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Linekong Interactive Group Co., Ltd.

藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

SUMMARY

- Our revenue for the year ended December 31, 2016 amounted to approximately RMB658.4 million (2015: approximately RMB540.8 million), representing an increase of approximately 21.7% as compared to that of the year ended December 31, 2015.
- Our gross profit for the year ended December 31, 2016 amounted to approximately RMB290.6 million, representing an increase of approximately 33.9% from approximately RMB217.0 million recorded in the year ended December 31, 2015.
- The unaudited adjusted non-IFRSs net loss for the year ended December 31, 2016 amounted to approximately RMB124.2 million (2015: unaudited adjusted non-IFRSs net profit approximately RMB9.1 million).
- Loss attributable to owners of the Company under IFRSs for the year ended December 31, 2016 amounted to approximately RMB157.4 million (2015: loss of approximately RMB51.9 million).
- Loss per share under IFRSs for the year ended December 31, 2016 amounted to approximately RMB0.45.

ANNUAL RESULTS

The board (the “**Board**”) of Directors of the Company announces the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2016 together with the comparative figures for the year ended December 31, 2015 as follows:

CONSOLIDATED BALANCE SHEET

As of December 31, 2016

		As of December 31,	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		13,649	14,468
Intangible assets		39,406	29,343
Films in progress		24,418	–
Investments using equity accounting		176,362	180,183
An associate measured at fair value through profit or loss		19,229	–
Available-for-sale financial assets		115,125	44,370
Financial assets at fair value through profit or loss		15,637	41,409
Deferred income tax assets — net	4	1,431	7,490
Prepayments and other receivables	6	20,389	20,465
Restricted deposits		106,139	–
		531,785	337,728
Current assets			
Trade receivables	5	78,947	45,079
Prepayments and other receivables	6	112,905	89,675
Financial assets at fair value through profit or loss		17,125	19,543
Short-term bank deposits		312,963	–
Cash and cash equivalents		338,655	794,461
		860,595	948,758
Total assets		1,392,380	1,286,486
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	7	59	59
Share premium	7	1,720,691	1,722,308
Shares held for RSU Scheme	7	(2)	(3)
Reserves	8	426,480	325,713
Accumulated losses		(1,135,029)	(977,657)
		1,012,199	1,070,420
Non-controlling interests		(1,909)	(1,907)
Total equity		1,010,290	1,068,513

CONSOLIDATED BALANCE SHEET (Continued)*As of December 31, 2016*

		As of December 31,	
		2016	2015
	<i>Note</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings		99,400	—
Deferred revenue	<i>11</i>	7,021	3,267
		106,421	3,267
Current liabilities			
Bank borrowings		600	—
Trade and other payables	<i>10</i>	171,940	107,472
Current income tax liabilities		17,813	3,885
Deferred revenue	<i>11</i>	85,316	103,349
		275,669	214,706
Total liabilities		382,090	217,973
Total equity and liabilities		1,392,380	1,286,486

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

For the year ended December 31, 2016

		Year ended December 31,	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	658,442	540,828
Cost of revenue	12	<u>(367,837)</u>	<u>(323,828)</u>
Gross profit		290,605	217,000
Selling and marketing expenses	12	(201,129)	(180,060)
Administrative expenses	12	(102,054)	(83,224)
Research and development expenses	12	(139,496)	(120,562)
Other gains — net	13	<u>35,558</u>	<u>104,018</u>
Operating loss		(116,516)	(62,828)
Finance income — net	14	4,225	16,373
Share of loss of investments using equity accounting		<u>(28,621)</u>	<u>(5,430)</u>
Loss before income tax		(140,912)	(51,885)
Income tax expense	15	<u>(16,462)</u>	<u>(1,912)</u>
Loss for the year		<u><u>(157,374)</u></u>	<u><u>(53,797)</u></u>
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		21,022	8,399
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		(2,449)	(1,534)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		3,991	2,430
Items that will not be reclassified to profit or loss:			
— Currency translation differences		<u>45,042</u>	<u>47,354</u>
Other comprehensive income for the year, net of tax		<u>67,606</u>	<u>56,649</u>
Total comprehensive (loss)/income for the year		<u><u>(89,768)</u></u>	<u><u>2,852</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME (Continued)
For the year ended December 31, 2016

		Year ended December 31,	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss attributable to:			
Owners of the Company		(157,372)	(51,911)
Non-controlling interests		<u>(2)</u>	<u>(1,886)</u>
Loss for the year		<u>(157,374)</u>	<u>(53,797)</u>
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(89,766)	4,738
Non-controlling interests		<u>(2)</u>	<u>(1,886)</u>
Total comprehensive (loss)/income for the year		<u>(89,768)</u>	<u>2,852</u>
Loss per share (expressed in RMB per share)			
— Basic	<i>16(a)</i>	<u>(0.45)</u>	<u>(0.15)</u>
— Diluted	<i>16(b)</i>	<u>(0.45)</u>	<u>(0.15)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

Note	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for RSU Scheme	Reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2015	59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296
Comprehensive (loss)/income								
Loss for the year	—	—	—	—	(51,911)	(51,911)	(1,886)	(53,797)
Other comprehensive income								
— Changes in fair value of available-for-sale financial assets, net of tax	—	—	—	8,399	—	8,399	—	8,399
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	—	—	—	(1,534)	—	(1,534)	—	(1,534)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	—	—	—	2,430	—	2,430	—	2,430
— Currency translation differences	—	—	—	47,354	—	47,354	—	47,354
Total comprehensive income/(loss) for the year	—	—	—	56,649	(51,911)	4,738	(1,886)	2,852
Total contributions by and distributions to owners of the Company recognised directly in equity								
Employee share option and RSU Scheme:								
— Value of employee services	9	—	—	62,882	—	62,882	—	62,882
— Vesting of shares	—	(3)	3	—	—	—	—	—
Repurchase of shares	—	(4,517)	—	—	—	(4,517)	—	(4,517)
Total contributions by and distributions to owners of the Company for the year	—	(4,520)	3	62,882	—	58,365	—	58,365
Balance at December 31, 2015	59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended December 31, 2016

Note	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for RSU Scheme	Reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2016	59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513
Comprehensive (loss)/income								
Loss for the year	-	-	-	-	(157,372)	(157,372)	(2)	(157,374)
Other comprehensive income								
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	21,022	-	21,022	-	21,022
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(2,449)	-	(2,449)	-	(2,449)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	3,991	-	3,991	-	3,991
— Currency translation differences	-	-	-	45,042	-	45,042	-	45,042
Total comprehensive income/(loss) for the year	-	-	-	67,606	(157,372)	(89,766)	(2)	(89,768)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Employee share option and RSU Scheme:								
— Value of employee services	9	-	-	33,161	-	33,161	-	33,161
— Vesting of shares		(1)	1	-	-	-	-	-
Repurchase of shares		(1,616)	-	-	-	(1,616)	-	(1,616)
Total contributions by and distributions to owners of the Company for the year	-	(1,617)	1	33,161	-	31,545	-	31,545
Balance at December 31, 2016	59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The Group’s major subsidiaries are based in the PRC and majority of their transactions are denominated in Renminbi (“**RMB**”). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As of December 31, 2016 and 2015, 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 21, 2017.

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

2. BASIS OF PREPARATION

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

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2.1 Changes in accounting policies and disclosures

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

The following amendments to the standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2016:

Amendments to IFRS 11	“Accounting for acquisitions of interests in joint operations”
Amendments to IAS 16 and IAS 38	“Clarification of acceptable methods of depreciation and amortisation”
Amendments from annual improvements 2014 to:	
— IFRS 7	— “Financial instruments: Disclosures”
— IAS 19	— “Employee benefits”
Amendments to IAS 1	“Disclosure initiative”

The adoption of above amendments does not have any significant financial effect on the Group's consolidated financial statements. Other than that, the remaining amendments which are effective for the first time for the financial year beginning on January 1, 2016 are not applicable to the Group.

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

A number of new standards and amendments to standards have been issued but not effective for annual period beginning on January 1, 2016, which have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	"Income taxes"	January 1, 2017
Amendments to IFRS 7	"Statement of cash flows"	January 1, 2017
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2018
IFRS 9	"Financial Instruments"	January 1, 2018
IFRS 16	"Leases"	January 1, 2019
Amendments to IFRS 10 and IAS 28	"Sale or contribution of assets between an investor and its associate or joint venture"	January 1, 2019

The Group is in the process of making an assessment of the impact of the above new standards and amendments to existing standards on the consolidated financial statements of the Group in their initial applications. The management has made preliminary assessment of impact of IFRS 15 and IFRS 9, and based on it, the management does not expect a significant impact on the Group's consolidated financial statements except for expanded disclosure requirements and changes in presentation. The Group will make more detailed assessments of the impact of the new standards and amendments over the next few months.

