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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, 2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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This 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 GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

SUMMARY

- Our revenue for the year ended December 31, 2017 amounted to approximately RMB494.7 million (2016: approximately RMB658.4 million), representing a decrease of approximately 24.9% as compared to that of the year ended December 31, 2016.

- Our gross profit for the year ended December 31, 2017 amounted to approximately RMB200.1 million, representing a decrease of approximately 31.1% from RMB290.6 million recorded in the year ended December 31, 2016.

- The unaudited adjusted non-IFRSs net loss for the year ended December 31, 2017 amounted to approximately RMB212.7 million (2016: unaudited adjusted non-IFRSs net loss approximately RMB124.2 million).

- Loss attributable to owners of the Company under IFRSs for the year ended December 31, 2017 amounted to approximately RMB294.1 million (2016: loss of approximately RMB157.4 million).

- Loss per share under IFRSs for the year ended December 31, 2017 amounted to approximately RMB0.84.

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, 2017 together with the comparative figures for the year ended December 31, 2016 as follows:

CONSOLIDATED BALANCE SHEET

As of December 31, 2017

		As of December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**6,850**	13,649
Intangible assets		**34,310**	39,406
Films in progress		**48,372**	24,418
Investments using equity accounting		**52,268**	176,362
An associate measured at fair value through profit or loss		**44,330**	19,229
Available-for-sale financial assets		**94,973**	115,125
Financial assets at fair value through profit or loss		**16,602**	15,637
Deferred income tax assets — net	*4*	**2,975**	1,431
Prepayments and other receivables	*6*	**6,657**	20,389
Restricted deposits		**–**	106,139
		307,337	531,785
Current assets			
Trade receivables	*5*	**52,340**	78,947
Prepayments and other receivables	*6*	**107,194**	112,905
Available-for-sale financial assets		**12,446**	–
Financial assets at fair value through profit or loss		**17,447**	17,125
Short-term bank deposits		**–**	312,963
Restricted deposits		**188,236**	–
Cash and cash equivalents		**349,563**	338,655
		727,226	860,595
Total assets		**1,034,563**	1,392,380
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*7*	**59**	59
Share premium	*7*	**1,720,690**	1,720,691
Shares held for RSU Scheme	*7*	**(3,578)**	(2)
Reserves	*8*	**390,603**	426,480
Accumulated losses		**(1,435,377)**	(1,135,029)
		672,397	1,012,199
Non-controlling interests		**3,760**	(1,909)
Total equity		**676,157**	1,010,290

CONSOLIDATED BALANCE SHEET (Continued)
As of December 31, 2017

		As of December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Bank borrowings		**–**	99,400
Deferred revenue	*11*	**4,256**	7,021
		4,256	106,421
Current liabilities			
Bank borrowings		**136,719**	600
Trade and other payables	*10*	**143,527**	171,940
Current income tax liabilities		**7,893**	17,813
Deferred revenue	*11*	**66,011**	85,316
		354,150	275,669
Total liabilities		**358,406**	382,090
Total equity and liabilities		**1,034,563**	1,392,380

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2017

		Year ended December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**494,733**	658,442
Cost of revenue	*12*	**(294,610)**	(367,837)
Gross profit		**200,123**	290,605
Selling and marketing expenses	*12*	**(186,344)**	(201,129)
Administrative expenses	*12*	**(105,377)**	(102,054)
Research and development expenses	*12*	**(132,407)**	(139,496)
Other gains — net	*13*	**30,979**	35,558
Operating loss		**(193,026)**	(116,516)
Finance income — net	*14*	**3,334**	4,225
Share of loss of investments using equity accounting		**(45,780)**	(28,621)
Impairment of investments using equity accounting		**(69,300)**	–
Loss before income tax		**(304,772)**	(140,912)
Income tax credit/(expense)	*15*	**10,009**	(16,462)
Loss for the year		**(294,763)**	(157,374)
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		**14,953**	21,022
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		**(17,991)**	(2,449)
— Share of other comprehensive (loss)/income of investments accounted for using the equity method, net of tax		**(4,885)**	3,991
Items that will not be reclassified to profit or loss:			
— Currency translation differences		**(40,677)**	45,042
Other comprehensive (loss)/income for the year, net of tax		**(48,600)**	67,606
Total comprehensive loss for the year		**(343,363)**	(89,768)

