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, 2018

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.

This announcement, for which the directors (the "Directors") of Linekong Interactive Group Co., Ltd. ("Linekong Interactive" or 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 (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, 2018 amounted to approximately RMB457.8 million (2017: approximately RMB494.7 million), representing a decrease of approximately 7.5% as compared to that of the year ended December 31, 2017.

- Our gross profit for the year ended December 31, 2018 amounted to approximately RMB171.4 million, representing a decrease of approximately 14.4% from RMB200.1 million recorded in the year ended December 31, 2017.

- The unaudited adjusted non-IFRSs net loss for the year ended December 31, 2018 amounted to approximately RMB94.0 million (2017: unaudited adjusted non-IFRSs net loss approximately RMB211.0 million).

- Loss attributable to owners of the Company under IFRSs for the year ended December 31, 2018 amounted to approximately RMB166.9 million (2017: loss of approximately RMB294.1 million).

- Loss per share under IFRSs for the year ended December 31, 2018 amounted to approximately RMB0.47.

ANNUAL RESULTS

The board (the "**Board**") of Directors announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2018 (the "**Reporting Period**") together with the comparative figures for the year ended December 31, 2017 as follows:

CONSOLIDATED BALANCE SHEET
As of December 31, 2018

		As of December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,001**	6,850
Intangible assets		**29,586**	34,310
Films rights and films in progress		**14,564**	48,372
Investments using equity accounting		**42,756**	52,268
An associate measured at fair value through profit or loss		**44,000**	44,330
Available-for-sale financial assets		**–**	94,973
Financial assets at fair value through profit or loss		**89,395**	16,602
Deferred income tax assets — net	*4*	**1,764**	2,975
Other receivables	*6*	**3,506**	6,539
Other non-current assets	*7*	**232**	118
		228,804	307,337
Current assets			
Trade receivables	*5*	**31,499**	52,340
Other receivables	*6*	**32,901**	29,739
Other current assets	*7*	**72,165**	77,455
Available-for-sale financial assets		**–**	12,446
Financial assets at fair value through profit or loss		**17,000**	17,447
Short-term bank deposits		**102,948**	–
Restricted deposits		**233,831**	188,236
Cash and cash equivalents		**176,555**	349,563
		666,899	727,226
Total assets		**895,703**	1,034,563
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*8*	**59**	59
Share premium	*8*	**1,720,690**	1,720,690
Shares held for RSU Scheme	*8*	**(5,822)**	(3,578)
Reserves	*9*	**405,894**	390,603
Accumulated losses		**(1,581,781)**	(1,435,377)
		539,040	672,397
Non-controlling interests		**9,287**	3,760
Total equity		**548,327**	676,157

CONSOLIDATED BALANCE SHEET (Continued)
As of December 31, 2018

		As of December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Contract liabilities	*12*	**2,987**	4,256
		2,987	4,256
Current liabilities			
Bank borrowings		**199,100**	136,719
Trade and other payables	*11*	**87,219**	121,007
Current income tax liabilities		**6,714**	7,893
Contract liabilities	*12*	**51,356**	88,531
		344,389	354,150
Total liabilities		**347,376**	358,406
Total equity and liabilities		**895,703**	1,034,563

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2018

		Year ended December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**457,790**	494,733
Cost of revenue	*13*	**(286,390)**	(294,610)
Gross profit		**171,400**	200,123
Selling and marketing expenses	*13*	**(103,756)**	(186,344)
Administrative expenses	*13*	**(91,775)**	(103,443)
Research and development expenses	*13*	**(67,860)**	(132,407)
Net impairment losses on financial assets	*13*	**(3,253)**	(1,934)
Other operating income — net		**4,679**	240
Operating loss		**(90,565)**	(223,765)
Other (losses)/gains — net	*14*	**(54,463)**	30,739
Finance (costs)/income — net	*15*	**(1,349)**	3,334
Share of loss of investments using equity accounting		**(12,411)**	(45,780)
Impairment of investments using equity accounting		**–**	(69,300)
Loss before income tax		**(158,788)**	(304,772)
Income tax (expense)/credit	*16*	**(4,226)**	10,009
Loss for the year		**(163,014)**	(294,763)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		**–**	14,953
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		**–**	(17,991)
— Share of other comprehensive income/(loss) of investments accounted for using the equity method, net of tax		**2,899**	(4,885)
Items that will not be reclassified to profit or loss:			
— Currency translation differences		**25,323**	(40,677)
Other comprehensive income/(loss) for the year, net of tax		**28,222**	(48,600)
Total comprehensive loss for the year		**(134,792)**	(343,363)

