



# LINEKONG

## 2016 ANNUAL REPORT

藍港互動集團有限公司

Linekong Interactive Group Co.,Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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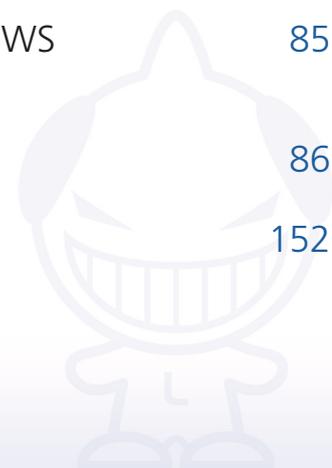
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This report, for which the directors (the “**Directors**”) of Linekong Interactive Group Co., Ltd. (the “**Company**” or “**we**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report 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 report misleading.



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Wang Feng (*Chairman and chief executive officer*)

Ms. Liao Mingxiang (*President*)

Mr. Qian Zhonghua

(re-designated as executive Director with effect from February 3, 2017)

Mr. Zhao Jun

Mr. Mei Song

### Non-executive Director

Mr. Pan Donghui

(appointed with effect from February 3, 2017)

### Independent Non-executive Directors

Mr. Ma Ji

Mr. Wang Xiaodong

Mr. Zhang Xiangdong

Ms. Zhao Yifang

## BOARD COMMITTEES

### Audit Committee

Mr. Ma Ji (*Chairman*)

Mr. Qian Zhonghua

(resigned with effect from February 3, 2017)

Mr. Pan Donghui

(appointed with effect from February 3, 2017)

Mr. Wang Xiaodong

Mr. Zhang Xiangdong

Ms. Zhao Yifang

### Remuneration Committee

Mr. Zhang Xiangdong (*Chairman*)

Mr. Wang Feng

Ms. Liao Mingxiang

Mr. Ma Ji

Mr. Wang Xiaodong

Mr. Zhao Jun

Ms. Zhao Yifang



## Nomination Committee

Mr. Wang Feng (*Chairman*)

Ms. Liao Mingxiang

Mr. Ma Ji

Mr. Mei Song

Mr. Qian Zhonghua

(resigned with effect from February 3, 2017)

Mr. Pan Donghui

(appointed with effect from February 3, 2017)

Mr. Wang Xiaodong

Mr. Zhang Xiangdong

Ms. Zhao Yifang

## COMPANY SECRETARY

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

## AUTHORISED REPRESENTATIVES

Mr. Wang Feng

Ms. Liao Mingxiang

## COMPLIANCE OFFICER

Ms. Liao Mingxiang

## REGISTERED OFFICE

Floor 4, Willow House

Cricket Square

P.O. Box 2804

Grand Cayman KY1-1112

Cayman Islands

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

8/F, Qiming International Mansion

Wangjing North Road

Chaoyang District

Beijing

PRC

## Corporate Information

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### AUDITORS

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

### LEGAL ADVISORS AS TO HONG KONG LAWS

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

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

### HONG KONG SHARE REGISTRAR

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

### PRINCIPAL BANKS

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

### COMPLIANCE ADVISOR

REORIENT Financial Markets Limited  
Suites 3201-3204  
One Exchange Square  
8 Connaught Place  
Hong Kong

### GEM STOCK CODE

8267

### COMPANY WEBSITE

[www.linekong.com](http://www.linekong.com)



## Chairman's Statement

On behalf of the Board of Linekong Interactive Group Co., Ltd., I am pleased to report to our valued shareholders and investors the review and outlook of the Company and its subsidiaries (collectively referred to as the "Group") for the financial year ended December 31, 2016.

To further our attempts in implementing the "film-comic-game" trinity strategy in 2016, we further improved our ability of R & D and operation in the Group's main business — games, through the user resources and data feedback brought by the high quality of film & TV and comic Intellectual Property (IP). Compared with the year 2015, we saw a continuous growth in income and an increase in spending on games related research, operations and acquisitions of high quality IPs. Because of some short-term impacts resulted from our strategical realignments and the R & D of some self-developing products had not lived up to the expectations, our results didn't meet our expectations for 2016, and thus our share price underperformed. We expressed our sincere apologies to our shareholders and investors who have offered us long-term support and trust.

In 2017, the Group will further focus on its main business — games. In order to deliver a breakthrough performance in games, the Group will invest its efforts in the following aspects of business.

1. While maintaining the advantages of distributions and operations in China, attach more importance on pushing up overseas markets. In 2016, our overseas market revenue grew by 103.5%, accounting for 18.4% of the annual revenue. Among them, the Korean market performed exceedingly well. The success in performances of commercialization in South Korea of the self-development game The Wars of Shushan (蜀山戰記) (ranking 1st on iOS, Google and local ONESTORE store download list) and agent game Thunder Fleets (雷霆艦隊) (ranking 3rd on Google download list), greatly enhanced the brand value of the Linekong game. In 2017, we will continue to endeavour in overseas markets. We will take the opportunity of launching new games to continue strengthening the advantage in the Korean market on the one hand, and to pay close attention to feedback for different types of games in emerging overseas markets such as India and Indonesia on the other hand.
2. While continuing to strengthen the advantages of MMO game development, we will increase the variety and quantity of game products, to maintain a differentiated competitive advantage, and to develop in diversified ways. In 2017, we plan to launch 8-10 new games in a broader market. Among self-developed games, we will launch Super Charge, a highly ornamental mobile game full of leisure, sports and social elements, for marketplace globally. The upcoming Rock the Heaven (鬧鬧天宮) is a multiplayer competing games based on the story of Journey to the West. Among the licensed games, To the High Seas (大航海之路) will be landing on the Korean market in the first half of 2017. The other games landing on the South Korean market during the same period include Rising Force (戰機風暴) and the South Korean version of the popular mobile game in China, Daybreak (黎明之光手遊版).
3. Mining pan-entertainment attributes of IP through cooperation with the excellent team and first tier platform. In 2016, we cooperated with iQIYI and Anhui satellite TV's, launching the first cross-border collaborative game The Wars of Shushan (蜀山戰記之劍俠傳奇). Since the commercialization, on one hand our understanding of the IP pan-entertainment properties continued to deepened; on the other hand, our operation ability of the pan-entertainment products continued to strengthen. In 2017, we look forward to an outstanding performance of the game Monster Hunt (捉妖記), an adaptation of the film of the same name. We will continue to practice the film-comic-game collaborative of boutique IP in the pan-entertainment industry.



## Chairman's Statement

Through these efforts, in 2017, we look forward to strengthening the brand effect of Linekong game further, counting on the cohesion of star products.

Structure wise, we, as an organization, will continue to strengthen the brand of "Linekong game", and support the game business with six divisions, of which three China divisions will provide solid foundations to strengthen our developing and operational advantages in mainland market, and three overseas divisions in the U.S., South Korea and Southeast Asia will lead in further developing existing market, exploring other rising markets, and laying a global footprint.

It is of my opinion that we are in the transitional period between the "post mobile Internet era" and the "pre artificial Intelligence era". Artificial intelligence will have a profound impact on the development of the game business, because technologies such as server-side algorithm, dispersement of information, sound recognition, facial recognition, location recognition and etc. are ripening. In consideration of this, we will pay close attention to the changing trend of artificial intelligence combined with the game, meanwhile actively seeking extended growth.

In 2017, the Group will embark its entrepreneurial journey for the next decade. Having stood against high tides and still standing, we feel that the brand value of Linekong Interactive is bearing company responsibility for shareholders, employees and communities. I would like to take this opportunity to express my gratitude to our shareholders and investors for their long-term support and trust, and I also want to thank all employees for their valuable contributions to Linekong Group during the challenging period. In the year 2017, we will strive to do better!



## Biographical details of the Directors and Senior Management

Biographical details of the Directors of the Company and the senior management of the Group are set out as follows:

### EXECUTIVE DIRECTORS

**Mr. Wang Feng**, aged 48, is the chairman of the Board, chief executive officer and an executive Director. He is also the chairman of the nomination committee of the Board (the “**Nomination Committee**”) and a member of the remuneration committee of the Board (the “**Remuneration Committee**”). Mr. Wang is the founder of the Group and is primarily responsible for formulating and implementing the overall strategy as well as products and business plans of the Group. He was appointed as a Director on May 24, 2007. Prior to joining the Group, Mr. Wang worked at Beijing Kingsoft Software Co., Ltd. (“**Beijing Kingsoft**”), a subsidiary of Kingsoft Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3888), in various senior positions successively as product manager, vice president in charge of anti-virus software department, and vice president in charge of digital entertainment business from March 1997 to December 2005, and served as senior vice president in charge of digital entertainment and sales and marketing from January 2006 to March 2007. Mr. Wang has over 17 years of experience in the Internet industry and was awarded several honours, including “Individual Award for Outstanding Contributions to 20 Years of Development in Zhongguancun” granted by Beijing municipal government in 2009, “New Elite in China Game Industry” in 2007 and “the Top-Ten Most Influential People in China Game Industry” granted by China Game Industry Annual Conference (“**GIAC**”) in 2008, 2009 and 2011 by GIAC. Mr. Wang was also awarded “Outstanding Entrepreneur” in both 2011 and 2013 by China Game Trade Annual Conference. Mr. Wang graduated from Peking University with a master of business administration degree in June 2005.

**Ms. Liao Mingxiang**, aged 42, is our president and an executive Director. She is also a member of the Remuneration Committee and the Nomination Committee. Ms. Liao serves as a Director of the Group since May 24, 2007. As the co-founder of the Group, Ms. Liao is primarily responsible for overseeing the business operations, human resources and legal functions of our Group. Ms. Liao has over 16 years of experience in the Internet industry. Prior to joining our Group, Ms. Liao worked at Beijing Kingsoft from August 1999 to March 2007, as the deputy manager of the digital entertainment department, mainly responsible for managing sales and marketing channels in China, regional offices, regional promotional activities and game operations. Ms. Liao was awarded “the Top-Ten Most Influential People in China Game Industry” granted by GIAC for many years. Ms. Liao received a bachelor’s degree in marketing from Jiangxi Gannan Normal University in July 2005 and a master degree in project management from Changchun University of Technology in April 2014.

**Mr. Qian Zhonghua**, aged 52, joined the Board as a non-executive Director on January 27, 2014 and has been an executive Director and re-designated as the chief strategy officer, being responsible for relevant issues of strategic development research and capital operation of the Company, of the Company since February 3, 2017. Mr. Qian has over 20 years of management and investment experience and also has extensive experience in the internet industry, including the fields of vertical portals, e-commerce, online games, cross-platform applications, convergence of telecommunications, cable and internet networks and digital publishing. Mr. Qian had been a managing director of Fosun Equity Investment Management Ltd (“**Fosun**”) from October 2014 to January 2017. In addition, Mr. Qian had also been a director of Starwish Global Limited from April 2015 to January 2017. Prior to joining Fosun, Mr. Qian served as the chief executive officer of Ourgame.com from May 2000 to January 2003. Mr. Qian served as the president for Yanhuangxinxing Group from January 2003 to January 2004 where he was primarily engaged in managing its online game and telecommunication value-added services. From June 2004 to March 2006, Mr. Qian worked at Shanda Interactive Entertainment Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: SNDA) before its privatisation in February 2012, as the general manager of its Beijing Branch and mainly focused on the entertainment product management. Mr. Qian was also the member of the Evaluation Committee of Senior Economic (Accounting) Professionals of the Press and Publication Administration from November 2009 to October 2011. Mr. Qian obtained his bachelor’s degree in engineering from Tsinghua University in July 1986 and graduated from Guanghua School of Management of Peking University with a master’s degree of business administration in June 2005.