3. REVENUE AND SEGMENT INFORMATION

Segment reporting

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

	Year ended December 31,	
	2016 RMB'000	2015 RMB'000
Development and operations of online games:		
— Sales of in-game virtual items	635,380	508,565
— License fee and technical support fee	23,062	32,263
	<u>658,442</u>	<u>540,828</u>

The Group offers its online games in different forms: client-based games, web-based games and mobile games. A breakdown of revenue derived from different forms of the Group's games for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	635,555	504,001
— Web-based games	3,756	11,905
— Client-based games	19,131	24,922
	658,442	540,828

A breakdown of revenue derived from Mainland China and overseas countries and regions for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Revenue from external customers:		
— Mainland China	537,324	481,318
— Korea	90,527	27,074
— Overseas countries and regions	30,591	32,436
	658,442	540,828

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

The Group has a large number of game players. No revenue from any individual game player exceeded 10% or more of the Group's revenue for the years ended December 31, 2016 and 2015.

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,	
	2016	2015
	RMB'000	RMB'000
Mainland China	81,366	43,187
Overseas countries and regions	7,727	680
	89,093	43,867

4. DEFERRED INCOME TAX — NET

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

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
— To be recovered within 12 months	528	9,269
— To be recovered after 12 months	15,576	472
	<u>16,104</u>	<u>9,741</u>
Deferred income tax liabilities:		
— To be settled within 12 months	(83)	(78)
— To be settled after 12 months	(14,590)	(2,173)
	<u>(14,673)</u>	<u>(2,251)</u>
	<u><u>1,431</u></u>	<u><u>7,490</u></u>

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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	7,490	5,358
Recognised in profit or loss	1,208	3,344
Charged to other comprehensive income	(7,267)	(1,212)
	<u>1,431</u>	<u>7,490</u>
End of the year	<u><u>1,431</u></u>	<u><u>7,490</u></u>

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 <i>RMB'000</i>	Accrued employee benefit expenses <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Provision and others <i>RMB'000</i>	Total <i>RMB'000</i>
Year Ended December 31, 2015					
Beginning of the year	4,571	610	–	253	5,434
Credited/(Charged) to profit or loss	1,008	(610)	3,791	118	4,307
End of the year	<u>5,579</u>	<u>–</u>	<u>3,791</u>	<u>371</u>	<u>9,741</u>
Year Ended December 31, 2016					
Beginning of the year	5,579	–	3,791	371	9,741
(Charged)/credited to profit or loss	(4,261)	–	10,883	(259)	6,363
End of the year	<u>1,318</u>	<u>–</u>	<u>14,674</u>	<u>112</u>	<u>16,104</u>

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation 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 RMB151,960,742 as of December 31, 2016 (December 31, 2015: RMB82,693,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2017 to 2021.

Deferred income tax liabilities:

	Trademarks and licenses <i>RMB'000</i>	Fair value changes of financial assets <i>RMB'000</i>	Fair value changes of an associate <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended December 31, 2015				
Beginning of the year	(76)	–	–	(76)
Charged to profit or loss	(2)	(961)	–	(963)
Charged to other comprehensive income	–	(1,212)	–	(1,212)
End of the year	<u>(78)</u>	<u>(2,173)</u>	<u>–</u>	<u>(2,251)</u>
Year ended December 31, 2016				
Beginning of the year	(78)	(2,173)	–	(2,251)
Charged to profit or loss	(5)	(4,093)	(1,057)	(5,155)
Charged to other comprehensive income	–	(7,267)	–	(7,267)
End of the year	<u>(83)</u>	<u>(13,533)</u>	<u>(1,057)</u>	<u>(14,673)</u>

5. TRADE RECEIVABLES

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables	80,221	45,712
Less: impairment provision	(1,274)	(633)
	<u>78,947</u>	<u>45,079</u>

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

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
0–60 days	68,810	32,435
61–90 days	2,706	6,321
91–180 days	5,018	3,413
181–365 days	1,950	2,852
over 1 year	1,737	691
	<u>80,221</u>	<u>45,712</u>

- (b) As at December 31, 2016 and 2015, trade receivables of past due but not impaired were RMB16,160,000 and RMB19,553,000, respectively. These related to a number of game distribution channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Outstanding after due dates:		
0–60 days	8,729	13,266
61–90 days	1,015	1,391
91–180 days	5,137	3,333
181–365 days	816	1,234
over 1 year	463	329
	<u>16,160</u>	<u>19,553</u>

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

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	(633)	(1,080)
Provision for impairment	(4,267)	(1,899)
Receivables written off during the year as uncollectible	3,626	2,346
	<hr/>	<hr/>
At end of the year	(1,274)	(633)
	<hr/>	<hr/>

The provision for impaired trade receivables have been included in “administrative expenses” in the consolidated statement of comprehensive (loss)/income. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

- (d) The carrying amount of the Group's trade receivables are dominated in the following currencies:

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	41,095	26,788
USD	36,524	17,486
Others	2,602	1,438
	<hr/>	<hr/>
	80,221	45,712
	<hr/>	<hr/>

6. PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Current		
Prepaid service charges to game distribution channels	31,307	29,525
Prepayment to game developers	33,923	30,685
Staff advance (<i>Note (a)</i>)	693	608
Loans to employees (<i>Note (b)</i>)	4,283	1,266
— Loans to key management	2,162	188
— Loans to other employees	2,121	1,078
Prepaid rental, advertising cost and others	33,498	12,973
Rental and other deposits	731	3,038
Interests receivable	902	7,925
Others	7,568	3,655
	<u>112,905</u>	<u>89,675</u>
Non-current		
Prepaid service charges to game distribution channels	56	56
Loans to employees (<i>Note (b)</i>)	2,587	3,750
— Loans to key management	208	2,067
— Loans to other employees	2,379	1,683
Rental and other deposits	3,942	3,466
Loans to a third party (<i>Note (c)</i>)	—	10,723
Prepayment for investments	11,564	—
Others	2,240	2,470
	<u>20,389</u>	<u>20,465</u>

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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	—	—
Provision for impairment	(19)	(500)
Other receivables written off during the year as uncollectible	19	500
	<u>—</u>	<u>—</u>
At end of the year	<u>—</u>	<u>—</u>

The provision for impaired other receivables have been included in “administrative expenses” in the consolidated statement of comprehensive (loss)/income. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

Notes:

- Staff advances represent the advances to employees for various expenses to be incurred in the ordinary course of business.
- Loans to employees represent the housing loans provided to certain employees. These housing loans are unsecured and with a term ranging from 2 to 5 years.

- (c) On May 25, 2015, Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd., “**Linekong Entertainment**”), as the lender, entered into a loan agreement with the borrower, Jiangsu Strawbear Pictures Co. Ltd. Pursuant to the agreement, Linekong Entertainment granted an unsecured loan to the borrower in the principal amount of RMB10,000,000 with interest rate of 12% per annum. Maturity period of the loan is no longer than two years from May 25, 2015. The loan was early settled by the borrower in March 2016.

7. SHARE CAPITAL AND SHARE PREMIUM

The authorised share capital of the Company has been designed as 2,000,000,000 ordinary shares with par value of USD0.000025 each since December 30, 2014.

	Number of ordinary shares ('000)	Nominal value of ordinary shares USD '000	Equivalent nominal value of ordinary shares RMB '000	Share premium RMB '000	Shares hold for RSU Scheme RMB '000
Issued:					
As of January 1, 2015	369,839	10	59	1,726,828	(6)
Repurchase of shares	(970)	–	–	(4,517)	–
Vesting of shares held for RSU Scheme	–	–	–	(3)	3
As of December 31, 2015	<u>368,869</u>	<u>10</u>	<u>59</u>	<u>1,722,308</u>	<u>(3)</u>
Issued:					
As of January 1, 2016	<u>368,869</u>	<u>10</u>	<u>59</u>	<u>1,722,308</u>	<u>(3)</u>
Repurchase of shares	(641)	–	–	(1,616)	–
Vesting of shares held for RSU Scheme	–	–	–	(1)	1
As of December 31, 2016	<u>368,228</u>	<u>10</u>	<u>59</u>	<u>1,720,691</u>	<u>(2)</u>

8. RESERVES

	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000 (Note (i))	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at January 1, 2015	(7,831)	26,503	9,557	177,947	6	206,182
Changes in fair value of available-for-sale financial assets, net of tax	—	—	—	—	8,399	8,399
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	—	—	—	—	(1,534)	(1,534)
Share of other comprehensive income of an investment accounted for using the equity method, net of tax	—	—	—	—	2,430	2,430
Employee share option and RSU scheme:						
— Value of employee services	—	—	—	62,882	—	62,882
Currency translation differences	—	47,354	—	—	—	47,354
Balance at December 31, 2015	<u>(7,831)</u>	<u>73,857</u>	<u>9,557</u>	<u>240,829</u>	<u>9,301</u>	<u>325,713</u>
Balance at January 1, 2016	<u>(7,831)</u>	<u>73,857</u>	<u>9,557</u>	<u>240,829</u>	<u>9,301</u>	<u>325,713</u>
Changes in fair value of available-for-sale financial assets, net of tax	—	—	—	—	21,022	21,022
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	—	—	—	—	(2,449)	(2,449)
Share of other comprehensive income of investments using equity method, net of tax	—	—	—	—	3,991	3,991
Employee share option and RSU scheme:						
— Value of employee services	—	—	—	33,161	—	33,161
Currency translation differences	—	45,042	—	—	—	45,042
Balance at December 31, 2016	<u>(7,831)</u>	<u>118,899</u>	<u>9,557</u>	<u>273,990</u>	<u>31,865</u>	<u>426,480</u>

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 Linekong Online (Beijing) Internet Technology Co., Ltd. ("**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.