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (Continued)
For the year ended December 31, 2018

		Year ended December 31,	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Loss attributable to:			
Owners of the Company		**(166,876)**	(294,098)
Non-controlling interests		**3,862**	(665)
Loss for the year		**(163,014)**	(294,763)
Total comprehensive loss attributable to:			
Owners of the Company		**(138,608)**	(342,744)
Non-controlling interests		**3,816**	(619)
Total comprehensive loss for the year		**(134,792)**	(343,363)
Loss per share (expressed in RMB per share)			
— Basic	*17(a)*	**(0.47)**	(0.84)
— Diluted	*17(b)*	**(0.47)**	(0.84)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

		Attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as of January 1, 2017		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(294,098)	(294,098)	(665)	(294,763)
Other comprehensive income/(loss)									
— Changes in fair value of available-for-sale financial assets, net of tax		–	–	–	14,953	–	14,953	–	14,953
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		–	–	–	(17,991)	–	(17,991)	–	(17,991)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	(4,885)	–	(4,885)	–	(4,885)
— Currency translation differences		–	–	–	(40,723)	–	(40,723)	46	(40,677)
Total comprehensive loss for the year		–	–	–	(48,646)	(294,098)	(342,744)	(619)	(343,363)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Decrease in ownership interest in subsidiaries without change of control		–	–	–	(6,288)	–	(6,288)	6,288	–
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		–	–	(3,577)	–	–	(3,577)	–	(3,577)
— Value of employee services	*10*	–	–	–	12,807	–	12,807	–	12,807
— Vesting of shares		–	(1)	1	–	–	–	–	–
Appropriation to statutory reserves		–	–	–	6,250	(6,250)	–	–	–
Total contributions by and distributions to owners of the Company for the year		–	(1)	(3,576)	12,769	(6,250)	2,942	6,288	9,230
Balance as of December 31, 2017		59	1,720,690	(3,578)	390,603	(1,435,377)	672,397	3,760	676,157

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended December 31, 2018

		Attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as of December 31, 2017		**59**	**1,720,690**	**(3,578)**	**390,603**	**(1,435,377)**	**672,397**	**3,760**	**676,157**
Change in accounting policy	*2.1.1(a)(I)*	–	–	–	(22,400)	22,400	–	–	–
Balance as of January 1, 2018		**59**	**1,720,690**	**(3,578)**	**368,203**	**(1,412,977)**	**672,397**	**3,760**	**676,157**
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(166,876)	(166,876)	3,862	(163,014)
Other comprehensive income/(loss)									
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	2,899	–	2,899	–	2,899
— Currency translation differences		–	–	–	25,369	–	25,369	(46)	25,323
Total comprehensive income/(loss) for the year		–	–	–	28,268	(166,876)	(138,608)	3,816	(134,792)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Contribution from shareholders		–	–	–	11,598	–	11,598	–	11,598
Increase in ownership interest in subsidiaries without change of control		–	–	–	(1,528)	–	(1,528)	1,528	–
Decrease in ownership interest in subsidiaries without change of control		–	–	–	(77)	–	(77)	183	106
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme		–	–	(2,244)	–	–	(2,244)	–	(2,244)
— Value of employee services	*10*	–	–	–	(2,498)	–	(2,498)	–	(2,498)
Appropriation to statutory reserves		–	–	–	1,928	(1,928)	–	–	–
Total contributions by and distributions to owners of the Company for the year		–	–	(2,244)	9,423	(1,928)	5,251	1,711	6,962
Balance as of December 31, 2018		**59**	**1,720,690**	**(5,822)**	**405,894**	**(1,581,781)**	**539,040**	**9,287**	**548,327**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in Renminbi ("**RMB**"). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As of December 31, 2018 and 2017, other than the restrictions from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