## Biographical details of the Directors and Senior Management

**Mr. Zhao Jun**, aged 37, was appointed as an executive Director on June 11, 2015. He is also a member of the Remuneration Committee. Mr. Zhao Jun is a senior deputy President of the Group, leading the first game department (B1). The Group successively launched **Sword of Heaven** (蒼穹之劍), **The Wars of Shushan** (蜀山戰紀) and other products, and also aggressively prepared to develop various film-game interactive products such as **Monster Hunt** (捉妖記) and **Sword of Heaven II** (蒼穹之劍II). Mr. Zhao joined us in our platform development team on March 2007. In January 2008, Mr. Zhao served as the major programming engineer of our development project for **Journey to the West** (西遊記) and was promoted to the position of project manager in June 2009 and subsequently to project director in October 2010. Since January 2012, Mr. Zhao served as the producer of our **Sword of Heaven** (蒼穹之劍). Mr. Zhao has over 10 years of experience in the Internet industry. Prior to joining the Group, Mr. Zhao worked as a software engineer for AsialInfo Technologies (China) Inc. from August 2004 to August 2006 and served as a software engineer at Beijing Kingsoft from September 2006 to March 2007. Mr. Zhao received a bachelor's degree in mechanical and electronic engineering and a master's degree in electromagnetic fields and microwave technology from Beijing University of Posts and Telecommunications in July 2002 and April 2005, respectively.

**Mr. Mei Song**, aged 36, was appointed as an executive Director on June 11, 2015. He is also a member of the Nomination Committee. Mr. Mei is a senior deputy President of the Group, leading the second game department (B2). The Group successively launched **Excalibur** (王者之劍), **Sword of Heroes** (英雄之劍), **大活蜀山** and other products, and also aggressively prepared to develop products of various genres. Mr. Mei joined the Group on 9 April 2007 as a manager of our research and development centre, and is mainly responsible for platform development. Since December 2011, he started to serve as the general manager of our mobile games department and is primarily in charge of the development of our mobile games and **Excalibur** (王者之劍). Mr. Mei has over 10 years of experience in the Internet and online game industry. Prior to joining our Group, Mr. Mei worked at Beijing Kingsoft as a development engineer responsible for the development of the online games operating platform from March 2006 to April 2007. Mr. Mei received a bachelor's degree in inorganic non-metal material engineering in July 2003 and a master's degree in computer software and theory in April 2006 from Harbin University of Science and Technology.

### NON-EXECUTIVE DIRECTOR

**Mr. Pan Donghui**, aged 46, has been a non-executive director, a member of the Audit Committee and a member of the Nomination Committee since February 3, 2017. Mr. Pan is the vice president of Fosun International Limited ("**Fosun International**") (a company listed on The Stock Exchange of Hong Kong Limited on July 16, 2007 (Stock Code: 00656)) and the president of Fosun Cultural Industry Group (復星文化產業集團) and Fosun Internet Investments Group (復星互聯網投資集團). Mr. Pan joined Shanghai Fosun High Technology (Group) Co., Ltd. ("**Fosun High Technology**") in 1994. For the past twenty years, he served as project manager of Shanghai Forte Land Co., Ltd., the chief representative of Hong Kong office of Fosun International, the general manager of Investor Relations Department of Fosun International and senior assistant to president of Fosun High Technology. Mr. Pan has helped Fosun International and its subsidiaries achieve exponential growth and high turnarounds by managing investment in telecom, media and technology, venture capital and secondary market investment, directing investor relations affairs, and leading several large real estate development projects as well as pharmaceutical projects. Mr. Pan has rich experience in effective execution and value creation in respect of leverage buyout and initial public offerings. Mr. Pan received a bachelor's degree in 1991 from Shanghai Jiao Tong University and graduated from University of Southern California with a master's degree in business administration in 2009.



# Biographical details of the Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ma Ji**, aged 39, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee. Mr. Ma has over 15 years of experience in accounting and corporate finance. From July 2000 to June 2011, Mr. Ma worked at Deloitte Touche Tohmatsu CPA Ltd., and served as a senior manager before he left. He then served as a vice president at Vancl Corporation from June 2011 to August 2013. Between August 2013 and October 2014, he served as the chief financial officer at Autonavi Holdings Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: AMAP) before it was delisted as a result of a recent acquisition in July 2014 by Alibaba Group Holding Limited, a company listed on the New York Stock Exchange (NYSE: BABA). Mr. Ma ceased to hold any position in Alibaba group since July 30, 2015. He formally joined JD Group in February 2016 and has been serving as the secretary to the board of directors of JD Finance Group. Mr. Ma is a U.S. certified public accountant, licensed in the state of New Hampshire. Mr. Ma is also a member of the Chinese Institute of Certified Public Accountants. Mr. Ma obtained a bachelor's degree of economics from Peking University in July 2000.

**Mr. Wang Xiaodong**, aged 49, is an independent non-executive Director. He was appointed to the Board on June 11, 2015. He is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Mr. Wang has various working experience in information technology companies. He previously served as senior director of Aruba Networks Inc. from August 2010 to November 2011. Mr. Wang is the founder of Dew Mobile Inc. and currently serving as chairman and chief executive officer. He is also the founder of Lindong Internet Technology (Beijing) Co., Ltd. and has been serving as chairman and chief executive officer since January 2012. He is also the chairman and chief executive officer and legal representative of Lindong (Beijing) Technology Co., Ltd.. Mr. Wang obtained a bachelor's degree in engineering specialising in radio technology and information system from Tsinghua University in July 1989 and a master's degree in electrical engineering from Colorado State University in May 1993. He obtained a degree of Master of Science in management science and engineering from The Leland Stanford Junior University in September 2002.

**Mr. Zhang Xiangdong**, aged 39, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. Zhang has over 16 years of experience in the Internet industry. In July 2003, Mr. Zhang founded Sungy Mobile Limited, a company listed on Nasdaq Stock Market (Nasdaq: GOMO), and served as a director and its president from 2003 until October 2014. On October 2014, Mr. Zhang resigned his positions as a director and president. On November 2014, he officially started to pursue his entrepreneurial endeavours in cycling business. Mr. Zhang joined 700Bike as a co-founder and the chief executive officer, devoting himself to promote the development of city bike and cycling culture in China. Mr. Zhang obtained a bachelor's degree in information management from Peking University in July 1999.

**Ms. Zhao Yifang**, aged 58, is an independent non-executive Director. She was appointed to the Board on June 11, 2015. She is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Ms. Zhao is currently serving as director and general manager of Zhejiang Huace Film & Tv Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300133). Ms. Zhao is currently the vice chairman of China Television Drama Production Industry Association. Ms. Zhao completed a postgraduate programme in modern and contemporary literature offered by Hangzhou University in September 1998.



## Biographical details of the Directors and Senior Management

### SENIOR MANAGEMENT

**Mr. Lu Zhenyu**, aged 41, is the chief financial officer of our Group. Mr. Lu is responsible for the Group's financial and corporate structure. He has joined our Group since September 2016. As a member of the British Institute of Certified Public Accountants, Mr. Lu has over 16 years of work experience. He has a wealth of experience in the game industry and the Internet industry, and has extensive experience in the financial work of the Hong Kong stock market. Prior to joining the Group, Mr. Lu worked as the chief financial officer of Tsinghua Dragon Group from November 2014 to September 2016, responsible for the Group's financial and capital work. Mr. Lu worked as the chief financial officer of Tencent Group in Beijing, the chief financial officer responsible for searching business line and so on from March 2005 to August 2014. From July 2000 to March 2005 Mr. Lu was appointed as the head of the Finance Department of Beijing Urban Construction Engineering Tenth Co. LTD.. Mr. Lu obtained a bachelor's degree in management in Dongbei University of Finance and Economics in July 2000.

**Mr. Chen Min**, aged 38, is our chief technology officer. Mr. Chen is primarily responsible for research and development of several of our important games as well as safety management of our source code, assessment of our engineers, technical training and new technology promotion. Mr. Chen joined the Group on March 1, 2008 as a software engineer during which period Mr. Chen led and oversaw the work of all engineers and the game development and project teams and was promoted as our co-chief technology officer on February 2013. Mr. Chen has over 11 years of experience in the Internet and online game industry. Prior to joining the Group, he worked as a software engineer at Beijing Branch of Chengdu Kingsoft Digital Entertainment Co., Ltd., responsible for developing graphics, image functions and 3D game engines from July 2004 to February 2008. Mr. Chen received a bachelor's degree in medicine in June 2002 and a master's degree in software engineering in June 2004 from Wuhan University.

**Mr. Chen Hao**, aged 31, is the vice president and general manager of the third game department (B3) of our Group. Mr. Chen obtained a master's degree in Huazhong University of Science and Technology in June 2010. In the same year, he joined the Group and began to work on the game operating system. He successfully issued key mobile game works including "*Sword of God*", "*One Hundred Thousand Bad Jokes*" and "*Days Break*".

**Mr. Zhang Hongliang**, aged 33, is the vice president of the Group. Mr. Zhang is assuming the role as a gaming producer in the gaming research and design team. Mr. Zhang joined the Group on April 25, 2008 as a programming engineer, and was mainly responsible for designing and developing the server of our online game *Journey to the West* (西遊記). Since June 2011, he started to serve as the technical director of our research and development department and is primarily in charge of the development and optimisation of our mobile game *Sword of Heaven* (蒼穹之劍) and was promoted as our co-chief technology officer in February 2013. Mr. Zhang has over 10 years of experience in the Internet and online game industry. Prior to joining the Group, he worked at Tencent Technology (Shenzhen) Co., Ltd., a subsidiary of Tencent Holdings Ltd, a company listed on the Main Board of the Stock Exchange, (Stock Code: 700), from July 2006 to April 2008. Mr. Zhang received a bachelor's degree in software engineering from Sichuan University in July 2006.

**Mr. Liu Xinyun**, aged 33, is the vice president of our Group and the president of Linekong US Inc., a subsidiary of the Group being founded in the U.S. on June 12, 2015. Mr. Liu is primarily responsible for the business relating to Linekong US Inc., including game development and issuance. Mr. Liu joined the Group on July 16, 2015 and has over 10 years of experience in overseas game development and issuance. Prior to joining the Group, he worked at PopCap Games International in Dublin, Ireland as software engineer and early member of the mobile team from June 2006 to April 2011, and contributed as a team member to some award winning mobile games, including *Plants VS Zombies* (植物大戰殭屍), etc.. He worked at GimmiWorld in Burlingame at California, USA, as chief technology officer from October 2011 to August 2012, being responsible for overall product and technical architecture and also heavily involved in the fund raising and business development. He worked at Chartboost, San Francisco, CA, USA as head of Greater China from September 2012 to April 2014, being responsible for the overall APAC strategy, business expansion and marketing development. He also worked at Forgegame US Corp in Burlingame at California, USA as chief executive officer from April 2014 to July 2015, being responsible for the US office for Forgegame Holdings Ltd., a publicly traded company in the Stock Exchange (Stock Code: 484) and in charge of international strategy, and US studio general management. Mr. Liu received a master's degree in mobile computing and networking from University College Cork, Ireland and a bachelor's degree in software engineering from East China Normal University in July 2005.