9. SHARE-BASED PAYMENTS

(a) Restricted Share Units (“RSUs”)

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company set up a restricted share unit scheme (“**RSU Scheme**”) with the objective to incentivize directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

(i) *Grant of the RSUs*

On March 21, 2014, January 21, 2015 and October 9, 2015, 31,371,494, 2,275,000 and 20,000 RSUs under the RSU Scheme were granted to employees, directors and consultants, respectively.

The 31,371,494 RSUs granted on March 21, 2014 are vested in four different ways as provided in respective grant letters:

- (1) 4-year vesting: 20% on the date ending one month after the date of listing, 35% on the date ending 12 months from the grant date, 10% each on the date ending 18 and 24 months from the grant date, 7.5% each on the date ending 30 and 36 months from the grant date, 5% each on the date ending 42 and 48 months from the grant date.
- (2) 4-year vesting: 10% on the date ending one month after the date of listing, 20% on the date ending 12 month from the grant date, 12.5% each on the date ending 18, 24, 30 and 36 months from the grant date, 10% each on the date ending 42 and 48 months from the grant date.
- (3) 4-year vesting: 25% on the date ending 12 months from the grant date, 12.5% on every six months from 12 months from the grant date.
- (4) 3-year vesting: 33.33% on January 10, 2015, and 8.33% each on every three months from the first month after January 10, 2015.

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 RSUs are vested only if the grantees remain engaged by the Group. The RSU Scheme will be valid and effective for a period of ten years commencing from March 21, 2014, unless it is terminated earlier in accordance with the rules of RSU Scheme.

Movements in the number of RSUs outstanding:

	Number of RSUs	
	Year ended December 31,	
	2016	2015
Beginning of the year	12,059,414	31,276,072
Granted	–	2,295,000
Lapsed	(1,264,931)	(2,098,994)
Vested	(5,446,321)	(19,412,664)
End of the year	<u>5,348,162</u>	<u>12,059,414</u>

As of December 31, 2016 and 2015, 24,858,985 and 19,412,664 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 5,446,321 RSUs during the year ended December 31, 2016, costs of these RSUs totally approximately RMB906 was transferred out from treasury shares upon vesting of these RSUs.

(iii) *Fair value of RSUs*

The directors used the discounted cash flow method to estimate the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the RSUs granted on March 21, 2014. The fair value of the RSUs granted on March 21, 2014 was assessed to be RMB203,925,228.

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

	March 21, 2014
Discount rate used to determine the underlying share value of the Company	20%
Risk-free interest rate	0.08%
Volatility	52.97%

The fair value of RSUs granted on January 21, 2015 and October 9, 2015 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), and HKD7.18 each (equivalent to RMB118,000 in total), respectively.

(b) Share options

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

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

- (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.

(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 and June 15, 2016, 6,010,000 share options with exercise price of HKD7.18 per share option and 1,750,000 share options with exercise price of HKD4.366 per share option were granted respectively. The vesting period of the share options granted is 4 years. The vesting schedule is 25% on the date ending 12 months from the grant date and 12.5% each on every six months from 12 months from the grant date.

The option period shall be ten years commencing from the grant date and the options are vested only if the grantees remain engaged by the Group.

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

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

	Year ended December 31,			
	2016		2015	
	Average	Number of	Average	Number of
	Exercise Price	share options	Exercise Price	share options
Beginning of the year	HKD7.40	7,709,192		–
Granted	HKD4.366	1,750,000	HKD7.40	7,859,192
Lapsed	HKD7.33	(2,804,394)	HKD7.18	(150,000)
Exercised		–		–
End of the year	HKD6.63	6,654,798	HKD7.40	7,709,192

Out of the 6,654,798 outstanding options (December 31, 2015: 7,709,192), 1,657,298 options (December 31, 2015: Nil) were exercisable. Share options outstanding as of December 31, 2016 include 462,298 (December 31, 2015: 1,849,192) share options, 4,742,500 (December 31, 2015: 5,860,000) share options and 1,450,000 (December 31, 2015: Nil) with the exercise price of HKD8.10, HKD7.18 and HKD4.366 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 and HKD4.366 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 and June 15, 2016 was assessed to be HKD8,220,000 (approximately equivalent to RMB6,706,000), HKD20,442,000 (approximately equivalent to RMB16,748,000) and HKD4,028,000 (approximately equivalent to RMB3,425,000), 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
Risk-free interest rate	1.69%	1.62%	2.50%
Volatility	49.30%	49.70%	52.30%
Dividend yield	—	—	—

The Company estimated the risk-free interest rate based on the yield of HK 10-Year Government Bond with a maturity life equal to the life of the share options. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date.

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

Pursuant to a resolution passed by the Board of Directors of the Company on December 17, 2015, the Company granted 168,000,000 RSUs of Creative Ace Limited, a subsidiary of the Company to certain employees of the Group with the objective to stimulate and promote the development of the business in US.

These RSUs granted are subject to vesting schedule, service and performance conditions.

The directors used the discounted cash flow method to estimate the underlying equity fair value of Creative Ace Limited, and determine the fair value of the RSUs granted on December 17, 2015. The fair value of the RSUs granted on December 17, 2015 was assessed to be RMB3,030,300.

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

	December 17, 2015
Discount rate used to determine the underlying share value of the Company	30.00%
Risk-free interest rate	3.69%
Discount for lack of marketability	20.00%

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

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

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

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

(d) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the “**Expected Retention Rate**”) in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive (loss)/income. As of December 31, 2016, the Expected Retention Rate of employees was assessed to be 85% (December 31, 2015: 90%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2015: 100%).

10. TRADE AND OTHER PAYABLES

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Trade payables (<i>Note (i)</i>)	92,754	53,262
Other taxes payables	3,565	3,475
Interests payable	74	–
Salary and staff welfare payables	28,486	27,683
Accrued expenses and liabilities	45,561	20,031
Advance received from licence fees	952	1,097
Advance received from sales of prepaid game cards	486	1,022
Advance from payment vendors	62	902
	<u>171,940</u>	<u>107,472</u>

Note:

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

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
0–180 days	60,684	45,394
181–365 days	25,568	2,475
1–2 years	3,405	2,667
2–3 years	1,652	1,935
over 3 years	1,445	791
	<u>92,754</u>	<u>53,262</u>

11. DEFERRED REVENUE

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Current		
— License fee and technical support fee	3,649	6,734
— Sales of in-game virtual items (<i>Note (i)</i>)	81,570	94,882
— Government subsidies	97	1,733
	<u>85,316</u>	<u>103,349</u>
Non-current		
— License fee and technical support fee	4,421	2,827
— Sales of in-game virtual items (<i>Note (i)</i>)	1,029	384
— Government subsidies	1,571	56
	<u>7,021</u>	<u>3,267</u>

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, 2016 and 2015. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the lives of permanent ownership items ("**Player Relationship Period**") of the respective game or other similar types of games. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB6,921,000 as of December 31, 2016 (December 31, 2015: RMB8,086,000).

12. EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analysed as follows:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Service charges by game distribution channels	249,593	196,763
Content fee to game developers	60,786	71,285
Bandwidth and server custody fees	16,642	13,242
Payment handling costs	435	955
Employee benefit expenses (excluding share-based compensation expenses)	172,006	131,483
Share-based compensation expenses	33,161	62,882
Depreciation of property, plant and equipment	7,918	7,139
Amortisation and impairment of intangible assets	19,381	14,956
Impairment charges on trade and other receivables	4,242	2,399
Prepayment write-off	6,973	—
Promotion and advertising expenses	175,979	156,608
Traveling and entertainment expenses	5,951	5,147
Office rental expenses	16,180	14,466
Other professional service fees	11,710	9,277
Game development outsourcing costs	13,767	7,233
Utilities and office expenses	3,837	1,888
Auditors' remuneration		
— Audit services	5,100	5,530
— Non-audit services	180	—
Others	6,675	6,421
Total	810,516	707,674

13. OTHER GAINS — NET

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Government subsidies (<i>Note (a)</i>)	10,297	7,739
Foreign exchange gains, net	1,454	529
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	8,950	67,196
Realised fair value gains on derivatives (<i>Note (b)</i>)	—	14,540
Fair value gain from an associate measured at fair value through profit or loss	4,229	—
Gain on disposal of available-for-sale financial assets	2,449	1,753
Gain/(loss) on disposals of property, plant and equipment	138	(48)
Gain/(loss) on disposals of intangible assets	2,459	(1,863)
Return on short-term investments	—	821
Dilution gains arising from deemed disposal of investments (<i>Note (c)</i>)	—	12,725
Gain arising from other shareholders' contribution to an associate	5,619	—
Others	(37)	626
	35,558	104,018