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (Continued)
For the year ended December 31, 2017

		Year ended December 31,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Loss attributable to:			
Owners of the Company		**(294,098)**	(157,372)
Non-controlling interests		**(665)**	(2)
Loss for the year		**(294,763)**	(157,374)
Total comprehensive loss attributable to:			
Owners of the Company		**(342,744)**	(89,766)
Non-controlling interests		**(619)**	(2)
Total comprehensive loss for the year		**(343,363)**	(89,768)
Loss per share (expressed in RMB per share)			
— Basic	*16(a)*	**(0.84)**	(0.45)
— Diluted	*16(a)*	**(0.84)**	(0.45)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended December 31, 2017

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and amendments not yet adopted

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

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

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

IFRS 9 "Financial Instruments"

Nature of change

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

Impact

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

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

The other financial assets held by the Group include:

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

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

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

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

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

Date of adoption by the Group

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

IFRS 15 "Revenue from Contracts with Customers"

Nature of change

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

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

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

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

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

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

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

Impact

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

Date of adoption by the Group

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

4. DEFERRED INCOME TAX — NET

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

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

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

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

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

Deferred income tax assets:

	Deferred revenue *RMB'000*	**Accrued employee benefit expenses** *RMB'000*	**Tax losses** *RMB'000*	**Provision and others** *RMB'000*	**Total** *RMB'000*
Year Ended December 31, 2016					
Beginning of the year	5,579	–	3,791	371	9,741
(Charged)/credited to profit or loss	(4,261)	–	10,883	(259)	6,363
End of the year	1,318	–	14,674	112	16,104
Year Ended December 31, 2017					
Beginning of the year	**1,318**	**–**	**14,674**	**112**	**16,104**
(Charged)/credited to profit or loss	**(977)**	**27**	**1,027**	**2,572**	**2,649**
End of the year	**341**	**27**	**15,701**	**2,684**	**18,753**

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB294,810,000 as of December 31, 2017 (2016: RMB151,961,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2018 to 2022.

Deferred income tax liabilities:

	Trademarks and licenses *RMB'000*	Fair value changes of financial assets *RMB'000*	Fair value changes of an associate *RMB'000*	Total *RMB'000*
Year ended December 31, 2016				
Beginning of the year	(78)	(2,173)	–	(2,251)
Charged to profit or loss	(5)	(4,093)	(1,057)	(5,155)
Charged to other comprehensive income	–	(7,267)	–	(7,267)
End of the year	(83)	(13,533)	(1,057)	(14,673)
Year ended December 31, 2017				
Beginning of the year	**(83)**	**(13,533)**	**(1,057)**	**(14,673)**
Credited/(charged) to profit or loss	**7**	**401**	**(2,526)**	**(2,118)**
Credited to other comprehensive income	**–**	**1,013**	**–**	**1,013**
End of the year	**(76)**	**(12,119)**	**(3,583)**	**(15,778)**

5. TRADE RECEIVABLES

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**54,297**	80,221
Less: impairment provision	**(1,957)**	(1,274)
	52,340	78,947

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
0–60 days	**46,696**	68,810
61–90 days	**2,572**	2,706
91–180 days	**2,293**	5,018
181–365 days	**744**	1,950
over 1 year	**1,992**	1,737
	54,297	80,221

(b) As at December 31, 2017 and 2016, trade receivables of past due but not impaired were RMB8,763,000 and RMB16,160,000, respectively. These related to a number of third-party game distribution channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Outstanding after due dates:		
0–60 days	**5,692**	8,729
61–90 days	**1,330**	1,015
91–180 days	**1,454**	5,137
181–365 days	**252**	816
over 1 year	**35**	463
	8,763	16,160

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

	Year Ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**(1,274)**	(633)
Provision for impairment	**(1,315)**	(4,267)
Receivables written off during the year as uncollectible	**632**	3,626
At end of the year	**(1,957)**	(1,274)

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

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
RMB	**11,770**	41,095
USD	**25,368**	36,524
South Korean Won	**5,803**	2,071
HKD	**11,356**	531
	54,297	80,221

6. PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current		
Prepaid service charges to game distribution channels	**22,100**	31,307
Prepayment to game developers	**27,757**	33,923
Staff advance *(Note (a))*	**1,576**	693
Amount due from related parties	**2,042**	–
Loans to employees *(Note (b))*	**4,794**	4,283
— Loans to key management	**2,462**	2,162
— Loans to other employees	**2,332**	2,121
Prepaid rental, advertising cost and others	**11,432**	33,498
Rental and other deposits	**425**	731
Interests receivable	**3,238**	902
Advances for films productions *(Note (c))*	**16,100**	–
Deductible value-added tax input	**16,166**	5,283
Others	**2,064**	2,285
	107,694	112,905
Less: provision for impairment of other receivables	**(500)**	–
	107,194	112,905
Non-current		
Prepaid service charges to game distribution channels	**118**	56
Loans to employees *(Note (b))*	**1,325**	2,587
— Loans to key management	**–**	208
— Loans to other employees	**1,325**	2,379
Rental and other deposits	**3,578**	3,942
Prepayment for investments	**–**	11,564
Others	**1,636**	2,240
	6,657	20,389

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

	Year Ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**–**	–
Provision for impairment	**(619)**	(19)
Other receivables written off during the year as uncollectible	**119**	19
At end of the year	**(500)**	–

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

Notes:

(a) Staff advances represent the advances to employees for various expenses to be incurred in the ordinary course of business.

(b) Loans to employees represent the housing loans provided to certain employees. These housing loans are unsecured and with a term ranging from 2 to 5 years.

(c) Advances for films productions are due from films owners or films investors for the Group's investment in film projects. The advances for films are repayable with next 12 months and with a fixed return of 15%–20% (2016: Nil).

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	**Nominal value of ordinary shares**	**Equivalent nominal value of ordinary shares**	**Share premium**	**Shares hold for RSU Scheme**
	('000)	*USD'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issued:					
As of January 1, 2016	368,869	10	59	1,722,308	(3)
Repurchase of shares	(641)	–	–	(1,616)	–
Vesting of shares held for RSU Scheme	–	–	–	(1)	1
As of December 31, 2016	368,228	10	59	1,720,691	(2)
Issued:					
As of January 1, 2017	**368,228**	**10**	**59**	**1,720,691**	**(2)**
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	**–**	**–**	**–**	**–**	**(3,577)**
— Vesting of shares held for RSU Scheme	**–**	**–**	**–**	**(1)**	**1**
As of December 31, 2017	**368,228**	**10**	**59**	**1,720,690**	**(3,578)**

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, 2016	(7,831)	73,857	9,557	240,829	9,301	325,713
Changes in fair value of available-for-sale financial assets, net of tax	–	–	–	–	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	(7,831)	118,899	9,557	273,990	31,865	426,480
Balance at January 1, 2017	**(7,831)**	**118,899**	**9,557**	**273,990**	**31,865**	**426,480**
Appropriation to statutory reserves	**–**	**–**	**6,250**	**–**	**–**	**6,250**
Changes in fair value of available-for-sale financial assets, net of tax	**–**	**–**	**–**	**–**	**14,953**	**14,953**
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	**–**	**–**	**–**	**–**	**(17,991)**	**(17,991)**
Share of other comprehensive income of investments using equity method, net of tax	**–**	**–**	**–**	**–**	**(4,885)**	**(4,885)**
Decrease in ownership interest in subsidiaries without change of control	**(6,288)**	**–**	**–**	**–**	**–**	**(6,288)**
Employee share option and RSU scheme:						
— Value of employee services	**–**	**–**	**–**	**12,807**	**–**	**12,807**
Currency translation differences	**–**	**(40,723)**	**–**	**–**	**–**	**(40,723)**
Balance at December 31, 2017	**(14,119)**	**78,176**	**15,807**	**286,797**	**23,942**	**390,603**

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, October 9, 2015 and January 18, 2017, 31,371,494, 2,275,000, 20,000 and 1,805,385 RSUs under the RSU Scheme were granted to employees, directors and consultants, respectively.

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

(1) 4-year vesting: 20% on the date ending one month after the date of listing, 35% on the date ending 12 months from the grant date, 10% each on the date ending 18 and 24 months from the grant date, 7.5% each on the date ending 30 and 36 months from the grant date, 5% each on the date ending 42 and 48 months from the grant date.