## Biographical details of the Directors and Senior Management

**Mr. Ren Zhaonian**, aged 53, is the vice president of our Group and the chief executive officer of Linekong Pictures. Mr. Ren is responsible for the overall strategy, business plan and management of Linekong Pictures. Mr. Ren joined the Group on March 16, 2016 and has nearly 11 years of experience in internet industry. Prior to joining the Group, he worked in United Parcel Service International Inc, Taiwan Branch from January 1991 to December 1997 and was in charge of the development of local business. He successively served as the general manager of pan-China operations division and the managing director of pan-China of BMG from January 1998 to December 2004, being responsible for the operations of the three BMG subsidiaries in Taiwan, Hong Kong and China. He served as the chief executive officer of Wayi Intl Digital Entertainment Co., Ltd. (Taiwan Stock Exchange: 3086) from April 2005 to January 2008, being responsible for the on line game operations and research and development in greater China. He served as the vice president and E-commerce chief executive director of Daphne International Holdings Limited (Stock Exchange: 210) from June 2008 to July 2009, being responsible for starting up the Daphne E-commerce site. He participated in the setting up of E Fun Technology Entertainment Co., Ltd., being the first web game platform operations in Taiwan, and acted as the director from March 2008 to 2012. He served as general manager of YY Inc. (NASDAQ: YY) from February 2011 to February 2016, being responsible for developing new business model for the platform. Mr. Ren received a master's degree in industrial and system engineering from Rutgers University, New Jersey, USA in 1991 and a bachelor's degree in industrial engineering from Chung-Yuan University, Taiwan in 1985.

**Mr. Wang Jin** (also known as Mr. Yan Yusong), aged 43, is the vice president of our Group and the president of Linekong Pictures. Mr. Wang is primarily responsible for the planning, production, promotion, launch and marketing of products of Linekong Pictures. Mr. Wang joined the Group on January 11, 2016 and has over 19 years of experience in the film and television entertainment industry. Prior to joining the Group, Mr. Wang worked at Film, Television and Literature Channel of Sichuan TV Station as host and producer from September 1997 to May 2000, and at Taiwan Azio TV as director from May 2000 to June 2003. He worked at Shanghai Dragon TV as producer from August 2003 to August 2007, during which he was involved in the planning and production of TV programs such as "My Show" and "My Hero". He worked at Star International Medio Co., Ltd. as vice president from September 2009 to April 2012, during which he was responsible for the business of the artist manager company, the music company and the film company of the group and involved in the production and issuance of films such as "Mulan". He worked at TVB China Company as the general manager of Beijing branch office from November 2012 to February 2015, during which he was responsible for the investment, production and issuance of TVB China Company's film and television drama, the purchase of copyright and artist manager business for TVB artists in Mainland China. He also worked at Beijing Yurui International Culture Media Co., Ltd. as chief executive officer from March 2015 to December 2015, being responsible for film and television planning and entertainment marketing. Mr. Wang graduated in business arts from Chengdu University in July 2015.

**Ms. Qi Yunxiao**, aged 34, is our vice president of the Group and the chief operating officer of Linekong Pictures. Ms. Qi is primarily responsible for normal operation and management of Linekong Pictures. Ms. Qi joined the Group on April 10, 2007 as the head of our advertising department and procurement department, in charge of formulating our advertising strategies and implementing our advertising monitoring system. Ms. Qi was further promoted as our vice president in charge of our Company's marketing and promotion business in October 2012. Ms. Qi has over 12 years of experience in the Internet industry. Prior to joining the Group, Ms. Qi worked at Kingsoft Digital from May 2003 to April 2007, as sales manager in charge of cooperation with distribution and payment channels. Ms. Qi received an associate degree in administration management from the Open University of China in July 2010.



# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS

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

### Review

#### • Gaming Business

- With the original belief of offering the players high quality and exquisite games, as of December 31, 2016, we have commercialised 26 games in total, comprising 16 self-developed games and 10 licensed games.
- The Wars of Shushan (蜀山戰紀之劍俠傳奇) (hereinafter referred to as The Wars of Shushan (蜀山戰紀)), was an attempt of the cross-industry integration IP product launched by the Group. The Group joined hands with Nicky Wu (吳奇隆), iQIYI and Anhui Satellite TV to create a brand new business model of “Platform-Movie-Game” Integration and fully implemented the pan-entertainment. The Wars of Shushan had excellent performance since the successful commercialisation on January 27, 2016. The game topped the Free Download List and maintained among top 10 on the Best Seller List for consecutive 41 days and among Top 5 of the App Store.
- As the first 3D massive multi-player online action mobile game simultaneously launched on mobile devices, PC, and household console, with its excellent quality, the Group’s licensed mobile game Daybreak (《黎明之光》手遊版) stood out in a number of heavy-weight IP masterpieces launched in the same period and was selected as the star mobile game by Mobile Hardcore Alliance in September 2016. Since its official commercialisation on September 8, 2016, Daybreak (《黎明之光》手遊版) has maintained among top 10 on the Best Seller List of the App Store for a long time and frequently rose to the top 3. The new editions launched in October and December 2016 were popular among the players with monthly gross billings growing steadily. On February 24, 2017, Daybreak joined hands with UBISOFT’s Assassin’s Creed in entering a highly praised public test phase, with the newly added assassin occupation and the limited edition with exclusively licensed skin.
- As the Group’s first 3D turn-based game of mythical hero themes, Big Words of Shushan has aesthetic image of high quality and characters in brand-new adorable appearance. Since its commercialisation on December 8, 2016, the game has drawn much attention from players.
- As an attempt of implementing “community-based products”, the Group’s Excalibur II (王者之劍2), Excalibur (王者之劍), added more social elements into its basis of a sophisticated ACT game. Since its commercialisation on January 18, 2017, the game has drawn much attention from players.
- As an attempt of “market internationalisation”, through the Linekong US Inc. (Linekong US), the Group joined hands with Fox Digital Entertainment in developing the strategic war-type mobile game Independence Day: Extinction (獨立日：捲土重來) at the beginning of 2016. Super Charge, a new game under development and testing, will be released globally in 2017.
- As another attempt of “market internationalisation”, the Group’s Thunder Armada (雷霆艦隊), a 3D naval battle game licensed through the Linekong Korea Co., Ltd. (Linekong Korea), maintained its rankings between top 30th to 40th on the Google Best Seller List and ranked 3rd on Korean Google Download List for three consecutive months since its release in Korea in February this year. The Wars of Shushan, the Group’s self-developed game ranked top 1 in popularity rankings in Kakao Talk, top 1 in download rankings in iOS, top 1 in download rankings in Google, and top 1 in download rankings in ONESTORE, a local app store, since its release in Korea on June 28, 2016. It ranked top 20 on the Google Best Seller List at its peak with monthly gross billings of approximately RMB10 million in three consecutive months.
- The research and development of much anticipated games, such as Monster Hunt (捉妖記) and Sword of Heaven II (蒼穹之劍2), progressed orderly. The game Monster Hunt (捉妖記) was adapted from a popular movie of the same name in 2015. Sword of Heaven II (蒼穹之劍2) is a sequel to Sword of the Heaven (蒼穹之劍) one of the “Three Swords of Linekong” (藍港三劍).

# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS (Continued)

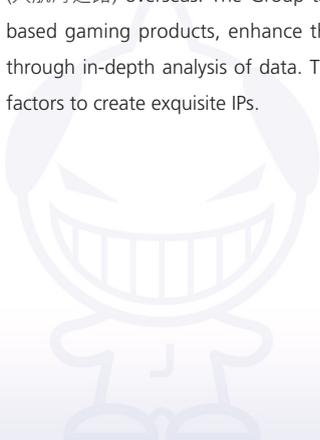
### Review (Continued)

#### • **Movie business, consumer electronics business, and others**

- As an attempt of the “Movie-Animation-Game” integration, carrying the idea of combining exquisite IP product and excellent creators, the Group launched the Internet drama Long For You (我與你的光年距離) through Linekong Pictures, invested in Angel Bedazzled (蒙圈天使) (a movie distributed on the Internet) and Wished (反轉人生) (a movie distributed in cinemas), and reserved popular ACGN (Animation, Comic, Game and Novel) products as its IPs, such as Save Chuunibyou Project (中二病拯救大作戰). Long For You was exclusively released through iQIYI (樂視) on February 14, 2017 (Valentine’s Day) while Angel Bedazzled was exclusively released through iQIYI on January 25, 2017 (Chinese New Year). As another attempt of the “Movie-Animation-Game” integration”, Fuze Technology (Shenzhen) Co., Ltd, a strategic investment of the Group continuously enhanced its first local Android game FUZE, trying to transfer the gaming from large television console to the Android platform.
- On December 30, 2016, Linekong Pictures and the Series A financing party, after friendly consultation, terminated the Series A financing and terminated the Capital Increase Agreement and the Shareholder Agreement entered into on July 5, 2016.
- In 2015, YL Entertainment and Sports (YLES) Co., Ltd. (“Yongle”), a company the Group invested in, was officially quoted on the National Equities Exchange and Quotations System since July 7, 2016 (stock code: 837736). Yongle was registered in Beijing, PRC and is mainly engaged in operation of sports, arts and recreational events and tickets marketing.
- In 2015, MicroFunPlus Co., Ltd. (“MicroFunPlus”), another company the Group invested in, was officially quoted on the National Equities Exchange and Quotations System on September 23, 2016 (stock code: 838966). MicroFunPlus is a developer focusing on exquisite casual mobile games. Its featured product Candy Crush (寶果消消樂, formerly 糖果萌萌消) is highly popular among players. As of the release date of this report, the Group sold all shares with a premium.
- The Group continuously pays attention to the application of artificial intelligence in the consumer electronic sector, especially when the synergy between applications, such as voice assistant, virtual reality, and augmented reality, and the Group’s existing businesses might bring diversity to its products.