Notes:

- (a) Government subsidies primarily represented various industry-specific subsidies granted by the government authorities to subsidise the game research and development costs and capital expenditures incurred by the Group during the course of its business.
- (b) On March 12, 2015, the Company entered into a share subscription agreement with SMI Holdings Group Limited (“**SMI**”), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company agreed to subscribe 139,582,733 ordinary shares of SMI for a total consideration of USD5,000,000, representing 1.35% of SMI’s issued shares. The subscription agreement is therefore accounted for as a forward contract which was fair valued by taking reference to share price of SMI quoted in the active market. The fair value change of this forward contract of RMB14,540,000 between the date of subscription agreement and the date of the issuance of the subscribed shares was charged to profit or loss.
- (c) The Company has used equity accounting for the equity investment in Fuze Entertainment Co., Ltd. (“**Fuze**”). In August 2015, Fuze issued series B preferred shares to several investors with total proceeds of USD30,750,000, which accounted for 33.88% equity shares of Fuze, on a fully diluted basis. As a result, the Group’s equity shares in Fuze was diluted from 37.78% to 24.98%, which resulted in a dilution gain of approximately RMB12,725,000. The dilution gain represents the difference between the attributable carrying value of the Group’s investment deemed disposed immediately prior to the issuance of these new shares and the Group’s share of the proceeds received for the new shares issued.

14. FINANCE INCOME — NET

	Year ended December 31,	
	2016	2015
	RMB’000	RMB’000
Finance income		
Interest income on bank deposits	5,373	10,648
Interest income on loans to a related party	—	953
Interest income on loans to a third party	243	723
	<u>5,616</u>	<u>12,324</u>
Finance costs		
Interest cost on bank borrowings	(1,018)	—
Foreign exchange (losses)/gains, net	(373)	4,049
	<u>(1,391)</u>	<u>4,049</u>
Finance income — net	<u><u>4,225</u></u>	<u><u>16,373</u></u>

15. INCOME TAX EXPENSE

The income tax expense of the Group for each of the years ended December 31, 2016 and 2015 is analysed as follows:

	Year ended December 31,	
	2016	2015
	RMB’000	RMB’000
Current income tax	17,670	5,256
Deferred income tax	(1,208)	(3,344)
	<u>16,462</u>	<u>1,912</u>
Income tax expense	<u><u>16,462</u></u>	<u><u>1,912</u></u>

(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, 2016 and 2015 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, 2016 and 2015, except for Tianjing Baba Liusi Network Technology Co., Ltd. (“**Tianjin 8864**”) and Shouyoutong (Beijing) Technology Co., Ltd. (“**Shouyoutong**”), which were accredited as software enterprises and subject to below preferential income tax rate:

	2016	2015
Shouyoutong	25%	50% reduction
Tianjin 8864	50% reduction	50% reduction

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining tax assessable profits for that year (“**Super Deduction**”). Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended December 31, 2016 and 2015.

(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, 2016, 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, 2016 and 2015, 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,	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	(140,912)	(51,885)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions (<i>Note (i)</i>)	(20,470)	(29,138)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	–	(5,145)
Super Deduction for research and development expenses	(10,042)	(1,909)
Expenses not deductible for tax purposes:		
— Share-based compensation	7,902	15,721
— Others	18,844	17,137
Unrecognised temporary differences (<i>Note (ii)</i>)	22,024	10,856
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	1,194	3,045
Adjustment to deferred income tax arising in prior years	(2,990)	(8,655)
Income tax expense	16,462	1,912

Notes:

- (i) The Company is exempt from Cayman Islands income tax. As such, the operating results reported by the Company on a standalone basis, are not subject to any income tax.
- (ii) The Group has assessed the realisation of deductible temporary differences and unused tax losses for each Group entity as of December 31, 2016 and 2015. 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.

16. LOSS PER SHARE

(a) Basic

Basic loss per share for the years ended December 31, 2016 and 2015 is calculated by dividing the loss of the Group attributable to the owners of the Company of the year by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Loss attributable to owners of the Company	(157,372)	(51,911)
Weighted average number of ordinary shares in issue (thousand shares)	349,493	341,706
Basic loss per share (expressed in RMB per share)	(0.45)	(0.15)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended December 31, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015 are the same as basic loss per share of the years.

17. DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2016 and 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In 2016, the Group continuously strengthened the development and operation of its core business games with the user and information feedback brought by excellent IPs derived from movies and animations in its attempts to implement innovations across movies, animations and games.

Review

- *Gaming Business*
 - With the original belief of offering the players high quality and exquisite games, as of December 31, 2016, we have commercialisation 26 games in total, comprising 16 self-developed games and 10 licensed games.
 - The Wars of Shushan (蜀山戰紀之劍俠傳奇) (hereinafter referred to as The Wars of Shushan (蜀山戰紀)), was an attempt of the cross-industry integration IP product launched by the Group. The Group joined hands with Nicky Wu (吳奇隆), iQIYI and Anhui Satellite TV to create a brand new business model of “Platform-Movie-Game” Integration and fully implemented the pan-entertainment. The Wars of Shushan had excellent performance since the successful commercialisation on January 27, 2016. The game topped the Free Download List and maintained among top 10 on the Best Seller List for consecutive 41 days and among Top 5 of the App Store.
 - As the first 3D massive multi-player online action mobile game simultaneously launched on mobile devices, PC, and household console, with its excellent quality, the Group’s licensed mobile game Daybreak (《黎明之光》手遊版) stood out in a number of heavy-weight IP masterpieces launched in the same period and was selected as the star mobile game by Mobile Hardcore Alliance in September 2016. Since its official commercialisation on September 8, 2016, Daybreak (《黎明之光》手遊版) has maintained among top 10 on the Best Seller List of the App Store for a long time and frequently rose to the top 3. The new editions launched in October and December 2016 were popular among the players with monthly gross billings growing steadily. On February 24, 2017, Daybreak joined hands with UBISOFT’s Assassin’s Creed in entering a highly praised public test phase, with the newly added assassin occupation and the limited edition with exclusively licensed skin.
 - As the Group’s first 3D turn-based game of mythical hero themes, Big Words of Shushan has aesthetic image of high quality and characters in brand-new adorable appearance. Since its commercialisation on December 8, 2016, the game has drawn much attention from players.
 - As an attempt of implementing “community-based products”, the Group’s Excalibur II (王者之劍2), Excalibur (王者之劍), added more social elements into its basis of a sophisticated ACT game. Since its commercialisation on January 18, 2017, the game has drawn much attention from players.

- As an attempt of “market internationalisation”, through the Linekong US Inc. (Linekong US), the Group joined hands with Fox Digital Entertainment in developing the strategic war-type mobile game Independence Day: Extinction (獨立日：捲土重來) at the beginning of 2016. Super Charge, a new game under development and testing, will be released globally in 2017.
- As another attempt of “market internationalisation”, the Group’s Thunder Armada (雷霆艦隊), a 3D naval battle game licensed through the Linekong Korea Co., Ltd. (Linekong Korea), maintained its rankings between top 30th to 40th on the Google Best Seller List and ranked 3rd on Korean Google Download List for three consecutive months since its release in Korea in February this year. The Wars of Shushan, the Group’s self-developed game ranked top 1 in popularity rankings in Kakao Talk, top 1 in download rankings in iOS, top 1 in download rankings in Google, and top 1 in download rankings in ONESTORE, a local app store, since its release in Korea on June 28, 2016. It ranked top 20 on the Google Best Seller List at its peak with monthly gross billings of approximately RMB10 million in three consecutive months.
- The research and development of much anticipated games, such as Monster Hunt (捉妖記) and Sword of Heaven II (蒼穹之劍2), progressed orderly. The game Monster Hunt (捉妖記) was adapted from a popular movie of the same name in 2015. Sword of Heaven II (蒼穹之劍2) is a sequel to Sword of the Heaven (蒼穹之劍) one of the “Three Swords of Linekong” (藍港三劍).
- *Movie business, consumer electronics business, and others*
 - As an attempt of the “Movie-Animation-Game” integration, carrying the idea of combining exquisite IP product and excellent creators, the Group launched the Internet drama Long For You (我與你的光年距離) through Linekong Pictures, invested in Angel Bedazzled (蒙圈天使) (a movie distributed on the Internet) and Wished (反轉人生) (a movie distributed in cinemas), and reserved popular ACGN (Animation, Comic, Game and Novel) products as its IPs, such as Save Chuunibyou Project (中二病拯救大作戰). Long For You was exclusively released through iQIYI (樂視) on February 14, 2017 (Valentine’s Day) while Angel Bedazzled was exclusively released through iQIYI on January 25, 2017 (Chinese New Year). As another attempt of the “Movie-Animation-Game” integration”, Fuze Technology (Shenzhen) Co., Ltd, a strategic investment of the Group continuously enhanced its first local Android game FUZE, trying to transfer the gaming from large television console to the Android platform.
 - On December 30, 2016, Linekong Pictures and the Series A financing party, after friendly consultation, terminated the Series A financing and terminated the Capital Increase Agreement and the Shareholder Agreement entered into on July 5, 2016.
 - In 2015, YL Entertainment and Sports (YLES) Co., Ltd. (“Yongle”), a company the Group invested in, was officially quoted on the National Equities Exchange and Quotations System since July 7, 2016 (stock code: 837736). Yongle was registered in Beijing, PRC and is mainly engaged in operation of sports, arts and recreational events and tickets marketing.