(2) 4-year vesting: 10% on the date ending one month after the date of listing, 20% on the date ending 12 month from the grant date, 12.5% each on the date ending 18, 24, 30 and 36 months from the grant date, 10% each on the date ending 42 and 48 months from the grant date.

(3) 4-year vesting: 25% on the date ending 12 months from the grant date, 12.5% on every six months from 12 months from the grant date.

(4) 3-year vesting: 33.33% on January 10, 2015, and 8.33% each on every three months from the first month after January 10, 2015.

The 2,275,000 RSUs granted on January 21, 2015 are vested in three different ways as provided in respective grant letters:

(1) 4-year vesting: 25% on September 11, 2015, 12.5% each on every six months from September 11, 2015.

(2) 2-year vesting: 25% each on every six months from the grant date.

(3) one-off vesting: 100% on July 1, 2015.

The 20,000 RSUs granted on October 9, 2015 are vested in 4 years: 25% on October 8, 2016 and 12.5% each on every six months from October 8, 2016.

The 1,805,385 RSUs granted on January 18, 2017 are vested in 4 years: 25% on January 18, 2018 and 12.5% each on every six months from January 18, 2018.

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

Movements in the number of RSUs outstanding:

	Number of RSUs Year ended December 31,	
	2017	2016
Beginning of the year	**5,348,162**	12,059,414
Granted	**1,805,385**	–
Lapsed	**(889,718)**	(1,264,931)
Vested	**(3,293,619)**	(5,446,321)
End of the year	**2,970,210**	5,348,162

As of December 31, 2017 and 2016, 28,152,604 and 24,858,985 RSUs have been vested unconditionally, respectively.

(ii) Shares held for RSU Scheme

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

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to "other reserves" as deemed contribution from shareholders. As a result of the vesting of 3,293,619 RSUs during the year ended December 31, 2017, costs of these RSUs totally approximately RMB506 was transferred out from treasury shares upon vesting of these RSUs.

(iii) Fair value of RSUs

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

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

	March 21, 2014
Discount rate used to determine the underlying share value of the Company	20.00%
Risk-free interest rate	0.08%
Volatility	52.97%

The fair value of RSUs granted on January 21, 2015, October 9, 2015 and January 18, 2017 was assessed to approximate to the market price of the grant date in the amount of HKD9.80 each (equivalent to RMB17,595,600 in total), HKD7.18 each (equivalent to RMB118,000 in total), and HKD3.10 each (equivalent to RMB4,945,015 in total) respectively.

(b) Share options

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

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

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

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

(3) the nominal value of the shares.

(i) Grant of share options

On August 12, 2015, 1,849,192 share options were granted under the Pre-IPO Share Option Scheme with exercise price of HKD8.10 per share option. The vesting period of the share options granted is 4 years. The vesting schedule is 25% on the date ending 10 months from the grant date and 12.5% each on every six months from 10 months from the grant date.

On October 9, 2015, June 15, 2016 and January 18, 2017, 6,010,000 share options with exercise price of HKD7.18 per share option, 1,750,000 share options with exercise price of HKD4.366 per share option and 9,225,000 share options with exercise price of HKD3.10 per share option were granted respectively. The vesting period of the share options granted is 4 years. The vesting schedule is 25% on the date ending 12 months from the grant date and 12.5% each on every six months from 12 months from the grant date.

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

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

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

	Year ended December 31,			
	2017		2016	
	Average Exercise Price	**Number of share options**	Average Exercise Price	Number of share options
Beginning of the year	**HKD6.63**	**6,654,798**	HKD7.40	7,709,192
Granted	**HKD3.10**	**9,225,000**	HKD4.366	1,750,000
Lapsed	**HKD4.59**	**(2,439,375)**	HKD7.33	(2,804,394)
Exercised		**–**		–
End of the year	**HKD4.58**	**13,440,423**	HKD6.63	6,654,798

Out of the 13,440,423 outstanding options (December 31, 2016: 6,654,798), 3,155,423 options (December 31, 2016: 1,657,298) were exercisable. Share options outstanding as of December 31, 2017 include 462,298 (December 31, 2016: 462,298) share options, 3,865,625 (December 31, 2016: 4,742,500) share options, 1,412,500 (December 31, 2016: 1,450,000) and 7,700,000 (December 31, 2016: Nil) with the exercise price of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 per share option, respectively. All these options will expire in 10 years from the grant date.