### Prospects

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



# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS (Continued)

### Description of main games

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

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

### Revenue by game forms and sources

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

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

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

# Management Discussion and Analysis

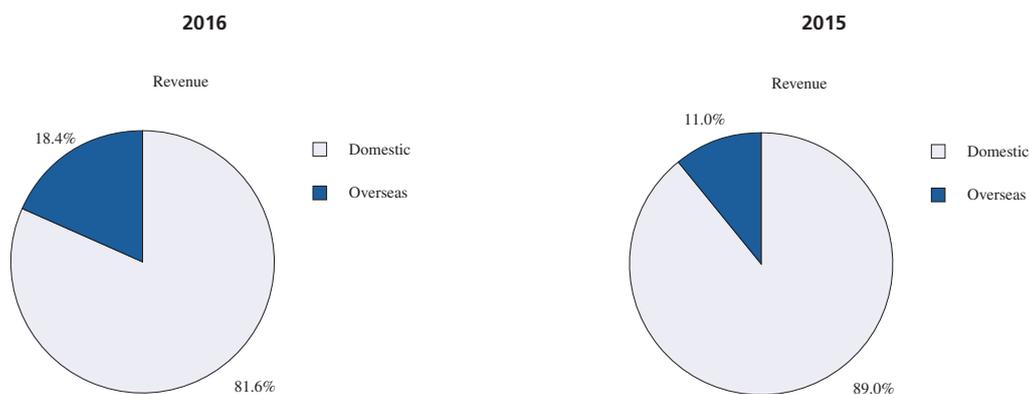
## BUSINESS REVIEW AND PROSPECTS (Continued)

### Revenue by game forms and sources (Continued)

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

### International markets

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



### Our players

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

# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS *(Continued)*

### Comparison between business objectives and actual business progress

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

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

# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS (Continued)

### Comparison between business objectives and actual business progress (Continued)

Business objectives	Business plans	Progress as of December 31, 2016
Operational capital	<ul style="list-style-type: none"> <li>Increase expenses used for promotion in Southeast Asia.</li> </ul>	(1) We commercialised the <i>Empresses in the Palace</i> in Taiwan with many promotion events receiving good results developing a pan-entertainment environment.
Creating pan-entertainment environment	<ul style="list-style-type: none"> <li>Develop, produce, and invest in movies and dramas; and</li> <li>Purchasing popular items and intellectual property rights to adapt as entertainment products.</li> </ul>	(1) We adapted the comic work <i>Snow Girl</i> (雪姬) by Kang Gyeongok (姜京玉) to <i>Long For You</i> , which was first released on February 14, 2017; (2) <i>The Angel Bedazzled</i> , in which we invested, was first released on January 25, 2017; and (3) <i>The Wished</i> , in which we invested, was being produced. (1) We purchased ACGN Products as our IPs such as <i>Save Chuunibyou Project</i> .

## FINANCIAL REVIEW

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

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

# Management Discussion and Analysis

## FINANCIAL REVIEW (Continued)

### Revenue

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

### Cost of revenue

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

### Gross profit and gross profit margin

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

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

### Selling and marketing expenses

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

### Administrative expenses

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

# Management Discussion and Analysis

## FINANCIAL REVIEW (Continued)

### Research and development expenses

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

### Other gains — net

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

### Finance income — net

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

### Share of loss of investments using equity accounting

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

### Income tax expense

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

### Loss for the year

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



# Management Discussion and Analysis

## FINANCIAL REVIEW (Continued)

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

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

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

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

The Group's adjusted net loss for the year ended December 31, 2016 was approximately RMB124.2 million, as compared to an adjusted net profit of approximately RMB9.1 million for the year ended December 31, 2015. The adjusted net loss was due to combined effect of (1) the decrease of other gains mentioned above; and (2) expansion of gaming business into overseas market. We have presented adjusted net (loss)/profit for the year in this report as we believe that the adjusted (loss)/profit for the year is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses. However, adjusted net (loss)/profit for the year should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net (loss)/profit for the year presented in this report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

## LIQUIDITY AND FINANCIAL RESOURCES

In 2016, we financed our operations primarily through cash generated from our operating activities. The Group maintains a solid cash position since the IPO which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

### Treasury policy

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



# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

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

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

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

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

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

### Capital expenditures

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

## CAPITAL STRUCTURE

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

## BORROWING AND GEARING RATIO

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

## CHARGE ON GROUP ASSETS

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



# Management Discussion and Analysis

## INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2016, the Group had 708 employees (December 31, 2015: 676), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at December 31, 2015 and December 31, 2016 respectively:

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

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

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

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

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

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

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

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

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

# Management Discussion and Analysis

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

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

## CONTINGENT LIABILITIES

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

## FOREIGN EXCHANGE RISK

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

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

## DIVIDEND

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



# Corporate Governance Report

## INTRODUCTION

We are committed to achieving and maintaining high standards of corporate governance, as our Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of the shareholders of the Company and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

## CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company has complied with the Code for the year ended December 31, 2016, except for the deviation from code provision A.2.1 and A.5.1 of the Code.

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

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

## BOARD OF DIRECTORS

The Board supervises the management of the business and affairs of the Company and ensures that it is managed in the best interests of the shareholders as a whole while taking into account the interest of other stakeholders. The Board is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. The Board is regularly provided with management update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group in sufficient details.

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

## Composition

The composition of the Board for the year ended December 31, 2016 is set out as follows:

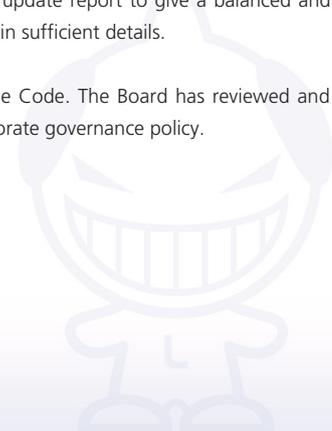
### Executive Directors

Mr. Wang Feng (*Chairman and chief executive officer*)

Ms. Liao Mingxiang (*President*)

Mr. Zhao Jun

Mr. Mei Song



# Corporate Governance Report

## BOARD OF DIRECTORS *(Continued)*

### Composition *(Continued)*

#### Non-executive Director

Mr. Qian Zhonghua

(re-designated as executive Director with effect from February 3, 2017)

#### Independent non-executive Directors

Mr. Ma Ji

Mr. Wang Xiaodong

Mr. Zhang Xiangdong

Ms. Zhao Yifang

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 6 to 10 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers all the independent non-executive Directors independence in accordance with each and the various guidelines set out in rule 5.09 of the GEM Listing Rules. None of the independent non-executive Directors has served the Company for more than 9 years.

## TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company and we have issued letters of appointment to our non-executive Director and each of our independent non-executive Directors. The service contracts with Mr. Wang Feng and Ms. Liao Mingxiang, being our executive Directors are for an initial term of three years commenced from August 22, 2014 (being estimated to be renewed upon expiration). The service contracts with Mr. Mei Song and Mr. Zhao Jun, being our executive Directors, are for an initial term of three years commenced from June 11, 2015. The letter of appointment with Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017), being our non-executive Director, is for an initial term of three years commenced from August 22, 2014. Such letter of appointment was superseded by a service contract entered between the Company and Mr. Qian Zhonghua which is for an initial term of three years commenced from February 3, 2017, being the date of re-designating Mr. Qian as executive Director. The letters of appointment with Mr. Ma Ji and Mr. Zhang Xiangdong, being our independent non-executive Directors, are for an initial term of three years commenced from April 24, 2014 (being estimated to be renewed upon expiration) and the letters of appointment with Mr. Wang Xiaodong and Ms. Zhao Yifang, being our independent non-executive Directors, are for an initial term of three years commenced from June 11, 2015. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

According to our articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at annual general meeting at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company.



# Corporate Governance Report

## TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS *(Continued)*

The Board will make separate announcement(s) with regard to the arrangement of re-election of directors at the forthcoming annual meeting of the Company which is expected to be held on June 16, 2017.

## DIRECTORS' SECURITIES TRANSACTIONS

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

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

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each of the Directors attended various trainings in 2016, 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.

## BOARD COMMITTEE

The Board has established three board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website [www.hkgem.com](http://www.hkgem.com) and the Company's website at [www.linekong.com](http://www.linekong.com). All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the board meetings set out above.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

The Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the code provision and disclosures in this annual report.



# Corporate Governance Report

## BOARD COMMITTEE (Continued)

### REMUNERATION COMMITTEE

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

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

### NOMINATION COMMITTEE

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

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

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

### AUDIT COMMITTEE

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

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

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

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

# Corporate Governance Report

## ATTENDANCE RECORDS OF MEETINGS

The Board is scheduled to meet regularly at least four times a year, and Directors will receive at least 14 days prior written notice of such meetings in compliance with code provision A.1.1 of the Code. Agendas and accompanying papers are sent not less than 3 days before the date of Board meetings to ensure that the Directors are given sufficient time to review the same.

### Board Meeting and General Meeting

For the year ended December 31, 2016, 5 board meetings were held and attendance of each Director is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
<b>Executive Directors</b>		
Mr. Wang Feng ( <i>Chairman</i> )	5	5 (Note)
Ms. Liao Mingxiang	5	5 (Note)
Mr. Mei Song	5	5 (Note)
Mr. Zhao Jun	5	5 (Note)
<b>Non-executive Director</b>		
Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017)	5	5 (Note)
<b>Independent Non-executive Directors</b>		
Mr. Ma Ji	5	5 (Note)
Mr. Wang Xiaodong	5	5 (Note)
Mr. Zhang Xiangdong	5	5 (Note)
Ms. Zhao Yifang	5	5 (Note)

Note: Among the relevant number of meetings held during term of office, one meeting was conducted through resolutions in writing signed by each and every one of the Directors.

For the year ended December 31, 2016, the Company convened and held one general meetings, namely the 2015 annual general meeting held on June 14, 2016, which was attended by all our then Directors, namely Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Mei Song, Mr. Zhao Jun, Mr. Qian Zhonghua, Mr. Ma Ji, Mr. Zhang Xiangdong, Mr. Wang Xiaodong and Ms. Zhao Yifang.



# Corporate Governance Report

## ATTENDANCE RECORDS OF MEETINGS (Continued)

### Audit Committee Meeting

For the year ended December 31, 2016, 4 Audit Committee meetings were held for the purpose of reviewing the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and providing advice and recommendations to the Board. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
<b>Non-executive Director</b>		
Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017)	4	4
<b>Independent Non-executive Director</b>		
Mr. Ma Ji (Chairman of Audit Committee)	4	4
Mr. Wang Xiaodong	4	4
Mr. Zhang Xiangdong	4	4
Ms. Zhao Yifang	4	4

### Nomination Committee Meeting

For the year ended December 31, 2016, one Nomination Committee meeting was held for the purpose of making recommendations to the Board on appointment of new directors of the Company. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
<b>Executive Directors</b>		
Mr. Wang Feng (Chairman of Nomination Committee)	1	1
Ms. Liao Mingxiang	1	1
Mr. Mei Song	1	1
<b>Non-executive Director</b>		
Mr. Qian Zhonghua (re-designated as executive Director with effect from February 3, 2017)	1	1
<b>Independent Non-executive Directors</b>		
Mr. Ma Ji	1	1
Mr. Wang Xiaodong	1	1
Mr. Zhang Xiangdong	1	1
Ms. Zhao Yifang	1	1

# Corporate Governance Report

## ATTENDANCE RECORDS OF MEETINGS (Continued)

### Remuneration Committee Meeting

For the year ended December 31, 2016, one Remuneration Committee meetings were held for the purpose of reviewing and considering the specific remuneration packages for the Company's Directors and senior management. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
<b>Executive Directors</b>		
Mr. Wang Feng	1	1
Ms. Liao Mingxiang	1	1
Mr. Zhao Jun	1	1
<b>Independent Non-executive Directors</b>		
Mr. Ma Ji	1	1
Mr. Wang Xiaodong	1	1
Mr. Zhang Xiangdong (Chairman of Remuneration Committee)	1	1
Ms. Zhao Yifang	1	1

Minutes of board meetings and meetings of board committees are kept by the company secretary or other duly authorised person. All minutes are open for inspection by any Director on reasonable notice. Such minutes are recorded in sufficient detail of the matters considered and decisions reached. Draft and final versions of minutes of board meetings are sent to all Directors for their comments and records.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management (exclude executive Directors) by band for the year ended December 31, 2016 is set out below:

Remuneration band	Number of persons
HKD500,001 to HKD1,000,000	2
HKD1,000,001 to HKD1,500,000	1
HKD2,000,001 to HKD2,500,000	2
HKD3,000,001 to HKD3,500,000	1
HKD3,500,001 to HKD4,000,000	1
HKD4,500,001 to HKD5,000,000	1

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in note 38 and note 27 to the consolidated financial statements in this annual report.