The consolidated financial statements are presented in RMB, unless otherwise stated, and have been approved by the Company's Board of Directors on March 29, 2019.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to the standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2018:

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

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

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

(I) IFRS 9 "Financial Instruments"

(i) Impact on the financial statements

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

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

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

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

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

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

Note:

(a) Classification and measurement

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

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

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

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

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

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

(b) Impairment of financial assets

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

- trade receivables, and
- other receivables.

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

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

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

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

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

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

		Effective for annual periods beginning on or after
IFRS 16	"Leases"	January 1, 2019
Interpretation 23	"Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9	"Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 28	"Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Amendments to IAS 19	"Plan Amendment, Curtailment or Settlement"	January 1, 2019
IFRS 17	"Insurance Contracts"	January 1, 2021
Amendments to IFRS 10 and IAS 28	"Sale or contribution of assets between an investor and its associate or joint venture"	Date to be determined

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

IFRS 16 "Leases"

Nature of change

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

Impact

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

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

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

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

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

Date of adoption by the Group

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

Except for the impact as disclosed above, the Group anticipates that the application of other new standards and amendments to existing standards, which are effective on January 1, 2019, will have no material impact on the consolidated financial statements in the foreseeable future. The Group is in the process of making an assessment on the impact of other new standards and amendments to existing standards.

3. REVENUE AND SEGMENT INFORMATION

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

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

The Group identifies 2 segments as follows:

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

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

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

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

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue for the years ended December 31, 2018 and 2017. Revenue from producing and licensing of films rights (including rights of internet drama) was derived from two and one different external customers for the years ended December 31, 2018 and 2017, respectively.

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

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

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

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
— PRC	**40,981**	83,829
— South Korea	**6,402**	2,685
— Other overseas countries and regions	**–**	3,136
	47,383	89,650

4. DEFERRED INCOME TAX — NET

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

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

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

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

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, 2017					
Beginning of the year	1,318	–	14,674	112	16,104
(Charged)/credited to profit or loss	(977)	27	1,027	2,572	2,649
End of the year	341	27	15,701	2,684	18,753
Year ended December 31, 2018					
Beginning of the year	**341**	**27**	**15,701**	**2,684**	**18,753**
Credited/(charged) to profit or loss	**1,252**	**241**	**(11,708)**	**(2,781)**	**(12,996)**
End of the year	**1,593**	**268**	**3,993**	**(97)**	**5,757**

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB425,236,000 as of December 31, 2018 (2017: RMB294,810,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2019 to 2023.

Deferred income tax liabilities:

	Trademarks and licenses *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, 2017				
Beginning of the year	(83)	(13,533)	(1,057)	(14,673)
Credited/(charged) to profit or loss	7	401	(2,526)	(2,118)
Credited to other comprehensive income	–	1,013	–	1,013
End of the year	(76)	(12,119)	(3,583)	(15,778)
Year ended December 31, 2018				
Beginning of the year	**(76)**	**(12,119)**	**(3,583)**	**(15,778)**
Credited to profit or loss	**76**	**11,626**	**83**	**11,785**
End of the year	**–**	**(493)**	**(3,500)**	**(3,993)**

5. TRADE RECEIVABLES

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

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

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

(b) As of December 31, 2018 and 2017, trade receivables of past due but not impaired were RMB3,063,000 and RMB8,763,000, respectively. These related to a number of third-party game distribution channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of December 31,	
	2018	2017
	RMB'000	*RMB'000*
Outstanding after due dates:		
0–60 days	**1,504**	5,692
61–90 days	**375**	1,330
91–180 days	**951**	1,454
181–365 days	**233**	252
over 1 year	**–**	35
	3,063	8,763

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

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

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

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

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

6. OTHER RECEIVABLES

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

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

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

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

Notes:

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

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

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

7. OTHER ASSETS

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

8. SHARE CAPITAL AND SHARE PREMIUM

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

	Number of ordinary shares *('000)*	**Nominal value of ordinary shares** *USD'000*	**Equivalent nominal value of ordinary shares** *RMB'000*	**Share premium** *RMB'000*	**Shares hold for RSU Scheme** *RMB'000*
Issued:					
As of January 1, 2017	368,228	10	59	1,720,691	(2)
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	–	–	–	–	(3,577)
— Vesting of shares held for RSU Scheme	–	–	–	(1)	1
As of December 31, 2017	368,228	10	59	1,720,690	(3,578)
Issued:					
As of January 1, 2018	**368,228**	**10**	**59**	**1,720,690**	**(3,578)**
Employee share option and RSU scheme:					
— Shares repurchased for RSU Scheme	**–**	**–**	**–**	**–**	**(2,244)**
As of December 31, 2018	**368,228**	**10**	**59**	**1,720,690**	**(5,822)**

9. RESERVES

	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000 (Note (i))	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance as of January 1, 2017	(7,831)	118,899	9,557	273,990	31,865	426,480
Appropriation to statutory reserves	–	–	6,250	–	–	6,250
Changes in fair value of available-for-sale financial assets, net of tax	–	–	–	–	14,953	14,953
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	–	–	–	–	(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 as of December 31, 2017	(14,119)	78,176	15,807	286,797	23,942	390,603
Change in accounting policy *(Note 2.1.1(a)(I))*	**–**	**–**	**–**	**–**	**(22,400)**	**(22,400)**
Balance as of January 1, 2018	**(14,119)**	**78,176**	**15,807**	**286,797**	**1,542**	**368,203**
Appropriation to statutory reserves	**–**	**–**	**1,928**	**–**	**–**	**1,928**
Contribution from shareholders	**11,598**	**–**	**–**	**–**	**–**	**11,598**
Share of other comprehensive income of investments using equity method, net of tax	**–**	**–**	**–**	**–**	**2,899**	**2,899**
Increase in ownership interest in subsidiaries without change of control	**(1,528)**	**–**	**–**	**–**	**–**	**(1,528)**
Decrease in ownership interest in subsidiaries without change of control	**(77)**	**–**	**–**	**–**	**–**	**(77)**
Employee share option and RSU scheme:						
— Value of employee services	**–**	**–**	**–**	**(2,498)**	**–**	**(2,498)**
Currency translation differences	**–**	**25,369**	**–**	**–**	**–**	**25,369**
Balance as of December 31, 2018	**(4,126)**	**103,545**	**17,735**	**284,299**	**4,441**	**405,894**

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.

10. SHARE-BASED PAYMENTS

(a) Restricted Share Units ("RSUs")

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

(i) Grant of the RSUs

On March 21, 2014, January 21, 2015, October 9, 2015 and January 18, 2017, 31,371,494, 2,275,000, 20,000 and 1,805,385 RSUs under the RSU Scheme were granted to employees, directors and consultants, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

Movements in the number of RSUs outstanding:

	Number of RSUs Year ended December 31,	
	2018	2017
Beginning of the year	**2,970,210**	5,348,162
Granted	**–**	1,805,385
Lapsed	**(1,231,520)**	(889,718)
Vested	**(1,488,690)**	(3,293,619)
End of the year	**250,000**	2,970,210

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

(ii) Shares held for RSU Scheme

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

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to "other reserves" as deemed contribution from shareholders. As a result of the vesting of 1,488,690 RSUs during the year ended December 31, 2018, costs of these RSUs totally approximately RMB229 was transferred out from treasury shares upon vesting of these RSUs.