- In 2015, MicroFunPlus Co., Ltd. (“MicroFunPlus”), another company the Group invested in, was officially quoted on the National Equities Exchange and Quotations System on September 23, 2016 (stock code: 838966). MicroFunPlus is a developer focusing on exquisite casual mobile games. Its featured product Candy Crush (賓果消消樂, formerly 糖果萌萌消) is highly popular among players. As of the release date of this announcement, the Group sold all shares with a premium.
- The Group continuously pays attention to the application of artificial intelligence in the consumer electronic sector, especially when the synergy between applications, such as voice assistant, virtual reality, and augmented reality, and the Group’s existing businesses might bring diversity to its products.

Prospects

In 2017, the Group will roll out exquisite games, such as Monster Hunt (捉妖記), Sword of Heaven II (蒼穹之劍2), and Rock the Heaven (鬧鬧天宮) in China and Super Charge, Daybreak (Korean edition) (黎明之光手遊版) (韓國版), Rising Force (戰機風暴), and To The High Seas (大航海之路) overseas. The Group takes the design as the driver and the star products as the focus to improve the operation of community-based gaming products, enhance the core competitiveness of gaming products, and speed up the internationalization of gaming products through in-depth analysis of data. The Group will focus on enhancing the research and development, particularly in areas integrating popular factors to create exquisite IPs.

Description of main games

Name	Type	Region	Features
Monster Hunt (捉妖記)	MMORPG	PRC	Rich experience of plots A strong and vivid scene of ambiance
Sword of Heaven II (蒼穹之劍2)	MMORPG	PRC	Aesthetic image of high quality Home of a fairyland
Rock the Heaven (鬧鬧天宮)	Competition	PRC	3D cartoon characters from Journey to the West Novel ways of battles with smooth experience
Super Charge	Competition	Global	A combination of recreation, competition and social activities Highly enjoyable with smooth experience
DayBreak (黎明之光手遊版)	MMORPG	Global	Grand attire and equipment in fine art style Diverse gameplay with smooth experience
Rising Force (戰機風暴)	Full 3D Simulation	Korea	Full 3D simulation in grand style Korea Airplane models

While developing, operating, and internationalised games, in 2017, the Group will further attempt to make some forward-looking layouts in games, intelligent hardware, and new retail through structured epitaxial growth.

Revenue by game forms and sources

The following table sets forth the breakdown of revenue by game forms and sources for years ended December 31, 2015 and 2016, respectively:

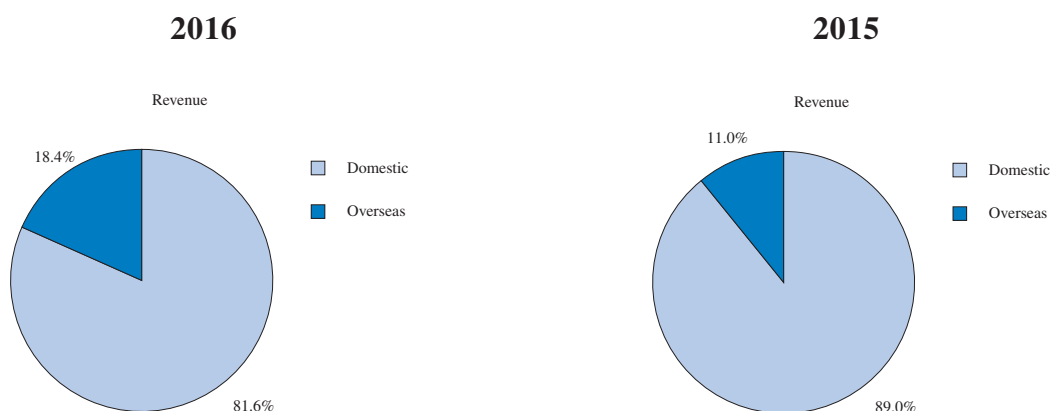
	For the year ended December 31,			
	2016		2015	
	<i>RMB'000</i>	<i>approximate %</i>	<i>RMB'000</i>	<i>approximate %</i>
Mobile games	635,555	96.5	504,001	93.2
Web-based games	3,756	0.6	11,905	2.2
Client-based games	19,131	2.9	24,922	4.6
Total	<u>658,442</u>	<u>100.0</u>	<u>540,828</u>	<u>100.0</u>

	For the year ended December 31,			
	2016		2015	
	<i>RMB'000</i>	<i>approximate %</i>	<i>RMB'000</i>	<i>approximate %</i>
Self-developed games	362,585	55.1	244,565	45.2
Licensed games	295,857	44.9	296,263	54.8
Total	<u>658,442</u>	<u>100.0</u>	<u>540,828</u>	<u>100.0</u>

	For the year ended December 31,			
	2016		2015	
	<i>RMB'000</i>	<i>approximate %</i>	<i>RMB'000</i>	<i>approximate %</i>
Sales of in-game virtual items	635,380	96.5	508,565	94.0
License fee and technical support fee	23,062	3.5	32,263	6.0
Total	<u>658,442</u>	<u>100.0</u>	<u>540,828</u>	<u>100.0</u>

International markets

We have generally granted licenses of our games to third-party publishers in the international markets while we have attempted self-developing games in key regions. Games include our self-developed and our globally exclusively licensed games. As of December 31, 2016, our games are published in 47 countries and regions in addition to China. The Group established subsidiaries in San Francisco, the U.S.A. and Seoul, South Korea. In the first half of 2016, our subsidiary in Korea successfully rolled out The Wars of Shushan Korean Edition (蜀山戰紀) (韓國版), and the licensed game Thunder Armada (雷霆艦隊). For the year ended December 31, 2016, the revenue from overseas markets was RMB121.1 million, representing a significant increase by 103.5% as compared to RMB59.5 million from overseas markets in 2015. The revenue from overseas markets accounts for 18.4% of our total revenue as the Group expanded its business to overseas markets in 2016.



Our players

The total number of registered players of our games increased from approximately 201.6 million as at December 31, 2015 to over 220.6 million as at December 31, 2016. As at December 31, 2016, the monthly average user (MAU) reached approximately 2.3 million users and the daily average users (DAU) reached approximately 0.4 million users with average monthly revenue per paying users (ARPPU) of approximately RMB286.

Comparison between business objectives and actual business progress

The following is a comparison between the Group's business plans and actual business progress for the year ended December 31, 2016, as set out in the Interim Report of 2016.

Business objectives	Business plans	Progress as of December 31, 2016
Self-developing games	<ul style="list-style-type: none"> Research, development, and operation of games; and Purchasing popular intellectual property rights of entertainment topics. 	<p>(1) We successively commercialized Wars of Shushan (蜀山戰紀), Independence Day: Extinction (獨立日：捲土重來), and Big Words of Shushan (大話蜀山) in 2016;</p> <p>(2) Our request to adapt Monster Hunt (捉妖記) to a mobile game was approved, with its iOS edition to be released in June 2017; and</p> <p>(3) During the same period, we are also developing games such as Sword of Heaven II (蒼穹之劍2), Rock the Heaven (鬧鬧天宮).</p>
Licensed games	<ul style="list-style-type: none"> Gain more licenses for and operate different type and themes of high-quality games developed by Chinese or foreign game developers. 	<p>(1) We commercialized licensed games DayBreak (《黎明之光》手遊版) and the Korean edition of Thunder Armada (雷霆艦隊); and</p> <p>(2) We planned to roll out licensed games To The High Seas (大航海之路) and the Korea Edition of DayBreak (《黎明之光》手遊版) (韓國版) in Korea in 2017.</p>
Potential strategic acquisition	<ul style="list-style-type: none"> Potential strategic acquisition or investment in companies engaging in Internet games or relevant businesses. 	<p>(1) We successively invested in UGen, Inc. (a company engaging in the design and operation of virtual reality community in the U.S.A. and appMagics Tech Limited (engaging in VR technology and the development and application of 3D facial identification) in 2016.</p>
Technology enhancement	<ul style="list-style-type: none"> Investing in technology platforms, such as developing and improving development tools that enhance our games; and Possibly purchasing commercialized game engines developed by third party developers. 	<p>(1) We started self-developing the OrcaUI technology since May 2016, which is still being developed.</p>