## COMPANY SECRETARY

The Company Secretary of the Company is Ms. Leung Wing Han Sharon. Ms. Leung is the vice president of SW Corporate Services Group Limited engaged by the Company as its company secretary. Her primary contact person at the Company is Ms. Liao Mingxiang. The Company is of the view that Ms. Leung has complied with Rule 5.15 of the GEM Listing Rules. During the year ended December 31, 2016, Ms. Leung undertook over 15 hours of relevant professional training to update her skill and knowledge in compliance with the Corporate Governance Code.

# Corporate Governance Report

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the GEM Listing Rules. The Directors have selected appropriate accounting policies and applied them consistently; made judgment and estimate that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Auditors' Report in this annual report.

## INDEPENDENT AUDITORS' REMUNERATION

For the year ended 31 December 2016, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were approximately RMB5.1 million.

For the year ended December 31, 2016, the fee paid/payable to PricewaterhouseCoopers for non-audit services was approximately RMB0.18 million, which was for consultancy services of the Environmental, Social and Governance Reporting.

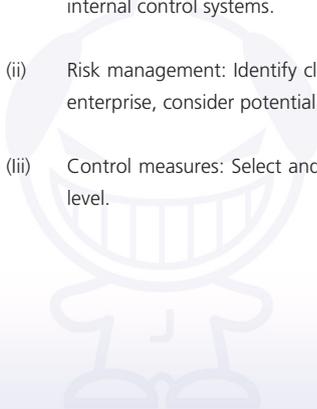
## INTERNAL CONTROL

The Board has the overall responsibility for the Group's system of internal controls, risks assessment and risks management. For fulfil its responsibility, the Board has set up policies and procedures which provide a framework for the identification and management of risks. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The operation department would entrust to related business department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

Pursuant to the requirements on Corporate Governance Code and the Corporate Governance Report of Appendix 15 of the GEM Listing Rules of the Hong Kong Stock Exchange, based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") for the year, the Group gradually established and improved the internal control system. The principles for effective internal control of the system are as follows:

- (i) Clear definition of responsibilities: The Board is independent of the management and continuously supervises the development and effectiveness of the internal control system. Under the supervision of the Board of Directors, the management is responsible for establishing the organizational structure, reporting relationships, designing, implementing and monitoring the risk management and internal control systems.
- (ii) Risk management: Identify clear objectives, identify and analyse the risks arisen in meeting the objectives, assess the affordability of the enterprise, consider potential fraudulent practices, and establish and maintain an effective risk management system.
- (iii) Control measures: Select and formulate effective control measures to reduce the risks arisen in meeting the objectives to an acceptable level.



# Corporate Governance Report

## INTERNAL CONTROL *(Continued)*

- (iv) Internal Audit: Analyse and assess the effectiveness of risk management and internal control systems to guarantee the achievement of the Group's objectives.
- (v) Communication: The internal control department promotes the purpose and responsibility of risk management and internal control among the management and employees of the Group.

In this system, the management is mainly responsible for the design, implementation and supervision of the internal control system, while the Board of Directors and the Audit Committee is responsible for supervising the measures adopted by the management and the effectiveness of the implementation of monitoring measures on a going concern.

The Group regards internal audit as an important part of the Board's oversight function. We have established the internal control department (the "**IC Department**") in March 2014 to strengthen and improve our internal control. From the perspective of risk management, the major functions of our IC Department include drafting and optimising internal control measures and procedures for our Company, supervising the implementation of such internal control procedures, testing and evaluating such internal control measures, especially those relating to information disclosure and financial report drafting, and managing risks relating to internal auditing, organising and finalising the implementation of the audit opinion, so as to enhance the efficiency and effect of internal control.

During the Year, the internal control department rationalised the key processes of the Group, identified and evaluated the risks arisen in the process, optimized and designed the purchases with high risks and the management process of the overseas subsidiaries to enhance the preventive control. Meanwhile, performed auditing functions in the business operation and subsidiaries to enhance the post-supervision.

Management Rules on the Insider Information is also in place to provide guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing restrictions.

For the year ended December 31, 2016, the Board has reviewed the effectiveness of the internal control and risk management systems of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The review was made by discussions with the management of the Company, its external and internal auditors and the assessment conducted by the Audit Committee. The Board believes that the existing internal control system is adequate and effective, in particular, for financial reporting and GEM Listing Rules compliance. The Board will continue to identify, evaluate and manage the significant risks faced by the Group, and to enhance the internal control system of the Group with the assistance of the IC Department on an ongoing basis.

## SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the year ended December 31, 2016.



# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted a shareholder communication policy with the objective of ensuring that the shareholders of the Company and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the shareholders as follows:

- (i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued in printed form and are available on the GEM website "www.hkgem.com" and the Company's website at "www.linekong.com";
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website;
- (iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and
- (v) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

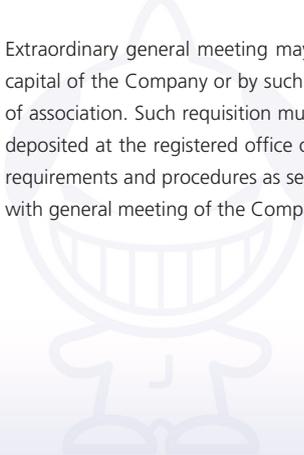
The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, shareholders and the public. Enquires to the Board or the Company may be sent by post to the Company Secretary at the Company's principal place of business in Hong Kong as follows:

The Company Secretary  
18/F, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "**Requisitionists**") (as the case may be) pursuant to our articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.



# Environmental, Social and Governance Report

## INTRODUCTION

As an interactive entertainment company, Linekong Interactive Group Co., Ltd. (“**Linekong Interactive**” or “**the Company**”) readily publishes its first environmental, social and governance report (“**the Report**”) according to its own environmental, social and governance (“**ESG**”) performance.

The compilation of this report refers to the Environmental, Social and Governance Reporting Guide (“**the Guide**”) contained in Appendix 20 to the GEM Listing Rules by Hong Kong Exchanges and Clearing Limited (“**HKEX**”). It covers the Company’s ESG related information of main operating locations in China, and the reporting period is the same as the Company’s fiscal year. Based on the Guide by HKEX, the Company analyses and evaluates the materiality level of the environmental and social issues in the Guide as well as the concerns of each stakeholder. Linekong Interactive intends to respond to concerned issues among stakeholders through this report, and to present the Company’s achievements in the environmental, social and governance aspects in 2016.

The board of directors of the Company will take full responsibility of the information disclosed in this report. Readers are welcomed to send emails to [ir@linekong.com](mailto:ir@linekong.com). The Company is looking forward to your precious opinions.

## 1. THE ESG MANAGEMENT SYSTEM

### 1.1 ESG Concept and Management

The social responsibility vision of Linekong Interactive always keeps highly consistency with its development mission. In business practices, Linekong Interactive integrates its social responsibility with the Company’s business, combined with its own values, making it a part of the Company’s development strategy.

Linekong Interactive is looking forward to becoming a respected interactive entertainment company, committed to the practice of a sustainable and responsible development pattern. The Company attaches great importance to the concerns of customers, partners, employees and other stakeholders and listens to the voice of the customers more actively. The Company is more open to face challenges together with partners, pays more positive attention to the growth of the employees, and gives back to the community more responsibly.

### 1.2 Stakeholder Engagement

In daily business activities, Linekong Interactive communicates with all stakeholders through a variety of channels. The Company values and pays active attention to the expectations and demands of stakeholders in the environmental, social and governance aspects.



# Environmental, Social and Governance Report

## 1. ESG MANAGEMENT SYSTEM *(Continued)*

### 1.2 Stakeholder Engagement *(Continued)*

The major stakeholders identified by the company include government and regulatory agencies, shareholders and investors, employees, customers, suppliers, the media and the neighbouring communities. ESG stakeholders focus on issues covering product liability, employee care, supply chain management, resource use, etc.

Stakeholders	Communication Channels	Issues Concerned
Government and Regulatory Agencies	official documents, related meetings, on-site supervision, information disclosure	Compliance in operation, corporate governance, energy conservation and emission reduction
Shareholders and Investors	shareholders' general meetings, annual reports, interim reports and quarterly reports, result publication, company announcements, etc.	Profitability, business strategy, transparency of information disclosure
Employees	communication meeting, internal announcements, feedback mechanism for employee comments, company activities, etc.	Employee remuneration and benefits, development and training, occupational health and safety
Customers	customer satisfaction surveys, customer feedback activities, member services, exhibition activities, etc.	Product quality, after-sales service, privacy protection
Suppliers	Strategic cooperation negotiation, cooperation agreement, regular communication meeting, etc.	Fair cooperation, integrity and mutual development
Media	Media conferences, interviews, advertising activities, etc.	Compliance in operation, corporate influence, corporate social responsibility
Neighbouring Community	promotion of employment, community activities, etc.	social welfare, charitable donations, community relations

## 2. GREEN OPERATION

As a well-known enterprise in the industry, Linekong Interactive constantly expands its business and meanwhile, strives to become the leader in the industry in the field of social responsibility. Since its foundation, Linekong Interactive adheres to the environmental laws and regulations enacted by the nation. The Company actively fulfills the social responsibilities of environmental protection, improves efficiency of resource and energy usage and makes efforts to reduce the generation and emission of pollutants. In 2016, Linekong Interactive has no major violations in the field of environmental protection.

### 2.1 Energy Saving

As a non-manufacturing enterprise, the Company's main consumption of resource is the electricity used during operation, and fuel and electricity used by the official vehicles. Based on the detailed requirements of "Rules for Energy Management in Linekong Interactive Group Office Area", the Company strengthens energy-saving awareness of employees through the Employees' Handbook, and implements daily management in order to maximise energy use efficiency. Major measures include:

- Green Equipment: Most of the office lamps and electrical equipment are energy-saving and environmentally-friendly products;
- Electricity specification: Use as needed, no unauthorised alteration or damage, power off when leaving, etc.
- Awareness Promotion: Stress of the company's resources and standardise behavior that the company's awareness in the Employees' Handbook and the meeting;
- Electricity Inspection: Designate personnel especially responsible for the examination of electricity situation and immediate dealing.

# Environmental, Social and Governance Report

## 2. GREEN OPERATIONS *(Continued)*

### 2.2 Emission Reduction

Linekong Interactive recognises the pollutant emissions generated during its operations comprehensively. The major pollutants include direct and indirect greenhouse gas emissions in the operation process, the exhaust fumes during official car fuel consumption (nitrogen oxides and sulfur oxides), garbage, office waste and waste electronic products.

The Company controls and reduces exhaust fumes and greenhouse gas emissions generated by operations through continuous maintenance management. The measures include:

- Official vehicles: Gradually replace oil-fueled vehicles with electric vehicles;
- Greenhouse gases: To reduce direct and indirect greenhouse gas emissions by promoting green office and controlling official car fuel consumption.