(ii) Fair value of share options

Based on the market price of the underlying ordinary share of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 on the respective grant date of the share options, the Company has used Binomial option-pricing model to determine the fair value of the share options as of the grant date. The fair value of the share options granted on August 12, 2015, October 9, 2015, June 15, 2016 and January 18, 2017 was assessed to be HKD8,220,000 (approximately equivalent to RMB6,706,000), HKD20,442,000 (approximately equivalent to RMB16,748,000), HKD4,028,000 (approximately equivalent to RMB3,425,000) and HKD14,823,000 (approximately equivalent to RMB13,097,000), respectively.

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

	August 12, 2015	October 9, 2015	June 15, 2016	**January 18, 2017**
Risk-free interest rate	1.69%	1.62%	2.50%	**1.72%**
Volatility	49.30%	49.70%	52.30%	**57.20%**
Dividend yield	–	–	–	**–**

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

(c) RSUs and options granted by/for subsidiaries

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

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

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

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

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

As of December 31, 2017 and 2016, 8,000,000 RSUs have been vested unconditionally, respectively, which represents 2% interest of Creative Ace Limited.

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

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

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

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

As of December 31, 2017 and December 31, 2016, 1,750,000 and 437,500 shares have been vested unconditionally, respectively, which represents 19% and 4.75% interest of Horgos Pictures.

(d) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive loss. As of December 31, 2017, the Expected Retention Rate of employees was assessed to be 70% (December 31, 2016: 85%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2016: 100%).

10. TRADE AND OTHER PAYABLES

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade payables *(Note (i))*	**50,532**	92,754
Other taxes payables	**3,589**	3,565
Interests payable	**117**	74
Salary and staff welfare payables	**29,165**	28,486
Accrued expenses and liabilities	**37,604**	45,561
Advance received from licence fees	**1,777**	952
Advance received from sales of prepaid game cards	**79**	486
Advance from payment vendors	**41**	62
Advance received for license fee of film rights	**20,623**	–
	143,527	171,940

Note:

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

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
0–180 days	**44,708**	60,684
181–365 days	**1,034**	25,568
1–2 years	**1,515**	3,405
2–3 years	**605**	1,652
over 3 years	**2,670**	1,445
	50,532	92,754

11. DEFERRED REVENUE

	As of December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current		
— License fee and technical support fee	**3,107**	3,649
— Sales of in-game virtual items *(Note (i))*	**62,863**	81,570
— Government subsidies	**41**	97
	66,011	85,316
Non-current		
— License fee and technical support fee	**1,985**	4,421
— Sales of in-game virtual items *(Note (i))*	**742**	1,029
— Government subsidies	**1,529**	1,571
	4,256	7,021

Note:

(i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of December 31, 2017 and 2016. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the lives of permanent ownership items ("**Player Relationship Period**") of the respective game or other similar types of games, as described in Note 2.24. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB6,011,000 as of December 31, 2017 (2016: RMB6,921,000).

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,	
	2017	2016
	RMB'000	*RMB'000*
Service charges by game distribution channels	**161,338**	249,593
Content fee to game developers	**46,208**	60,786
Bandwidth and server custody fees	**17,380**	16,642
Film rights recognised as cost of revenue	**17,217**	–
Payment handling costs	**326**	435
Employee benefit expenses (excluding share-based compensation expenses)	**190,794**	172,006
Share-based compensation expenses	**12,807**	33,161
Depreciation of property, plant and equipment	**10,429**	7,918
Amortisation and impairment of intangible assets	**21,454**	19,381
Impairment charges on trade and other receivables *(Note 5, 6)*	**1,934**	4,242
Prepayment write-off	**13,862**	6,973
Promotion and advertising expenses	**159,366**	175,979
Traveling and entertainment expenses	**5,486**	5,951
Office rental expenses	**15,308**	16,180
Other professional service fees	**11,465**	11,710
Game development outsourcing costs	**16,281**	13,767
Utilities and office expenses	**4,188**	3,837
Auditors' remuneration		
— Audit services	**4,360**	5,100
— Non-audit services	**420**	180
Others	**8,115**	6,675
Total	**718,738**	810,516