Business objectives	Business plans	Progress as of December 31, 2016
Overseas expansion	<ul style="list-style-type: none"> Expanding our business to overseas markets. 	<p>(1) Super Charge, developed by our subsidiary in San Francisco, has been under development and testing; and</p> <p>(2) Our Korean subsidiary successfully launch the Korean edition of the Wars of Shushan (蜀山戰紀) and the licensed game Thunder Armada(雷霆艦隊).</p>
Operational capital	<ul style="list-style-type: none"> Increase expenses used for promotion in Southeast Asia. 	<p>(1) We commercialized the Empresses in the Palace in Taiwan with many promotion events receiving good results developing a pan-entertainment environment.</p>
Creating pan-entertainment environment	<ul style="list-style-type: none"> Develop, produce, and invest in movies and dramas; and Purchasing popular items and intellectual property rights to adapt as entertainment products. 	<p>(1) We adapted the comic work <i>Snow Girl</i> (雪姬) by Kang Gyeongok (姜京玉) to Long For You, which was first released on February 14, 2017;</p> <p>(2) The Angel Bedazzled, in which we invested, was first released on January 25, 2017; and</p> <p>(3) The Wished, in which we invested, was being produced.</p> <p>(1) We purchased ACGN Products as our IPs such as Save Chuunibyou Project.</p>

FINANCIAL REVIEW

The following table is a summary of our consolidated statement of (loss)/income for the years ended December 31, 2015 and 2016, together with changes (expressed in approximate percentages) from 2015 to 2016:

	For the year ended December 31,				
	2016		2015		Change
	<i>RMB'000</i>	<i>approximate %</i>	<i>RMB'000</i>	<i>approximate %</i>	<i>approximate %</i>
Revenue	658,442	100.0	540,828	100.0	21.7
Cost of revenue	(367,837)	(55.9)	(323,828)	(59.9)	13.6
Gross profit	290,605	44.1	217,000	40.1	33.9
Selling and marketing expenses	(201,129)	(30.5)	(180,060)	(33.3)	11.7
Administrative expenses	(102,054)	(15.5)	(83,224)	(15.4)	22.6
Research and development expenses	(139,496)	(21.2)	(120,562)	(22.3)	15.7
Other gains — net	35,558	5.4	104,018	19.2	(65.8)
Operating loss	(116,516)	(17.7)	(62,828)	(11.6)	85.5
Finance income — net	4,225	0.6	16,373	3.0	(74.2)
Share of loss of investments using equity accounting	(28,621)	(4.3)	(5,430)	(1.0)	427.1
Loss before income tax	(140,912)	(21.4)	(51,885)	(9.6)	171.6
Income tax expense	(16,462)	(2.5)	(1,912)	(0.4)	761.0
Loss for the year	(157,374)	(23.9)	(53,797)	(9.9)	192.5
Non-IFRSs Measure:					
Adjusted net (loss)/profit (unaudited)	<u>(124,213)</u>	<u>(18.9)</u>	<u>9,085</u>	<u>1.7</u>	<u>(1,467.2)</u>

Revenue

The Group's revenue increased by approximately 21.7% from approximately RMB540.8 million for the year ended December 31, 2015 to approximately RMB658.4 million for the year ended December 31, 2016. The increase in revenue was mainly attributed to a self-developed mobile game, *The Wars of Shushan* (蜀山戰紀), which was launched into mainland China market and Korea market in January and June 2016 respectively, and two licensed mobile games, *Thunder Armada* (雷霆艦隊) and *Daybreak* (《黎明之光》手遊版), which were launched in February and September 2016 respectively.

Cost of revenue

The Group's cost of revenue increased by approximately 13.6% from approximately RMB323.8 million for the year ended December 31, 2015 to approximately RMB367.8 million for the year ended December 31, 2016. The Group's cost of revenue, excluding share-based compensation expenses increased by approximately 14.9% from approximately RMB318.5 million for the year ended December 31, 2015 to approximately RMB365.8 million for the year ended December 31, 2016. The increase in the Group's cost of revenue was mainly due to an increased service fee charged by distribution channel. In general, the increase in cost of revenue was according to the growth of our game revenue in 2016.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 33.9% from approximately RMB217.0 million for the year ended December 31, 2015 to approximately RMB290.6 million for the year ended December 31, 2016. The Group's gross profit, excluding share-based compensation expenses, increased by approximately 31.6% from approximately RMB222.3 million for the year ended December 31, 2015 to approximately RMB292.6 million for the year ended December 31, 2016. The increase in gross profit of the Group was mainly attributed to the overall increase in revenue throughout year of 2016.

The Group's gross profit margin increased by approximately 4 percentage points from approximately 40.1% for the year ended December 31, 2015 to approximately 44.1% for the year ended December 31, 2016. The Group's gross profit margin, excluding share-based compensation expenses, increased by approximately 3.3 percentage points from approximately 41.1% for the year ended December 31, 2015 to approximately 44.4% for the year ended December 31, 2016. The increase in gross profit margin of the Group was mainly attributed to the overall increase in both the revenue and the proportion of revenue from self-developed mobile game to the overall revenue for the year ended December 31, 2016.

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended December 31, 2016 were approximately RMB201.1 million, representing an increase of approximately 11.7% from approximately RMB180.1 million for the year ended December 31, 2015. The Group's selling and marketing expenses, excluding share-based compensation expenses, for the year ended December 31, 2016 were approximately RMB199.4 million, representing an increase of approximately 13.6% from approximately RMB175.6 million for the year ended December 31, 2015. Due to an increase in the number of self-developed and licensed mobile games released in 2016, our advertising and promotion related expenses increased to promoted these new releases accordingly.

Administrative expenses

The Group's administrative expenses for the year ended December 31, 2016 were approximately RMB102.1 million, representing an increase of approximately 22.6% from approximately RMB83.2 million for the year ended December 31, 2015. The Group's administrative expenses, excluding share-based compensation expenses, for the year ended December 31, 2016 were approximately RMB84.2 million, representing an increase of approximately 46.9% from approximately RMB57.3 million for the year ended December 31, 2015. The increase in administrative expenses was primarily due to the increase in impairment of game license fees paid as a result of certain already issued games were ceased the operation in the year of 2016.

Research and development expenses

The Group's research and development expenses for the year ended December 31, 2016 were approximately RMB139.5 million, representing an increase of approximately 15.7% from approximately RMB120.6 million for the year ended December 31, 2015. The Group's research and development expenses, excluding share-based compensation expenses, for the year ended December 31, 2016 were approximately RMB127.9 million, representing an increase of approximately 36.9% from approximately RMB93.4 million for the year ended December 31, 2015. The increase in research and development expenses for the year ended December 31, 2016 was primarily due to (1) increased expenditures from outsourcing animation and art design to the further enhance quality of self-developed mobile games, and (2) increased costs in retaining game development team.

Other gains — net

The Group's other gains for the year ended December 31, 2016 was approximately RMB35.6 million, representing a decrease of approximately 65.8% from approximately RMB104.0 million for the year ended December 31, 2015. The decrease in other gains was primarily due to less realised or unrealised fair value gains on investment held by the Group were recognised for the year ended December 31, 2016 compared to that for the year ended December 31, 2015.

Finance income — net

The Group's finance income for the year ended December 31, 2016 was approximately RMB4.2 million, representing a decrease of approximately 74.2% from approximately RMB16.4 million for the year ended December 31, 2015. The decrease in 2016 was mainly due to the Group not replicated a money market instrument that generated a favorable interest in 2015 but expired. No interest was capitalized for the year ended December 31, 2016.

Share of loss of investments using equity accounting

The Group's share of loss of investments using equity accounting for the year ended December 31, 2016 was approximately RMB28.6 million, representing an increase of approximately 427.1% from approximately RMB5.4 million for the year ended December 31, 2015. The increase was mainly due to a loss incurred by the investee, the Fuze, as a result of increasing expenditure incurred in its early operational stages.

Income tax expense

The Group's income tax expense for the year ended December 31, 2016 was approximately RMB16.5 million, representing an increase of approximately 761.0% from approximately RMB1.9 million for the year ended December 31, 2015. The increase in the Group's income tax expense was due to adjustments of non-deductible expenses which arose from differences between the carrying amounts of the expenses for financial reporting purposes and their tax bases.

Loss for the year

As a result of the foregoing, our loss attributable to owners of the Company was approximately RMB157.4 million for the year ended December 31, 2016, representing an increase of approximately 192.5% from approximately RMB53.8 million for the year ended December 31, 2015.

Non-IFRSs Measure — Adjusted net (loss)/profit

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted net (loss)/profit 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)/profit was derived from our net loss for the respective year excluding share-based compensation expenses. The adjusted net (loss)/profit is an unaudited figure.