In respect of solid waste management, Linekong Interactive attaches importance to overall utilization of waste materials during the operation. The Company has designated personnel specially dealing with waste materials which are unrecyclable but still usable (such as parts of discarded computer). They sort out parts which can be used for repeated usage combining the operation requirements. Ordinary wastes of electronic products and discarded office computers are entrusted to the certified recycling company for reutilization and environment-friendly disposal. The partner company would deal with recycled waste equipment through classification, decomposition, cleaning, testing, to find components suitable for reuse as spareparts for reutilization, extend the actual use cycle of related electronic equipment and reduce the adverse effects to the environment due to the manufacturing of electronic products. The wastes generated in the computer room in the process of daily operation are also dealt by the third-party agencies to conduct an all-round recycling disposal. The measures effectively improve the utilization efficiency of the articles, and correspondingly reduce the generation of waste.

At the same time, the Linekong Interactive vigorously promotes the paperless office concept in the process of operation, encouraging employees to email to replace the paper file transfer which is not necessary; in necessary cases, use reutilised paper if possible. Try to select reusable materials for holiday office area decoration; Recycle the office supplies that can be reused from resigning employees, so as to achieve the purpose of maximizing using of resources. The daily waste generated by the office of the Company is collected and handled by the third party property management and the garbage collector.

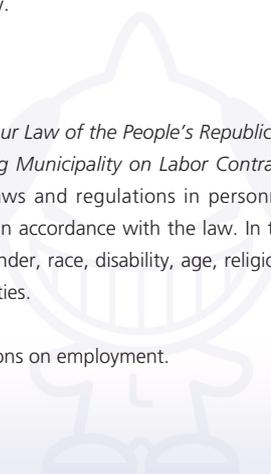
## 3. EMPLOYEE CARE

Linekong Interactive adheres to the management culture of "executives give a lead/lead a level, see a level/attention to communication", and convinces that a successful company needs a dedicated attitude, self-denial ability and team loyalty.

### 3.1 Employee Rights and Interests

For the protection of the rights and interests of employees, the company strictly abides by *Labour Law of the People's Republic of China*, *Law of the People's Republic of China on Employment Contracts*, *Provisions of Beijing Municipality on Labor Contract*, *Provisions of Beijing Municipality on Wage Payment*, and other national laws and local laws and regulations in personnel management, implementing the labour contract system, signing contracts with all employees in accordance with the law. In the recruitment or personnel management process, there is no discrimination on the ground of gender, race, disability, age, religious belief, or other personal differences that are not relevant to the job requirements or responsibilities.

In the year 2016, there was no information about the Company's violation of laws and regulations on employment.



# Environmental, Social and Governance Report

## 3. EMPLOYEE CARE *(Continued)*

### 3.1 Employee Equity *(Continued)*

On the basis of labour management policy, the Company's Employee Handbook sets management standards of the company for job transfer and resignation, labour contract management, salary and welfare, performance appraisal, attendance, vacation and other aspects. The Company is committed to provide a good environment reasonable and competitive salary and create a fair and free the atmosphere of discrimination for employees.

**Equal treatment:** the Company establishes the staff wages distribution system based on the value of the post, reflecting the principle of equal pay for equal work, protecting equal treatment for employees in terms of remuneration, promotion and other aspects.

**Performance appraisal and compensation:** the Company assesses the employees according to their working objectives, job responsibilities and assessment items. The assessment cycle is divided into three stages: the quarter, the year and the end of the project. Employee performance appraisal is the basis for the evaluation of staff work and a necessary condition for employee salary adjustment and job adjustment.

**The protection of the interests of employees:** the Company respects and safeguards the rights and interests of individual employees, attaching importance to personnel training, paying attention to employee health, safety and satisfaction, to achieve common development of employees and the Company. Enterprise development achievements will benefit all employees. On the matters related to the vital interests of workers' wages, welfare, labour safety and hygiene, social insurance, the Company actively listens to the views and suggestions of employees in all kinds of ways and methods, helping employees construct and establish a sense of responsibility and sense of ownership of the enterprise. The Company safeguards the legitimate rights and interests of employees and builds a harmonious and stable labour relation.

In order to give employees the opportunity to fully express their views and suggestions, the company opened a "complaint box". In 2016, no employee complaint was received.

**Benefits:** in terms of employee benefits, according to the provisions of the labour contract, employees can enjoy statutory holidays, annual leave, marriage leave, funeral leave, maternity leave and other paid holidays. In addition to the statutory social welfare insurance, statutory holidays, funeral leave, maternity leave, maternity leave, nursing leave, the Company also offers additional benefits, including commercial insurance, birthday leave, department activity cost, free medical examination, and interest-free loan. The Company has set up a mother-and-child room, a direct drinking water system and an air purification system for the staff in the office building, and at the same time provides commuter buses and free meals for the staff so as to facilitate the travel and food of the employees.



# Environmental, Social and Governance Report

## 3. EMPLOYEE CARE (Continued)

### 3.1 Employee Equity (Continued)



*Commuter shuttle buses to for employees' trip*



*The cozy maternal room specially set up for mothers*

### 3.2 Health and Safety

#### Physical and mental health

The Company provides free medical examination for all employees every year. In addition, the Company invites doctors to check employees' health status. In order to provide employees with a healthy and comfortable office environment, the Company's office is equipped with medical massage chairs, air quality monitoring instruments, air purifiers and green plants, etc. At the same time, the company offers masks to employees in smoggy days, providing a guarantee for the health of employees. The Company also provides staff activity center for employees to relax.



Moreover, the Human Resources Department focuses on the psychological status of new employees. The Department will initiatively find out and follow up how they integrate into the Company, and will give psychological counseling when appropriate.

#### Safety guarantee

The Company guarantees the overall safety of employees in the office area through security management rules of the office area, the installation of firefighting equipment and fire drill activities, with the corresponding supervision and management work. In addition to routine work safety training and tips, the Company reminds employees to pay attention to travel safety in holiday notices.

# Environmental, Social and Governance Report

## 3. EMPLOYEE CARE (*Continued*)

### 3.3 Development and Training

The Company establishes a sound training system which is business oriented and with the development of staff as the core. In addition to providing regular training courses and training opportunities for employees of different levels and areas of business, the Company also supports employees to continuously improve their working ability and general quality. Departments and individuals can demand for training the Company has no arrangements for. The human resources department will give a certain resource support to the extent permissible after fully understanding the specific core problems, meeting the needs of staff development in a variety of ways.

The new employees will participate in courses covering working environment, rules and regulations, corporate culture, the overall framework and management system, the history of development and future planning, products and introduction of relevant business knowledge. In addition, they will accept the guidance and help from the tutors specifically appointed by the Company in the probation period. On one hand, the company's guidance system requires the tutors to give guidance and counseling to help new employees upgrade in the business field and integrate into the enterprise culture. On the other hand, new employees are obliged to listen to tutors' arrangement and guidance to fulfill counseling requirements and objectives.

The routine training of the Company is mainly divided into two categories: professional and managerial. Professional training help employees improve their professional ability according to the needs of business development by the Company. Managerial training courses, which are irregularly scheduled by the Company, cover management ideas and skills training, helping managers to improve the ability of management. The training usually takes in two forms: "Killer Whale Show" by internal staff sharing business knowledge, and "Linekong Open Class" by external professionals providing the forefront information of the industry, the frequency about once a week. The department responsible for the training will write up an article focusing on the contents of the course, and share the article through mail or WeChat push.

Among them, starting in 2016 and supported by company executives, "Linekong Open Class" project invites executives of relevant industries to share more than fifteen times throughout the year. Through the sharing in Open Class, the company staffs not only understand professional development and trends in depth, but also expand on vision and thinking of the industry. The Company collects all Open Class materials and collates them into reviews in text version and in video version, which are published within the company. Staffs that have missed the Open Class can obtain the sharing content more conveniently and comprehensively, with full participation and mutual promotion truly realised.



# Environmental, Social and Governance Report

## 3. EMPLOYEE CARE *(Continued)*

### 3.3 Development and Training *(Continued)*

The theme for 2016 annual training was “many a little make a mickle”. Employees would be the focal point, as each employee was the training participants and beneficiary in the end. The competitiveness of the Company or department is ultimately improved through the change of individual employee.



Linekong Open Class — How to create an excellent human-computer interactive experience



Linekong Open Class — Entertainment industry: future and opportunities



Linekong Open Class — Contract management and risk control

### 3.4 Labor Rules

The Company strictly abides by Labor Law of the People’s Republic of China and Law of the People’s Republic of China on the Protection of Minors, being a law-abiding employer without employing child labor or forcing employees to work. The Company expressly stipulates in the “Employee Handbook” that those under sixteen years of age are ineligible to be recruited, and take measures to check the candidates’ identity and qualification strictly in order to avoid hiring child labor in the recruitment process. The company fully respects the employee’s wishes to work, implementing flexible forms of work to a certain extent on the basis of applicable provisions about working time in the laws and regulations, combined with the actual situation of employees. According to the Company’s vacations regulations, employees have the right to apply to various kinds of paid vacations.

Through the year 2016, no violation of the labor rules has occurred in the Company.

# Environmental, Social and Governance Report

## 4. OPERATION PRACTICES

As a well-known interactive entertainment platform in China, Linekong Interactive adheres to the business tenet “good products make good businesses/good services make good marketing/good reputation makes a good brand”, and strives to enhance the customer experience and improve the internal management.

### 4.1 Supply Chain Management

The Company attaches great importance to the quality and reputation of the supplier. In the process of selecting the appropriate suppliers, the procurement department and the demand department would collaborate to fully inspect the supplier qualification, experience, technical quality, price and other aspects of performance according to the actual needs of the business. Due to the Company's strict requirements for the quality of the supplier, the cooperation deals are usually finalised with the industry's leading suppliers of high quality.

Before the purchase, the procurement department will pay attention to the supplier's qualification certification (such as ISO9001 authentication, etc.). Before the product acceptance, the manufacturing inspection report of product quality would be strictly checked to ensure that the procurement of goods in accordance with the applicable standards.

For major purchases, the procurement department and the demand department will take the initiative to investigate the supplier's manufacturing plant, the third party transportation centre and the origin of the raw materials. In the process of investigation, the production and operation conditions and the working environment of the workers are also investigated in addition to the technical level and production operation of the suppliers.

### 4.2 Product Liability

As a leading enterprise in the interactive entertainment industry, Linekong Interactive has always attached great importance to the quality of products and services, fully implementing product liability of the enterprise. Since its establishment nearly ten years ago, Linekong Interactive has been in steady development under the guidance of the national policy, strictly implementing the laws and regulations promulgated by the government, and putting high value on the game players' rights protection and reasons of complaints.

#### Ensure product quality

The Company provides full protection of the interests of customers on the basis of compliance with industry standards, from product design, development, testing, implementation, promotion, daily operation and maintenance to all aspects of customer service.

Department of government and public relations communicates with the regulatory authorities and industry associations timely and actively, identifying applicable new laws and regulations and industry standards to ensure the Company fully meet compliance requirements on operational qualification and approval procedures before game products going online. In 2016, there was no occurrence of failing to meet the operational qualification or failing to pass the product approval in the Company. Linekong Interactive has acquired the certificates or approvals of company operation and online games, including the company's Internet culture operation license and ICP (Internet content provider) qualification. Games shall pass the examination and get approval of SARFT (State Administration of Radio, Film and Television) before going online. After going online, the game should be put on an operation record in the Ministry of Culture in thirty days. Sensitive words within the game will be focused on and monitored and blocked in the key period, and security information is published on the website home page, etc.