(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,			
	2018		2017	
	Average Exercise Price	**Number of share options**	Average Exercise Price	Number of share options
Beginning of the year	**HKD4.58**	**13,440,423**	HKD6.63	6,654,798
Granted		**–**	HKD3.10	9,225,000
Lapsed	**HKD3.87**	**(5,559,375)**	HKD4.59	(2,439,375)
Exercised		**–**		–
End of the year	**HKD5.08**	**7,881,048**	HKD4.58	13,440,423

Out of the 7,881,048 outstanding options (December 31, 2017: 13,440,423), 6,289,173 options (December 31, 2017: 3,155,423) were exercisable. Share options outstanding as of December 31, 2018 include 462,298 (December 31, 2017: 462,298) share options, 2,956,250 (December 31, 2017: 3,865,625) share options, 975,000 (December 31, 2017: 1,412,500) and 3,487,500 (December 31, 2017: 7,700,000) with the exercise price of HKD8.10, HKD7.18, HKD4.366 and HKD3.10 per share option, respectively. All these options will expire in 10 years from the grant date.

(ii) Fair value of share options

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

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

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

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

(c) RSUs and options granted by/for subsidiaries

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

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

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

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

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

As of December 31, 2018 and 2017, 8,000,000 RSUs have been vested unconditionally, respectively, which represents 2% interest of Creative Ace Limited.

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

(d) Expected retention rate of grantees

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

11. TRADE AND OTHER PAYABLES

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

Note:

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

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

12. CONTRACT LIABILITIES

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

Note:

(i) Contract liabilities from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of December 31, 2018 and 2017. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games. Including in the contract liabilities balance above, contract liabilities arising from such treatment was approximately RMB6,168,000 as of December 31, 2018 (December 31, 2017: RMB6,011,000).

13. EXPENSES BY NATURE

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

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

14. OTHER (LOSSES)/GAINS — NET

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

15. FINANCE (COSTS)/INCOME — NET

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

16. INCOME TAX EXPENSE/(CREDIT)

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

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

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the years ended December 31, 2018 and 2017 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

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

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

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

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

Note:

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

(d) PRC withholding Tax ("WHT")

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

As of December 31, 2018, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of December 31, 2018 and 2017, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

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

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loss before income tax	**(158,788)**	(304,772)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	**(15,004)**	(41,378)
Tax effects of:		
Preferential income tax rates applicable to subsidiaries *(Note (c)(i))*	**(24,379)**	(19,958)
Income not subject to tax	**(10,548)**	(13,872)
Super Deduction for research and development expenses	**(10,103)**	(8,410)
Expenses not deductible for tax purposes:		
— Share-based compensation	**(644)**	3,507
— Others	**2,326**	22,662
Unrecognised temporary differences *(Note (ii))*	**58,068**	60,551
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	**4,032**	4,094
Exemption of tax provisions *(Note (c)(i))*	**–**	(17,099)
Others	**478**	(106)
Income tax expense/(credit)	**4,226**	(10,009)

Notes:

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

(ii) The Group has assessed the realisation of deductible temporary differences and unused tax losses for each Group entity as of December 31, 2018 and 2017. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.

17. LOSS PER SHARE

(a) Basic

Basic loss per share for the years ended December 31, 2018 and 2017 is calculated by dividing the loss of the Group attributable to the owners of the Company of the year by the weighted average number of ordinary shares in issue during the year.

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

(b) Diluted

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

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

18. DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2018 and 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

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

Revenue

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

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

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

For the year ended December 31, 2018, the revenue contributed by game business was RMB334.2 million, representing a decrease of approximately 29.2% or RMB137.8 million as compared with the corresponding period of 2017, which was attributable to fewer new games released in 2018 than in 2017, mainly due to the strategy implemented by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