The following table reconciles our adjusted net (loss)/profit for the years presented to the audited loss under IFRSs for the years indicated:

	For the year ended December 31,		
	2016	2015	Change
	RMB'000	RMB'000	approximate
			%
Loss for the year	(157,374)	(53,797)	192.5
Add:			
Share-based compensation expenses	33,161	62,882	(47.3)
Adjusted net (loss)/profit (unaudited)	(124,213)	9,085	(1,467.2)

The Group's adjusted net loss for the year ended December 31, 2016 was approximately RMB124.2 million, as compared to an adjusted net profit of approximately RMB9.1 million for the year ended December 31, 2015. The adjusted net loss was due to combined effect of (1) the decrease of other gains mentioned above; and (2) expansion of gaming business into overseas market. We have presented adjusted net (loss)/profit for the year in this announcement as we believe that the adjusted (loss)/profit for the year is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses. However, adjusted net (loss)/profit for the year should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net (loss)/profit for the year presented in this announcement 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 2016, we financed our operations primarily through cash generated from our operating activities. The Group maintains a solid cash position since the IPO which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the year ended December 31, 2016, majority of the Group's idle capital was invested in short-term wealth management products which are issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or speculative derivative instruments.

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

As of December 31, 2016, we had cash and cash equivalents of approximately RMB338.7 million (December 31, 2015: approximately RMB794.5 million), which primarily consisted of cash at bank and other financial institution and cash in hand which were mainly denominated in RMB (as to approximately 37.2%), HKD (as to approximately 59.4%), USD (as to approximately 3.1%) and other currencies (as to approximately 0.3%).

As of December 31, 2016, we had short-term bank deposit of approximately amounting to RMB313.0 million (December 31, 2015: Nil).

As of December 31, 2016, approximately RMB106.1 million (December 31, 2015: Nil) are restricted deposits held at bank as reserve for serving of a loan facility with total a credit line of RMB100.0 million provided by the bank, and which will expire in 2018.

Net proceeds from our IPO, after deducting the underwriting commission and other estimated expenses in connection with the IPO, which the Company raised approximately HKD686.2 million. As of the date of this announcement, some of the net proceeds from our IPO had been utilized and the rest deposited into short-term on-demand deposits and other deposits in a bank account maintained by the Group. In 2017, we will continue to utilize the net proceeds from our IPO in accordance with the proposed use of proceeds set out in the “Change in Use of Proceeds” announcement dated March 29, 2016.

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the year ended December 31, 2016, our total capital expenditure amounted to approximately RMB37.3 million (2015: approximately RMB32.8 million), including the purchase of furniture and office equipment of approximately RMB1.9 million (2015: approximately RMB3.2 million), server and other equipment of approximately RMB0.3 million (2015: approximately RMB1.8 million), motor vehicles of approximately RMB0.7 million (2015: approximately RMB0.7 million), leasehold improvements of approximately RMB4.2 million (2015: approximately RMB4.7 million), trademarks and licenses approximately RMB29.2 million (2015: approximately RMB22.0 million) and computer software of approximately RMB1.0 million (2015: approximately RMB0.4 million). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

As of December 31, 2016, long-term bank loan amounting to RMB100.0 million borrowed by the Group, of which approximately RMB0.6 million is due within one year (December 31, 2015: Nil). As at December 31, 2016, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 27.4% (December 31, 2015: approximately 16.9%).

CHARGE ON GROUP ASSETS

As at December 31, 2016, a restricted deposit of approximately RMB106.1 million of the Group was pledged as a security for bank borrowing (as at December 31, 2015: Nil).

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2016, the Group had 708 employees (December 31, 2015: 676), 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, 2015 and December 31, 2016 respectively:

Function	As of December 31,			
	2016		2015	
	<i>Number of Employees</i>	<i>approximate % of total employees</i>	<i>Number of Employees</i>	<i>approximate % of total Employees</i>
Research and development	409	57.8	420	62.1
Game publishing	172	24.2	170	25.2
— Game licensing	56	7.9	29	4.3
— Customer service	47	6.6	63	9.3
— Sales and marketing	69	9.7	78	11.6
General and administrative	84	11.9	86	12.7
Movie business	43	6.1	—	—
Total	<u>708</u>	<u>100</u>	<u>676</u>	<u>100</u>

The total remuneration of the employees of the Group was approximately RMB205.2 million for the year ended December 31, 2016 (2015: approximately RMB194.4 million).

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

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

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

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

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

In addition, the Company has adopted a restricted share unit scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentivize Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based payments expenses in connection with the RSU Scheme and the Share Option Scheme for the year ended December 31, 2016 were approximately RMB33.2 million, representing a decrease of approximately 47.3% from approximately RMB62.9 million for the year ended December 31, 2015. The decrease was because of no additional RSU issued in 2016.

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

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

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company for the year ended December 31, 2016.

CONTINGENT LIABILITIES

As at December 31, 2016, the Group did not have any significant contingent liabilities (December 31, 2015: Nil).

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company’s foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss would have been approximately RMB23,387,000 lower/higher for the year ended December 31, 2016 (2015: RMB28,991,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from overseas cooperated counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB1,516,000 lower/higher for the year ended December 31, 2016 (2015: RMB712,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. The Group does not hedge against any fluctuation in foreign currency.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended December 31, 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

On December 21, 2016, the Company repurchased on-market 103,500 shares at the highest and lowest prices of HKD3.06 and HKD2.83 per share, respectively (the “**First Share Repurchase**”). The aggregate purchase price paid (before brokerage and expenses) for the First Share Repurchase was approximately HKD308,045, which was funded by internal resources of the Company and not from any of the proceeds raised from its Listing. The shares repurchased were cancelled on January 9, 2017, which represents approximately 0.0281% of the then total number of issued shares. Details of the First Share Repurchase are set out in the announcement of the Company dated December 22, 2016.

On December 23, 2016, the Company repurchased on-market 34,000 shares at the highest and lowest prices of HKD3.02 and HKD2.88 per share, respectively (the “**Second Share Repurchase**”). The aggregate purchase price paid (before brokerage and expenses) for the Second Share Repurchase was approximately HKD102,610, which was funded by internal resources of the Company and not from any of the proceeds raised from its Listing. The shares repurchased were cancelled on January 9, 2017, which represents approximately 0.0092% of the then total number of issued shares. Details of the Second Share Repurchase are set out in the announcement of the Company dated December 23, 2016.

The Board considers that the value of the shares is consistently undervalued. The Board believes that the current financial resources of the Company would enable it to conduct the relevant share repurchases while maintaining a solid financial position for the continuation of the Company's business in the current financial year.

The Board also believes the relevant share repurchases can improve the return to shareholders of the Company. The relevant share repurchases also reflects the confidence of the Board to the prospects of the Company.

EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

Change of Logo of the Company

On January 21, 2016, the Company proposed to adopt a new logo (the “**New Logo**”) with effect from January 27, 2016. The New Logo would be printed on all corporate documents of the Company, including but not limited to, the Company’s share certificates, promotional materials, interim and annual reports, announcements and corporate stationery.

Details of the change of logo of the Company are set out in the announcement of the Company dated January 21, 2016.

Change in Use of Proceeds

On March 29, 2016, the Company has resolved to change the use of the actual net proceeds from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, being amounted to approximately HKD686.2 million (the “**IPO Proceeds**”).

Details of the change in use of proceeds are set out in the announcement of the Company dated March 29, 2016.

Investment in UGen, Inc.

On May 11, 2016, Linekong Holdings Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement to acquire 384,000 series seed preferred stock shares, being 6.9% of the post-capital increase total equity interests (assuming full exercise of the options granted to parties other than Linekong Holdings Limited to acquire the common stock shares or the securities convertible into the common stock shares), in UGen, Inc. at a consideration of USD400,000. UGen, Inc. is a limited liability company registered established under the laws of the State of Washington, United States and is primarily engaged in virtual reality community construction and operation. As of the date of this announcement, the investment in UGen, Inc. has been completed.

Re-election of Directors

Each of Mr. Mei Song, Mr. Zhao Jun, Mr. Wang Xiaodong and Ms. Zhao Yifang has been retired from office as Directors pursuant to article 16.3 of the Company’s articles of association and successfully been re-elected at the annual general meeting of the Company held on June 14, 2016 (the “**AGM**”). Further, each of Ms. Liao Mingxiang and Mr. Ma Ji has been retired from office as Directors pursuant to article 16.18 of the Company’s articles of association and successfully been re-elected at the AGM.

Capital Increase in Linekong Horgos

On July 5, 2016, Horgos Linekong Pictures Corporation (霍爾果斯藍港影業有限公司) (“**Linekong Horgos**”), an indirect wholly-owned subsidiary of the Company, entered into a conditional capital increase agreement (“**Capital Increase Agreement**”) with its existing shareholders, namely, Linekong Entertainment, a wholly-owned subsidiary of the Company, Mr. Tong Jie, Mr. Wang Jing and Ms. Qi Yunxiao (collectively, the “**Existing Shareholders**”), and the subscribers, namely Ningbo Meishan Bonded Port Zone Leguang Investment Centre (寧波梅山保稅港區樂廣投資中心), Shenzhen Rongsheng Yihao Investment Centre, (深圳融盛一號投資中心) and Linekong Entertainment (collectively, the “**Subscribers**”). Pursuant to the Capital Increase Agreement, Linekong Horgos has conditionally agreed to increase, and the Subscribers have conditionally agreed to subscribe for, a total of RMB17,567,568 registered share capital of Linekong Horgos at the subscription price of RMB7.40 per RMB1.00 registered share capital of Linekong Horgos for an aggregate consideration of RMB130,000,000 (“**Capital Increase Transaction**”). The aggregate proceeds of the Capital Increase Transaction, being RMB130,000,000, is intended to be used for the expansion of Linekong Horgos’ main business and for its working capital. For details of the Capital Increase Transaction, please refer to the announcement of the Company dated July 5, 2016.