# Environmental, Social and Governance Report

## 4. OPERATING PRACTICES *(Continued)*

### 4.2 Product Liability *(Continued)*

#### **Ensure product quality** *(Continued)*

In order to maintain the health of network environment, Linekong Interactive carries out its own measures to crack down on bad information. In addition the Company calls upon everyone to comply with relevant laws and regulations, to respect the public moral bottom line through various forms of wide, not to spread, pass or believe rumors, and to build a healthy and secure network environment. In consideration of the health of game players, the Company strictly controls bad information on the game content in accordance with the examination requirements; on the other hand, the Company is still active as part of the game to add tips although the relevant laws and regulations is not mandatory for mobile end game set anti obsession system,

During the reporting, the following cases never happened in Linekong Interactive: products could not go on-line due to the failure in passing the review by the authorities; receiving requests from departments of quality and technical supervision to make rectification and reformation; facing filing investigation or administrative punishment.

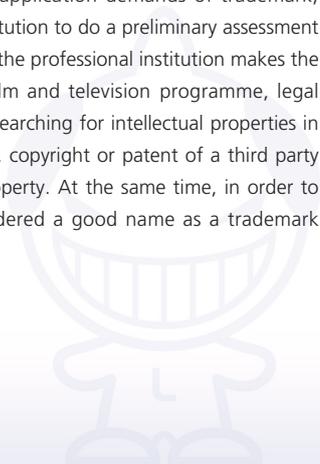
#### **Standardised advertising and promotion**

Linekong Interactive strictly abides by the laws and regulations such as Advertisement Law of People's Republic of China and so on. Linekong Advertising Process was set to strictly regulate the procedure in every advertisement and in every procedure a monitor company (a third party) will participate in monitoring advertising data in a fair and just way. In cooperation with the media, the company follows the media requirements of the advertising standards, and sets up Advertisement Review Rules.

#### **Protect intellectual property**

In daily business operations, Linekong Interactive recognises the protection of intellectual property rights laws and regulations issued by the relevant state departments in a timely manner. Through its legal department and professional organizations from the outside of the Company, the Company ensures that the Company's operations are in accordance with the relevant laws and regulations of intellectual property rights. With its core competitiveness lying in technology, the Company attaches great importance to the ownership of intellectual property rights and the protection of intellectual property rights. The legal department of the Company works promptly to query, apply, update and maintain all contents involving intellectual property rights in business. In addition the department of information protects the R & D system in three aspects: physical isolation, network isolation, data isolation, strictly controlling the management and use R & D information technology so as to protect the Company's core R & D technology better.

Before games and TV drama go on line, the relevant departments submit the relevant application demands of trademark, copyright and patent to the legal department. The legal department hires a professional institution to do a preliminary assessment on whether there's any infringement with existing intellectual property rights. Subsequently, the professional institution makes the application to the relevant government departments. During the operations of game, film and television programme, legal department will also appoint professional institutions to carry out continued investigations searching for intellectual properties in China and overseas markets, to avoid any potential infringement of the existing trademark, copyright or patent of a third party and to fight against the infringement from a third party on the Company's intellectual property. At the same time, in order to better cooperate with the company's business development, we will apply which considered a good name as a trademark registration in advance.



# Environmental, Social and Governance Report

## 4. OPERATING PRACTICES *(Continued)*

### 4.2 Product Liability *(Continued)*

#### **Respond positively to complaints**

The Company has an all-round service system, including free customer service hotline, WeChat customer service, QQ customer service. According to the provisions of "Linekong service center complaint handling process", when the Company receives a complaint, the department will communicate in conjunction with the relevant departments in the first time. The handling of complaints follows several principles: he who is in charge is responsible; he who is first asked is responsible; report to superior level by level; process in time; business compliance; record in time; and with empathy. The complaint handling time according to the provisions is three days. There's also a provision that a complaint must not close until the complainer accepts the solution proposed by the Company and receives results of the investigation finally. Company analyses and solves the problems focused by complaints in a certain period of time, trying to minimise the impact.

#### **Protect Customer Privacy**

The Company respects and pays attention to the players' personal privacy, requiring all employees to sign a confidentiality agreement, in addition provides all aspects of information security protection for players through the coordination of various departments. The R & D team provides a strong guarantee technically through both front and back end. The customer service center, which is in frequent contact with information of game players, strictly controls information through service quality management system and confidentiality management system; The information department provides safety training and management on information for daily operation. During the year 2016, the Company did not involve in any events of divulging customer information.

### 4.3 Anti Corruption

The Company is firmly opposed to any form of corruption, bribery and fraud and strictly abides by the relevant laws and regulations. In 2016, the company did not have any major violations of the relevant laws and regulations. In addition, there were no cases of corruption involving the Company or its employees in 2016.

In order to ensure that the Company's employees could really be honest and law-abiding, the Company developed the system of discretionary power, risk being graded in management of procurement. In the actual operation, as an independent third party within the company, the internal control department mainly controls the procurement procedures through the price audit before procurement and check and inspect after it, trying to control improper behavior before they occur.

In addition, the Company set up a complaint mailbox to provide a channel for employees to report corruption and bribery. Also, the third party audit from the outside of the company provides a guarantee for compliance involved in financial transaction.



# Environmental, Social and Governance Report

## 5. COMMUNITY INVESTMENTS

The Company attaches great importance to build a harmonious relationship with neighbouring community, understands the needs of the community through active participation in community activities, and take practical actions to ensure that the interests of the community are taken into account during the group's business activities.

The Company actively strengthens communication with government departments and regulatory authorities. The Company actively cooperates with and assists the departments in supervision and inspection on basis of the laws and regulations, taking its own responsibility and obligation. The department of the government and public relations was established, responsible for the promoting and maintenance of community relations, building a harmonious enterprise and community relation with local communities, actively seeking a meeting point to provide more support and help for the department concerned and community work.

In the year 2016, the Company prefer recruiting staff in job fair in registered place. Recruiting and training outstanding university graduates devoted to the game development industry not only brings good economic benefits to the society and effectively boosts regional economic growth, but also promotes employment, helping the government solve the problem of unemployment of college graduates to some extent.



# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG GUIDE INDEX

Subject	No.	Attribute	Descriptions	Covered in this report or not	Note
Aspect A1 Emissions	1	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	YES	–
	2	KPI A1.1	The types of emissions and respective emissions data.	NO	Not mandatory disclosures in ESG report in 2016, will be disclosed in ESG report in 2017.
	3	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	NO	
	4	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	NO	
	5	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	NO	
	6	KPI A1.5	Description of measures to mitigate emissions and results achieved.	NO	
	7	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	NO	



# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG GUIDE INDEX (*Continued*)

Subject	No.	Attribute	Descriptions	Covered in this report or not	Note
Aspect A2 Use of Resources	8	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	YES	–
	9	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	NO	Not mandatory disclosures in ESG report in 2016, will be disclosed in ESG report in 2017.
	10	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	NO	
	11	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	NO	
	12	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	NO	
	13	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	NO	
Aspect A3 The Environment and Natural Resources	14	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Not Suitable	
	15	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Not Suitable	



# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG GUIDE INDEX (Continued)

Subject	No.	Attribute	Descriptions	Covered in this report or not	Note
Aspect B1 Employment	16	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	YES	–
	17	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	NO	HKEX does not require a disclosure.
	18	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	NO	
Aspect B2 Health and Safety	19	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to providing a safe working environment and protecting employees from occupational hazards.	YES	–
	20	KPI B2.1	Number and rate of work-related fatalities.	NO	HKEX does not require a disclosure.
	21	KPI B2.2	Lost days due to work injury.	NO	
	22	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	YES	–



# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG GUIDE INDEX (*Continued*)

Subject	No.	Attribute	Descriptions	Covered in this report or not	Note
Aspect B3 Development and Training	23	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	YES	–
	24	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	NO	HKEX does not require a disclosure.
	25	KPI B3.2	The average training hours completed per employee by gender and employee category.	NO	
Aspect B4 Labour Standards	26	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	YES	–
	27	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	YES	–
	28	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	YES	–
Aspect B5 Supply Chain Management	29	General Disclosure	Policies on managing environmental and social risks of the supply chain.	YES	–
	30	KPI B5.1	Number of suppliers by geographical region.	NO	HKEX does not require a disclosure.
	31	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	NO	



# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG GUIDE INDEX (Continued)

Subject	No.	Attribute	Descriptions	Covered in this report or not	Note
Aspect B6 Product Responsibility	32	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	YES	–
	33	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not suitable	The main business of the Company is development of mobile games, products not involved in the issue of recalling.
	34	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	NO	HKEX does not require a disclosure.
	35	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	YES	–
	36	KPI B6.4	Description of quality assurance process and recall procedures.	Not suitable	The main business of the Company is development of mobile games, products not involved in the issue of recall procedures.
	37	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	YES	–



# Environmental, Social and Governance Report

## APPENDIX: HKEX ESG GUIDE INDEX (*Continued*)

Subject	No.	Attribute	Descriptions	Covered in this report or not	Note
Aspect B7 Anti-corruption	38	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	YES	–
	39	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	YES	–
	40	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	YES	–
Aspect B8 Community Investment	41	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	YES	–
	42	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	NO	HKEX does not require a disclosure.
	43	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	NO	HKEX does not require a disclosure.



# Directors' Report

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a mobile game developer and publisher in the PRC. The principal activities and other particulars of the Company's subsidiaries are set out in note 10 to the financial statement. There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2016.

Further discussion and analysis of the business review required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the section of "Management Discussion and Analysis" set out on pages 11 to 22 of this annual report. This discussion forms part of this "Directors' Report".

## RESULTS AND DIVIDENDS

The Group's results for the year ended December 31, 2016 are set out in the consolidated statement of comprehensive (loss)/income on page 82 of this annual report. The Board did not recommend the payment of a final dividend for the year ended December 31, 2016.

## ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, June 16, 2017. A notice convening the annual general meeting will be despatched to the shareholders of the Company in due course.

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, June 13, 2017 to Friday, June 16, 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, June 12, 2017.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Group's share capital and share options are set out in note 20 and note 22 to the financial statements.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 152 in this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

## DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group are set out note 37 and note 21 to the financial statements. At December 31, 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HKD1,557.6 million. This includes the Company's share premium in the amount of approximately HKD1,923.6 million at December 31, 2016, which may be distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## Directors' Report

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

For the sales of in-game virtual items, the Group concluded that the Group takes the primary responsibilities in rendering services to paying players, and therefore, the paying players are the Group's customers. In 2016, no single paying player contributed more than 1% of the Group's revenue.

For the revenue generated from license fee and technical support fee, the Group's five largest third-party licensees accounted for approximately 2.7% of the Group's total revenue from the year and the single largest third-party licensee included therein accounted to approximately 1.5%.

Purchases from the Group's five largest suppliers accounted for approximately 31.2% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 13.3%.

