank borrowings	*30*	**9,429**	7,682
— Interest income from loans to third parties	*30*	**(804)**	(1,834)
— Interest income from loans to a related party	*30*	**—**	(32)
— Fair value losses on financial assets at fair value through profit or loss	*29*	**33,132**	53,258
— Loss arising from liquidation of a subsidiary	*29*	**—**	875
— Loss arising from disposal of an investment using equity accounting	*29*	**4,500**	—
— Foreign exchange (gains)/losses, net	*30*	**(375)**	1,700
		9,442	(11,074)
Changes in working capital:			
— Trade receivables		**1,048**	20,441
— Other receivables and other assets		**12,700**	3,279
— Trade and other payables		**(28,984)**	(38,596)
— Contract liabilities		**(2,939)**	(38,444)
Cash used in operations		**(8,733)**	(64,394)

Non-cash transactions

There is no other significant non-cash transaction for the years ended December 31,2019 and 2018 except the acquisition of right-of-use assets, see notes 2.1.1, and the derecognition of lease liabilities, see note 34(b)(ii).

Notes to the Consolidated Financial Statements

34. 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, 2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**96,471**	176,555
Liquid investments *(Note (i))*	**13,000**	17,000
Borrowings	**(199,100)**	(199,100)
Lease liabilities	**(269)**	—
Net debt	**(89,898)**	(5,545)
Cash and liquid investments	**109,471**	193,555
Gross debt – fixed interest rates	**(199,369)**	(199,100)
Net debt	**(89,898)**	(5,545)

	Other assets		Liabilities from financing activities		
	Cash RMB'000	Liquid investments *(Note (i))* RMB'000	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
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)
Recognised on adoption of IFRS 16 *(note 2.1.1(a))*	—	—	—	(9,395)	(9,395)
Net cash/(debt) as of January 1, 2019	176,555	17,000	(199,100)	(9,395)	(14,940)
Cash flows	(84,268)	—	—	5,441	(78,827)
Foreign exchange adjustments	4,184	(4,000)	—	—	184
Other non-cash movements *(note (ii))*	—	—	—	3,685	3,685
Net cash/(debt) as of December 31, 2019	96,471	13,000	(199,100)	(269)	(89,898)

Notes:

(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.

(ii) Other non-cash movements, mainly including the derecognition of lease liabilities and the corresponding amount of right-of-use assets when the lease contract was early terminated before the original lease expiration date.

Notes to the Consolidated Financial Statements

35. Business combinations

On July 26, 2019, the Group acquired approximately 22.22% equity interest, with 67% voting rights, of Guangzhou Hongyu Network Technology Limited ("**Guangzhou Hongyu**"), which is a company engaged in online game development business, by way of capital injection to Guangzhou Hongyu. Since the Group has obtained a control over Guangzhou Hongyu's relevant activities through a majority of the voting rights and nomination of majority of board seats of Guangzhou Hongyu, Guangzhou Hongyu has therefore become a subsidiary of the Group since the acquisition date.

(a) Set forth below is the calculation of goodwill:

	At the acquisition date RMB'000
Purchase consideration	
— Cash consideration	6,000
Total purchase consideration	6,000
Less: Fair value of net assets acquired	(2,606)
Goodwill	3,394

The goodwill is attributable to the expansibility and the high profitability of the acquired business.

It will not be deductible for tax purposes.

(b) The major components of assets and liabilities arising from the business combination activities are as follows:

	At the acquisition date RMB'000
Cash and cash equivalents	15
Other assets	7,089
Intangible assets *(Note (i))*	6,070
Deferred tax liabilities	(1,444)
Less: non-controlling interests	(9,124)
Net assets acquired	2,606

Note:

(i) The intangible assets are composed of customer contract and non-compete agreements.

Notes to the Consolidated Financial Statements

35. Business combinations *(continued)*

(c) Net cash inflow from acquisition of subsidiaries

	At the acquisition date RMB'000
Purchase consideration settled in cash	—
Add: cash and cash equivalents in subsidiaries acquired	15
Acquisition of subsidiaries, net of cash paid	15

(d) Impact of acquisitions on the results of the Group

The aggregated revenue of newly acquired businesses mentioned above included in the consolidated income statement since the acquisition date and up to December 31, 2019 was RMB6,459,000. The newly acquired businesses mentioned above also contributed an aggregated profit after taxation of RMB2,852,000 over the same period.

Has the newly acquired businesses mentioned above been consolidated from January 1, 2019, the beginning of the financial year, it is estimated that the aggregated revenue included in the consolidated income statement would increase RMB8,999,000, and the aggregated profit after taxation would increase RMB5,201,000.

36. 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, 2019 and 2018. 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, 2019 RMB'000	2018 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		
— Wuhan Jikeyuan Education Technology Co., Ltd.	400	—
	400	14,187

Notes to the Consolidated Financial Statements

36. Significant related party transactions *(continued)*

(b) Balances with related parties

(i) Amount due from a related party

The amount due from the related party as of December 31, 2019 and 2018 was unsecured.