On December 30, 2016, the Capital Increase Agreement and Shareholders’ Agreement had been terminated. For details of the termination of the Capital Increase Agreement and Shareholders’ Agreement, please refer to the announcement of the Company dated December 30, 2016.

Investment in Huaying Jiashi

On July 26, 2016, Linekong Horgos entered into a capital increase agreement to subscribe for 21.05% of the post-capital increase share capital of Huaying Jiashi (Beijing) International Culture Media Co., Ltd. (“**Huaying Jiashi**”) at a consideration of RMB12,000,000. Huaying Jiashi is a limited liability company registered in Beijing, the PRC and is primarily engaged in film distribution. As of the date of this announcement, the investment in Huaying Jiashi has been completed.

Investment in appMagics

On August 18, 2016, Linekong Entertainment acquired from certain existing shareholders 10% equity interest in appMagics Technology (Beijing) Co., Ltd. (邁吉客科技(北京)有限公司) (“**appMagics**”) at a total consideration of RMB12,000,000. appMagics is a limited liability company registered in Beijing, the PRC and is primarily engaged in visual mixed reality. As of the date of this announcement, the investment in appMagics has not yet been completed.

Share Purchase by RSU Trustee

On December 28, 2016, December 29, 2016, December 30, 2016, January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017 and January 19, 2017, the Company had directed the Core Trust Company Limited, being the RSU Trustee assisting with the administration and vesting of RSUs granted pursuant to the RSU Scheme adopted by the Company, to purchase and hold on-market 156,000 shares, 183,000 shares, 164,000 shares, 115, 000 shares, 50,000 shares, 70,500 shares, 54,000 shares, 129,000 shares and 10,000 shares, respectively, of the ordinary shares of the Company (collectively, the “**Share Purchases**”), which will be used to satisfy the RSUs upon exercise.

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

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated December 29, 2016, December 30, 2016, January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017 and January 19, 2017, respectively.

Grant of Share Options

Pursuant to the Share Option Scheme, on January 18, 2017, share options were granted by the Company and details are set out as follows:

Category	Date of Grant	Option Period	Share Options Granted	Exercise price per share HKD	The weighted average closing price of the shares HKD	Outstanding balance as at January 1, 2017	During the period from January 1, 2017 to the date of this announcement (“Relevant Period”)				Outstanding balance as at date of this announcement	Number of shares issued during the Relevant Period	Number of new shares which may be issued during the Relevant Period
							Granted	Exercised	Cancelled	Lapsed			
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 (Note)	3.1	3.084	N/A	0	0	0	0	9,225,000	0	0

Notes:

- (1) The vesting period of the share options is starting from the date of acceptance of the grant to the commencement of the exercise period.
- (2) As of the date of this announcement, no share options were exercised, cancelled and lapsed.

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

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

The closing price of the shares immediately before the date on which the share options were granted was HKD3.1 per share.

- (4) Please refer to the announcements of the Company dated January 18, 2017 for details.

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

On February 3, 2017 the Board announced the following changes to the Board, with effect from February 3, 2017: 1) Mr. Qian Zhonghua was re-designated from the non-executive Director of the Company to the executive Director of the Company. Mr. Qian Zhonghua, following his redesignation, ceased to be a member of the audit committee of the Board and the nomination committee of the Board; and 2) Mr. Pan Donghui was appointed as the non-executive Director of the Company, a member of the audit committee of the Board and a member of the nomination committee of the Board.

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, 2016, except for the deviation from code provision A.2.1 and A.5.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended December 31, 2016, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-caliber individuals. The Board currently comprises five executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Code Provision A.5.1 of Code provides that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. During the period of 2016, the Nomination Committee of the Company comprised Mr. Wang Feng (Chairman of Nomination Committee), Ms Liao Mingxiang, Mr. Mei Song as executive Directors; Mr. Qian Zhonghua (re-designated as executive Directors with effect from February 3, 2017) as non-executive Director; and Mr. Ma Ji, Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang as independent non-executive Directors. Although the independent non-executive Directors only account for half of the members, the Company considers that this composition can operate more effectively and the overall independence will not be affected.

INTERESTS IN COMPETING BUSINESS

Mr. Qian Zhonghua, a non-executive Director (re-designated as executive Director with effect from February 3, 2017), is a managing director of Fosun Equity Investment Management Ltd. and has been a director of Starwish Global Limited from April 2015 to January 2017. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 656)) and its subsidiaries (together the “**Fosun Group**”). Fosun Group is an investment group taking roots in China with a global foothold. It has established two principal businesses comprising comprehensive finance (including insurance, investment, capital management and bank and other financial businesses) and industrial operation (including healthcare, lifestyles, iron and steel, property development as well as sales and resources). Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including private mobile game and network game companies including Joyme.com, Shanghai MUYOU Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies. In addition, Fosun Group has nominated representatives to hold directorship in the board of directors of the aforementioned companies after the appointment. On the other hand, although Fosun Group has the right to nominate one of its representatives to act as a non-executive director in each of the private portfolio companies, it does not control any of the board of directors of the private portfolio companies.

Save as aforementioned, none of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group during the year ended December 31, 2016.

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 announcement.

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the year ended December 31, 2016.

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 Entertainment) or any person who provides or has provided consultancy or other advisory services to the Group (the “**RSU Eligible Persons**”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

(c) Term of the RSU Scheme

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

(d) Maximum number of Shares pursuant to RSUs

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

(e) Appointment of the RSU Trustee

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

(f) Exercise of RSUs

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

- (i) direct and procure the RSU Trustee to, within a reasonable time, transfer the shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip

distributions in respect of those shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up shares or which the RSU Trustee has either acquired by purchasing existing shares or by receiving existing shares from any of the shareholder of the Company, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

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

On December 31, 2016, RSUs in respect of 33,666,494 underlying shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 1,264,931 underlying shares granted to 116 grantees had been lapsed during the year ended December 31, 2016. On December 31, 2016, 24,858,985 RSUs have been vested unconditionally and there were 5,348,162 RSUs granted and outstanding.

Share Option Scheme

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

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

(a) Purpose

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of our Company.

(b) Who may participate

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full-time or part-time) or a director of a member of the Group or associated companies of the Company or any person who provides or has provided consultancy or other advisory services to the Group (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 Scheme of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

(d) Maximum entitlement of each individual

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

(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 to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HKD1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(f) *Exercise price*

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

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

(g) *Duration of Share Option Scheme*

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

As of December 31, 2016, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of Grant	Option Period	Share Options Granted	Exercise price per share HKD	The weighted average closing price of the shares HKD	Outstanding balance as at January 1, 2016	During the reporting period				Outstanding balance as at December 31, 2016	Number of shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 (note 2)	8.10	8.028	1,849,192	0	0	0	1,386,894	462,298	0	462,298
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 (note 3)	7.18	6.896	5,860,000	0	0	0	1,117,500	4,742,500	0	1,195,000
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 (note 4)	4.366	4.366	N/A	1,750,000	0	0	300,000	1,450,000	0	0

Notes:

- (1) The vesting period of the share options is starting from the date of acceptance of the grant to the commencement of the exercise period.
- (2) The options granted on August 12, 2015 may be exercised in accordance with the following vesting timetable:

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

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

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

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

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

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

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

The closing price of the shares immediately before the date on which the share options were granted was HKD4.18 per share.

- (5) Please refer to the announcements of the Company dated August 12, 2015, October 9, 2015 and June 15, 2016 for details.

REMUNERATION COMMITTEE

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

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended December 31, 2016.

NOMINATION COMMITTEE

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

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

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

AUDIT COMMITTEE

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

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

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

The Group's consolidated financial statements for the year ended December 31, 2016 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, 2016 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive loss, consolidated statement of changes in equity and the related notes thereto for the year ended December 31, 2016 as set out in the Group's annual results announcement for the year have been agreed by the Group's auditor, PricewaterhouseCoopers, with the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2016. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the annual results announcement.

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 16, 2017. 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 13, 2017 to Friday, June 16, 2017, 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 12, 2017.

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

Beijing, PRC, March 21, 2017

As at the date of this announcement, the executive Directors are Mr. WANG Feng, Ms. LIAO Mingxiang, Mr. QIAN Zhonghua, Mr. ZHAO Jun and Mr. MEI Song; the non-executive Director is Mr. PAN Donghui; and the independent non-executive Directors are Mr. MA Ji, Mr. ZHANG Xiangdong, Mr. WANG Xiaodong and Ms. ZHAO Yifang.