13. OTHER GAINS — NET

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Government subsidies *(Note (a))*	**238**	10,297
Foreign exchange (losses)/gains	**(1,209)**	1,454
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	**1,873**	8,950
Fair value gain from an associate measured at fair value through profit or loss	**10,101**	4,229
Impairment charges on available-for-sale financial assets	**(5,223)**	–
Gain on disposal of available-for-sale financial assets	**23,988**	2,449
(Loss)/gain on disposals of property, plant and equipment	**(10)**	138
Gain on disposals of intangible assets	**1,800**	2,459
Gain arising from other shareholders' contribution to an associate	**–**	5,619
Others	**(579)**	(37)
	30,979	35,558

Note:

(a) Government subsidies primarily represented various industry-specific subsidies granted by the government authorities to subsidize the game research and development costs and capital expenditures incurred by the Group during the course of its business.

14. FINANCE INCOME — NET

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Finance income		
Interest income on bank deposits	**5,568**	5,373
Interest income on loans to third parties	**2,112**	243
Finance costs		
Interest cost on bank borrowings	**(2,988)**	(1,018)
Foreign exchange losses, net	**(1,358)**	(373)
Finance income — net	**3,334**	4,225

15. INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for each of the years ended December 31, 2017 and 2016 is analysed as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
— Current income tax of this year	**7,621**	17,670
— Exemption of tax provision *(Note (c) (i))*	**(17,099)**	–
Total current income tax	**(9,478)**	17,670
Deferred income tax	**(531)**	(1,208)
Income tax (credit)/expense	**(10,009)**	16,462

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the years ended December 31, 2017 and 2016 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

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

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the years ended December 31, 2017 and 2016, except for Tianjin Baba Liusi Network Technology Co., Ltd. ("**Tianjin 8864**"), Beijing Feng and Long Interactive Culture Co., Limited ("**Feng and Long**") and Horgos Pictures. Tianjin 8864 and Feng and Long were accredited as software enterprises. Horgos Pictures was accredited as a new company in economic development zone. The applicable preferential income tax rates for these subsidiaries are as follows:

	2017	2016
Tianjin 8864	**50% reduction**	50% reduction
Feng and Long *(Note (i))*	**EIT exemption**	EIT exemption
Horgos Pictures	**EIT exemption**	25%

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining tax assessable profits for that year ("**Super Deduction**"). Several PRC subsidiaries of the Group have claimed such Super Deduction in ascertaining its tax assessable profits/(losses) for the years ended December 31, 2017 and 2016.

Note:

(i) As Feng and Long was accredited as software enterprise in 2017 before the 2016 annual EIT clearance, related tax provision arising in 2016 was exempted in May 2017.

(d) PRC withholding Tax ("WHT")

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

As of December 31, 2017, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of December 31, 2017 and 2016, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss before income tax of consolidated entities in the respective jurisdictions as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Loss before income tax	**(304,772)**	(140,912)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	**(41,378)**	(20,470)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries *(Note (c) (i))*	**(19,958)**	–
Super Deduction for research and development expenses	**(8,410)**	(10,042)
Expenses not deductible for tax purposes:		
— Share-based compensation	**3,507**	7,902
— Others	**8,790**	18,844
Unrecognised temporary differences *(Note (ii))*	**60,551**	22,024
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	**4,094**	1,194
Exemption of tax provisions *(Note (c) (i))*	**(17,099)**	–
Adjustment to deferred income tax arising in prior years	**(106)**	(2,990)
Income tax (credit)/expense	**(10,009)**	16,462

Notes:

(i) The Company is exempt from Cayman Islands income tax. As such, the operating results reported by the Company on a standalone basis, are not subject to any income tax.

(ii) The Group has assessed the realisation of deductible temporary differences and unused tax losses for each Group entity as of December 31, 2017 and 2016. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.

16. LOSS PER SHARE

(a) Basic

Basic loss per share for the year ended December 31, 2017 and 2016 is calculated by dividing the loss of the Group attributable to the owners of the Company of the year by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Loss attributable to owners of the Company	**(294,098)**	(157,372)
Weighted average number of ordinary shares in issue (thousand shares)	**352,142**	349,493
Basic loss per share (expressed in RMB per share)	**(0.84)**	(0.45)

(b) Diluted

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

For the year ended December 31, 2017 and 2016, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the years ended December 31, 2017 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the years ended December 31, 2017 and 2016 are the same as basic loss per share of the years.

17. DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2017 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Review

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

I. Breakthroughs in overseas markets including Korea and Southeast Asia

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

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

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

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

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

III. Energetic development of global products with unique gaming experience

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

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

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

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

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

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

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

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

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

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

VII. Leveraging technology to launch AI products

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

Prospects

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

Overview of Main Games

1. Self-developed games

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

2. Licensed games

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

Breakdown of revenue by game form and source

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

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

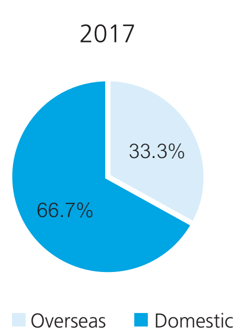
	Year ended December 31,			
	2017		2016	
		Approximate		*Approximate*
	RMB'000	***%***	*RMB'000*	*%*
Self-developed games	**139,376**	**29.5**	362,585	55.1
Licensed games	**332,665**	**70.5**	295,857	44.9
Total	**472,041**	**100.0**	658,442	100.0

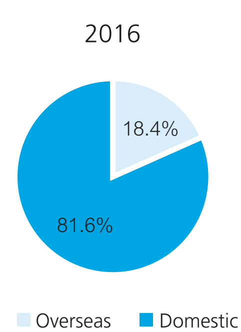
The table below sets out the breakdown of revenue by game business and movie business:

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

International markets

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





Our players

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

FINANCIAL REVIEW

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

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

Revenue

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

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

Cost of revenue

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

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

Gross profit and gross profit margin

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

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

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

Selling and marketing expenses

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

Administrative expenses

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

Research and development expenses

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

Other gains — net

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

Finance income — net

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

Share of loss of investments using equity accounting

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

Impairment of investments using equity accounting

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

Income tax credit/(expense)

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

Loss for the year

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

Non-IFRSs Measure — Adjusted net loss

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

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

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

The Group's adjusted net loss for the year ended December 31, 2017 was approximately RMB212.7 million, representing an increase of 71.2% from the adjusted net loss of approximately RMB124.2 million for the year ended December 31, 2016. The adjusted net loss is due to the combined effect of (1) decrease in revenue from our game business due to less games being released during the year; and (2) increasing operation losses of an investee, Fuze. We have presented adjusted net loss in this annual results announcement as we believe that the adjusted loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses and impairment of investments using equity accounting. However, adjusted net loss for the year should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss presented in this annual results 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 2017, we financed our operations primarily through cash generated from our operating activities. The Group has maintained a solid cash position since the IPO which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

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

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

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

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

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

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

Capital expenditures

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

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

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

CHARGE ON GROUP ASSETS

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

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

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

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

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

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

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

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

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

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISK

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

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

DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

Share Purchase by RSU Trustee

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

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

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

Grant of Share Options

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

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

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

Resignation of Executive Directors

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

Change of Logo of the Company

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

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

CORPORATE GOVERNANCE PRACTICE

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

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

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

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

INTERESTS IN COMPETING BUSINESS

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

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

NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME

Share Incentive Scheme

The Company approved and adopted the RSU Scheme on March 21, 2014 and as amended on August 22, 2014. The RSU Scheme is not subject to the procedures of Chapter 23 of the GEM Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

The key terms of the RSU Scheme are as follow.

(a) *Purposes of the RSU Scheme*

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

(b) *Participants in the RSU Scheme*

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

(c) *Term of the RSU Scheme*

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

(d) *Maximum number of Shares pursuant to RSUs*

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

(e) Appointment of the RSU Trustee

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

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

Share Option Scheme

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

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

(a) Purpose

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

(b) Who may participate

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

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

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

(d) Maximum entitlement of each individual

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

(e) Acceptance of an offer of options

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

(f) Exercise price

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

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

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

(iii) the nominal value of the shares.

(g) Duration of Share Option Scheme

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

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

AUDIT COMMITTEE

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

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

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

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

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, 2017 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, 2017. 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 15, 2018. A notice convening the annual general meeting will be despatched to the shareholders of the Company in due course.

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, June 12, 2018 to Friday, June 15, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, June 11, 2018.

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

Beijing, PRC, March 28, 2018

As at the date of this announcement, the executive Directors are Mr. WANG Feng and Ms. LIAO Mingxiang; 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.