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Hainan Tianchen	**195**	195

(ii) Amount due to a related party

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Fuze	**5,438**	5,438

(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,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**5,672**	8,275
Pension costs — defined contribution plans	**250**	363
Other social security costs, housing benefits and other employee benefits	**398**	435
Share-based compensation expenses	**2,598**	235
	8,918	9,308

Notes to the Consolidated Financial Statements

37. Balance sheet and reserve movement of the Company

	As of December 31, 2019 RMB'000	2018 RMB'000
ASSETS		
Non-current assets		
Investments using equity accounting	34,273	31,278
Investments in subsidiaries	734,041	680,316
	768,314	711,594
Current assets		
Other receivables	444,831	330,707
Other current assets	778	816
Short-term bank deposits	28,064	75,495
Cash and cash equivalents	24,037	132,343
	497,710	539,361
Total assets	1,266,024	1,250,955
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	59	59
Share premium	1,720,690	1,720,690
Shares held for RSU Scheme	(10,019)	(5,822)
Reserves *(Note (a))*	442,893	419,851
Accumulated losses *(Note (a))*	(899,431)	(895,670)
Total equity	1,254,192	1,239,108
Liabilities		
Current liabilities		
Other payables	11,832	11,847
Total liabilities	11,832	11,847
Total equity and liabilities	1,266,024	1,250,955

The balance sheet of the Company was approved by the Board of Directors on March 27, 2020 and was signed on its behalf.

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

Notes to the Consolidated Financial Statements

37. 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, 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)
Balance as of January 1, 2019	**—**	**142,110**	**273,300**	**4,441**	**419,851**	**(895,670)**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(3,761)**
Share of other comprehensive income of investments accounted for using the equity method, net of tax *(Note 11)*	**—**	**—**	**—**	**1,043**	**1,043**	**—**
Employee share option and RSU scheme:						
— Value of employee services	**—**	**—**	**2,399**	**—**	**2,399**	**—**
Currency translation differences	**—**	**19,600**	**—**	**—**	**19,600**	**—**
Balance as of December 31, 2019	**—**	**161,710**	**275,699**	**5,484**	**442,893**	**(899,431)**

Notes to the Consolidated Financial Statements

38. 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, 2018 :

Name	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	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	Total
	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:								
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

Notes to the Consolidated Financial Statements

38. Benefits and interests of directors *(continued)*

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

For the year ended December 31, 2019:

	Emoluments paid or receivable in respect of a person's services as a director, whether 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	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 RMB'000	Total RMB'000
Chairman									
Mr. Wang Feng (i)	–	960	–	–	–	126	–	–	1,086
Executive directors									
Ms. Liao Mingxiang (ii)	–	1,764	–	–	968	131	–	–	2,863
Mr. Wang Jin (viii)	–	1,050	100	–	972	131	–	–	2,253
Mr. Chen Hao (viii)	–	1,000	–	–	381	131	–	–	1,512
Independent non-executive directors									
Mr. Zhang Xiangdong (iv)	286	–	–	–	–	–	–	–	286
Ms. Zhao Yifang (v)	286	–	–	–	–	–	–	–	286
Ms. Wu Yueqin (ix)	286	–	–	–	–	–	–	–	286
Non-executive director									
Mr. Pan Donghui (vii)	–	–	–	–	–	–	–	–	–
Total	858	4,774	100	–	2,321	519	–	–	8,572

Notes to the Consolidated Financial Statements

38. Benefits and interests of directors *(continued)*

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

(i) Mr. Wang Feng was appointed on May 24, 2007.

(ii) Ms. Liao Mingxiang was appointed on May 24, 2007.

(iii) Mr. Zhao Jun was appointed on June 11, 2015, as the executive director of the Company. 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.

(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 (2018: 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 (2018: 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 (2018: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: Nil).

Notes to the Consolidated Financial Statements

38. Benefits and interests of directors *(continued)*

(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 (2018: Nil).

39. Subsequent events

Since early January 2020, the coronavirus outbreak has spread across the Greater China region and beyond, causing disruption to business and economic activities. At this stage, the directors considered that the coronavirus outbreak does not have any significant impact on the Company's business operation subsequent to the year end, except for the Group's film business and Group's various investments. The Group's film production progress was subject to the challenge due to the virus outbreak, and the Group's investments were also exposed to the risk of fluctuations in value due to the market volatility.

The Company will keep continuous attention on the situation of the coronavirus outbreak and react actively to its impact on the financial position and operating results of the Company.

Summary of Financial Information

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**226,030**	457,790	494,733	658,442	540,828
Loss before income tax	**(109,568)**	(158,788)	(304,772)	(140,912)	(51,885)
Loss for the year	**(112,203)**	(163,014)	(294,763)	(157,374)	(53,797)
Total comprehensive (loss)/income for the year	**(105,298)**	(134,792)	(343,363)	(89,768)	2,852
Total assets	**765,372**	895,703	1,034,563	1,392,380	1,286,486
Total liabilities	**314,805**	347,376	358,406	382,090	217,973
Total equity and liabilities	**765,372**	895,703	1,034,563	1,392,380	1,286,486
Net current assets	**248,561**	322,510	373,076	584,926	734,052
Total assets less current liabilities	**453,660**	551,314	680,413	1,116,711	1,071,780