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

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

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

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

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

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

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

Cost of revenue

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

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

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

Gross profit and gross profit margin

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

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

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

Selling and marketing expenses

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

Administrative expenses

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

Research and development expenses

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

Net impairment losses on financial assets

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

Other operating income — net

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

Other (losses)/gains — net

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

Finance (costs)/income — net

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

Share of loss of an investment using equity accounting

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

Impairment of investments using equity accounting

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

Income tax (expense)/credit

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

Loss for the year

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

Non-IFRSs measure — adjusted net loss

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

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

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

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

We have presented adjusted net loss in this announcement as we believe that the adjusted net loss is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration (reversal of)/charged to share-based compensation expenses, impairment of investments using equity accounting, one-off compensation for loss of office and realised/unrealised loss/(gain) on fair value of financial assets at fair value through profit or loss. However, adjusted net loss for the year should not be considered in isolation or construed as an alternative to net loss or operating loss, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss presented in this 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 2018, we financed our businesses primarily through cash generated from our operating activities. The Group has been maintaining a solid cash position since the initial public offering (the "**IPO**") which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the year ended December 31, 2018, most of the Group's idle capital was invested in short-term wealth management products issued by commercial banks in the PRC. For the purpose of generating better returns for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives. In order to meet the domestic working capital requirements, we will seek for stable financial supports from banks in long-run at market lending rate for the corresponding period.

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

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

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

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

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

Capital expenditures

Our capital expenditures comprised expenditures on film rights and films in progress, the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the year ended December 31, 2018, our total capital expenditure amounted to approximately RMB31.4 million (2017: approximately RMB61.6 million), including expenditures on film rights and films in progress of approximately RMB5.9 million (2017: approximately RMB41.3 million), the purchase of furniture and office equipment of approximately RMB0.4 million (2017: approximately 2.0 million), server and other equipment of approximately RMB0.1 million (2017: approximately RMB1.6 million), motor vehicles of nil (2017: approximately RMB0.3 million), leasehold improvements of nil (2017: approximately RMB0.1 million), trademarks and licenses of approximately RMB23.8 million (2017: approximately RMB15.6 million) and computer software of approximately RMB1.2 million (2017: approximately RMB0.7 million). As of the end of the Reporting Period, we have no committed capital expenditures, and the capital expenditures for 2019 are expected to be game rights and IP.

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

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

CHARGE ON GROUP ASSETS

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

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

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

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

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

The total remuneration of the employees of the Group was approximately RMB147.5 million for the year ended December 31, 2018 (2017: approximately RMB203.6 million). The Company has established the Remuneration Committee on April 21, 2014 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules. The Remuneration Committee will regularly review and recommend to the Board from time to time the remuneration and compensation of the Directors and senior management of the Group.

The Group offers competitive remuneration package commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus. In determining staff remuneration, the Group has taken into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The staff remuneration is reviewed regularly.

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

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

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

SIGNIFICANT INVESTMENT HELD DURING THE REPORTING PERIOD

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss for the year ended December 31, 2018 would have been approximately RMB1,085,000 lower/higher (2017: RMB9,225,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss for the year ended December 31, 2018 would have been approximately RMB71,000 lower/higher (2017: RMB567,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. The Group does not hedge against any fluctuation in foreign currency.

DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2018, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

EVENTS DURING THE REPORTING PERIOD

Share Purchase by RSU Trustee

On March 29, 2018, April 3, 2018, April 4, 2018, November 29, 2018, December 3, 2018, December 4, 2018, December 5, 2018, December 6, 2018, December 7, 2018, December 10, 2018, December 13, 2018, December 14, 2018, December 21, 2018, December 27, 2018 and December 28, 2018, the Company had directed The Core Trust Company Limited, being the RSU Trustee assisting with the administration and vesting of RSUs granted pursuant to the RSU Scheme adopted by the Company, to purchase and hold on-market 415,000 shares, 320,000 shares, 250,000 shares, 2,000 shares, 215,500 shares, 80,000 shares, 275,000 shares, 275,500 shares, 5,000 shares, 260,000 shares, 120,000 shares, 117,000 shares, 367,500 shares, 144,000 shares and 338,500 shares, respectively, of the ordinary shares of the Company (collectively, the "**Share Purchases**"), which will be used to satisfy the RSUs upon exercise.

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

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

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

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

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

Resignation and Retirement of Directors

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

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

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

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed, there is no important events affecting the Group which have occurred since the end of the Reporting Period.

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company has complied with the Code for the year ended December 31, 2018, except for the deviation from code provision A.2.1 of the Code.

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

INTERESTS IN COMPETING BUSINESS

None of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group for the year ended December 31, 2018.

NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each of the Directors attended various trainings in 2018, including the trainings for the amendment of the GEM Listing Rules, for Directors' responsibilities and continuous obligations and for enforcement of the GEM Listing Rules, etc. 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, 2018, RSUs in respect of 35,471,879 underlying shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 1,231,520 underlying shares granted to 13 grantees had been lapsed during the year ended December 31, 2018. As of December 31, 2018, 29,641,294 RSUs have been vested unconditionally and there were 250,000 RSUs granted but not yet vested.

Share Option Scheme

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

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

(a) Purpose

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

(b) Who may participate

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

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

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

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

(d) Maximum entitlement of each individual

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

(e) Acceptance of an offer of options

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

(f) Exercise price

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

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

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

(iii) the nominal value of the Shares.

(g) Duration and remaining life of Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of Listing (i.e. from December 19, 2014 to December 18, 2024), after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

(h) Time of vesting and exercise of option

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

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

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

Movement of Share Options

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

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

Notes:

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

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

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

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

(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, Ms. Zhao Yifang, Ms. Wu Yueqin, Mr. Ma Ji (resigned with effect from May 29, 2018) and Mr. Wang Xiaodong (retired with effect from June 15, 2018) our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the GEM's website and the Company's website.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structures for all aspects of Directors' and senior management's remuneration, including making recommendations to the Board on the remuneration packages of executive Directors and senior management. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended December 31, 2018 and has approved the service contracts of Mr. Chen Hao and Mr. Wang Jin.

NOMINATION COMMITTEE

The Nomination Committee was established on April 24, 2014. The chairman of the Nomination Committee is Mr. Wang Feng, our chairman and executive Director, and other members include Ms. Liao Mingxiang (resigned with effect from June 15, 2018), our executive Director, Mr. Pan Donghui, our non-executive Director, Ms. Zhao Yifang, Mr. Zhang Xiangdong, Ms. Wu Yueqin (appointed with effect from May 29, 2018), Mr. Ma Ji (resigned with effect from May 29, 2018) and Mr. Wang Xiaodong (retired with effect from June 15, 2018), our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the GEM's website and on the Company's website.

The primary duties of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and makes recommendations to the Board on appointment of new directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. During the Reporting Period, the Nomination Committee has also considered the appointments of Mr. Chen Hao, Mr. Wang Jin and Ms. Wu Yueqin, as well as those directors, who offered themselves for re-election at the 2017 annual general meetings.

Nomination Policy

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

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

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

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

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

Selection Procedures of Directors

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

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

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

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

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

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

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

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

Board Diversity Policy

The Board Diversity Policy was adopted by the Board, with effective on December 29, 2014, and was revised on December 27, 2018. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, race, age, language, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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

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

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

AUDIT COMMITTEE

The Audit Committee was established on April 24, 2014. The chairman of the Audit Committee is Ms. Wu Yueqin (appointed with effect from May 29, 2018), our independent non-executive Director, and other members include Mr. Pan Donghui, our non-executive Director, Mr. Zhang Xiangdong, Ms. Zhao Yifang, Mr. Ma Ji (resigned with effect from May 29, 2018) and Mr. Wang Xiaodong (retired with effect from June 15, 2018), our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM's website and on the Company's website.

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

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

The Group's consolidated financial statements for the year ended December 31, 2018 as well as the consolidated financial statements for the three months ended March 31, 2018, six months ended June 30, 2018 and nine months ended September 30, 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended December 31, 2018 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

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, 2018 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, 2018. 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 21, 2019. A notice convening the annual general meeting will be despatched to the shareholders of the Company in due course.

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, June 18, 2019 to Friday, June 21, 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, June 17, 2019.

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

Beijing, PRC, March 29, 2019

As at the date of this announcement, the executive directors of the Company are Mr. WANG Feng, Ms. LIAO Mingxiang, Mr. CHEN Hao and Mr. WANG Jin (also known as YAN Yusong); the non-executive director of the Company is Mr. PAN Donghui; and the independent non-executive directors of the Company are Ms. ZHAO Yifang, Mr. ZHANG Xiangdong and Ms. WU Yueqin.