None of the Directors, or any of his associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

### DIRECTORS

The Directors for the year ended December 31, 2016 and as at the date of this report were as follows:

#### Executive directors

Mr. Wang Feng ( <i>Chairman and chief executive officer</i> )	(appointed on May 24, 2007)
Ms. Liao Mingxiang ( <i>President</i> )	(appointed on May 24, 2007)
Mr. Mei Song	(appointed on June 11, 2015)
Mr. Zhao Jun	(appointed on June 11, 2015)

#### Non-executive director

Mr. Qian Zhonghua	(appointed on June 11, 2015; re-designated as executive Director with effect from February 3, 2017)
Mr. Pan Donghui	(appointed on February 3, 2017)

#### Independent non-executive directors

Mr. Ma Ji	(appointed on April 24, 2014)
Mr. Wang Xiaodong	(appointed on June 11, 2015)
Mr. Zhang Xiangdong	(appointed on April 24, 2014)
Ms. Zhao Yifang	(appointed on June 11, 2015)

In accordance with our articles of association, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Pursuant to the provision A.1.8 of the Code, the Company should arrange appropriate insurance to cover potential legal actions against its directors. To comply with code provision, the Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising from corporate activities for the year ended December 31, 2016.

# Directors' Report

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 10 of this annual report.

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals of the Group are set out in notes 38 and note 27 to the financial statements.

## DIRECTORS' INTEREST IN SIGNIFICANT TRANSACTION, ARRANGEMENT OR CONTRACTS

No Director (or entity connected with the Director) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## MANAGEMENT CONTRACTS

As of December 31, 2016, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

## INTERESTS OF THE COMPLIANCE ADVISOR

As confirmed by the Group's compliance advisor, REORIENT Financial Markets Limited (the "**Compliance Advisor**"), save as the compliance adviser agreement entered into between the Company and the Compliance Advisor dated August 20, 2014, none of the Compliance Advisor or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" below and the disclosure on share incentive schemes and the Share Option Scheme in note 22 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

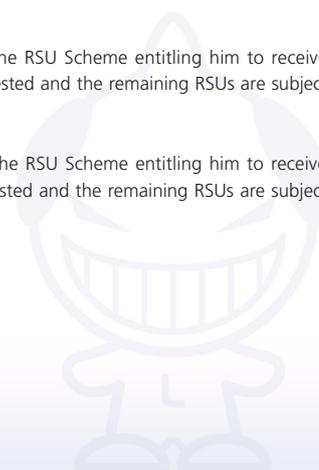
As of December 31, 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (i) Long position in Shares and underlying Shares

Name of Director/chief executive	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding (Note 5)
Mr. Wang Feng (Note 1)	Interest of controlled corporation	66,576,160	20.93%
	Beneficial owner	10,646,308	
Ms. Liao Mingxiang (Note 2)	Interest of controlled corporation	12,168,720	4.09%
	Beneficial owner	2,918,269	
Mr. Qian Zhonghua	Beneficial owner	5,000	0.001%
Mr. Mei Song (Note 3)	Beneficial owner	4,226,154	1.15%
Mr. Zhao Jun (Note 4)	Beneficial owner	2,839,769	0.77%

Notes:

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 2,213,000 shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 shares subject to vesting. As of December 31, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSU are subject to vesting.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 106,500 shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 shares subject to vesting. As of December 31, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSU are subject to vesting.
- (3) Mr. Mei Song holds 9,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of December 31, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (4) Mr. Zhao Jun holds 28,000 shares and is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 shares, and as of December 31, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (5) As of December 31, 2016, the Company issued 368,868,464 shares.



## Directors' Report

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

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

Save as disclosed above, as of December 31, 2016, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

#### (ii) Long position in the shares in other members of the Group

So far as the Directors are aware, as of December 31, 2016, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd) (" <b>Linekong Entertainment</b> ")	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Entertainment	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Entertainment	Mr. Zhang Yuyu	RMB1,091,000	10.91%



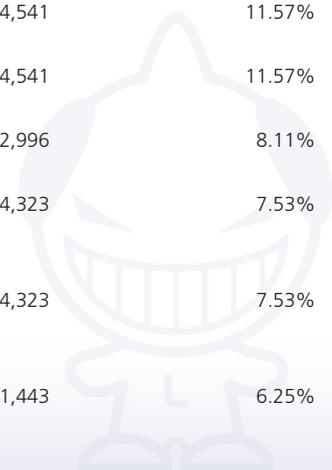
## Directors' Report

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors or chief executives of the Company, as of December 31, 2016, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

#### Long and short positions in the Shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 7)
Wangfeng Management Limited (Note 1)	Beneficial owner	66,576,160	18.05%
Zhu Li (Note 2)	Interest of spouse	77,222,468	20.93%
China Momentum Fund, L.P. (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Fosun China Momentum Fund GP, Ltd. (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Fosun Financial Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Fosun Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Fosun International Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Fosun International Limited (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Fosun Momentum Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Guo Guangchang (Note 3)	Interest of controlled corporation	52,318,760	14.18%
Starwish Global Limited (Note 3)	Beneficial owner	52,318,760	14.18%
The Core Trust Company Limited (Note 4)	Trustee of a trust	42,664,541	11.57%
Premier Selection Limited (Note 4)	Nominee for another person	42,664,541	11.57%
Chi Sing Ho (Note 5)	Interest of controlled corporation	29,922,996	8.11%
IDG-Accel China Growth Fund Associates, L.P. (Note 5)	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund GP Associates Ltd. (Note 5)	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund L.P. (Note 5)	Beneficial owner	23,061,443	6.25%



## Directors' Report

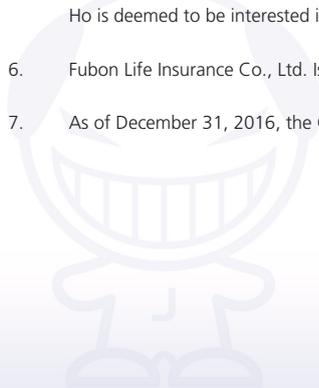
### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

#### Long and short positions in the Shares (Continued)

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 7)
Quan ZHOU (Note 5)	Interest of controlled corporation	27,774,323	7.53%
Fubon Financial Holding Co., Ltd. (Note 6)	Interest of controlled corporation	23,739,000	6.44%
Fubon Life Insurance Co., Ltd. (Note 6)	Beneficial owner	23,739,000	6.44%

#### Notes:

- Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited.
- Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in the shares which are interested by Mr. Wang Feng under the SFO.
- Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P. Fosun China Momentum Fund GP, Ltd. is in turn wholly owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). As of December 31, 2016, Fosun International Limited is 71.55% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of December 31, 2016, Mr. Guo Guangchang owns 64.45% equity interest in Fosun International Holdings Ltd..
- The Core Trust Company Limited, being the RSU Trustee (as defined on page 58 of this annual report), directly holds the entire issued share capital of Premier Selection Limited (the RSU Nominee), which originally held 42,161,541 underlying shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of December 31, 2016, 2,440,883 relevant shares have been sold by the RSUs participants and the RSU Nominee currently holds 42,664,541 shares, including a total of 18,274,000 underlying shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, (iii) the 4,217,154 RSUs granted to Mr. Mei Song, and (iv) the 2,811,769 RSUs granted to Mr. Zhao Jun. On December 28, 2016, December 29, 2016, and December 30, 2016, the Company had directed the Core Trust Company Limited, to purchase and hold on-market 156,000 shares, 183,000 shares and 164,000 shares, respectively, of the ordinary shares of the Company, which will be used to satisfy the RSUs upon exercise.
- The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 shares) and IDG-Accel China Growth Fund-A L.P. (directly holds 4,712,880 shares) are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Quan ZHOU and Mr. Chi Sing HO; and (ii) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Chi Sing HO. Hence, IDG-Accel China Growth Fund Associates L.P., IDG-Accel China Growth Fund GP Associates Ltd. and Mr. Quan ZHOU are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing HO is deemed to be interested in 29,922,996 Shares by virtue of SFO.
- Fubon Life Insurance Co., Ltd. Is 100% owned by Fubon Financial Holding Co., Ltd.
- As of December 31, 2016, the Company issued 368,868,464 shares.



## Directors' Report

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

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

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

### SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME

#### Share Incentive Scheme

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

The key terms of the RSU Scheme are as follow.

#### (a) Purposes of the RSU Scheme

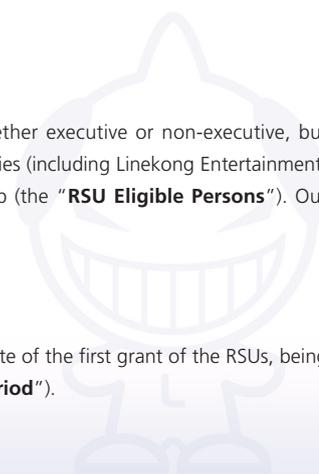
The purpose of the RSU Scheme is to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to our Group for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for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

#### (b) Participants in the RSU Scheme

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

#### (c) Term of the RSU Scheme

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



# Directors' Report

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

### Share Incentive Scheme *(Continued)*

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

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

#### (e) Appointment of the RSU Trustee

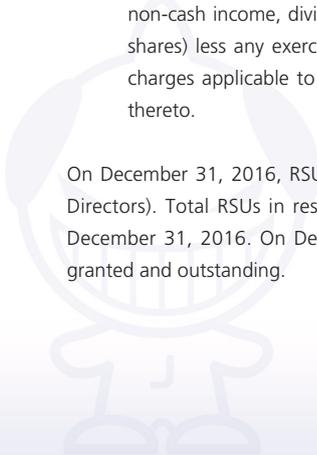
Our Company has appointed a trustee (the "RSU Trustee") to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme. Our Company may (i) allot and issue shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the RSUs upon exercise and/or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

#### (f) Exercise of RSUs

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

- (i) direct and procure the RSU Trustee to, within a reasonable time, transfer the shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up shares or which the RSU Trustee has either acquired by purchasing existing shares or by receiving existing shares from any of the shareholder of the Company, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or
- (ii) pay, or direct and procure the RSU Trustee to, within a reasonable time, pay, to the RSU Participant in cash an amount which represents the value of the shares underlying the RSUs exercised on or about the date of exercise (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those shares) less any exercise price (where applicable) and after deduction or withholding of any tax, levies, stamp duty and other charges applicable to the entitlement of the RSU Participant and the sale of any shares to fund such payment and in relation thereto.

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



# Directors' Report

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

### Share Option Scheme

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

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

#### (a) Purpose

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

#### (b) Who may participate

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full-time or part-time) or a Director 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

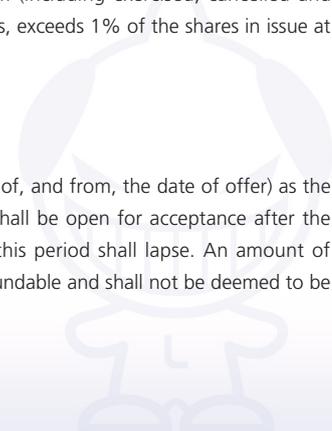
The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (the "Other Schemes") of our Company must not in aggregate exceed 10% of the total number of shares in issue as at the date of Listing, which is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

#### (d) Maximum entitlement of each individual

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

#### (e) Acceptance of an offer of options

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



# Directors' Report

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

### Share Option Scheme (Continued)

#### (f) Exercise price

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

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

#### (g) Duration of Share Option Scheme

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

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

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



# Directors' Report

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

### Share Option Scheme (Continued)

#### (g) Duration of Share Option Scheme (Continued)

Notes:

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

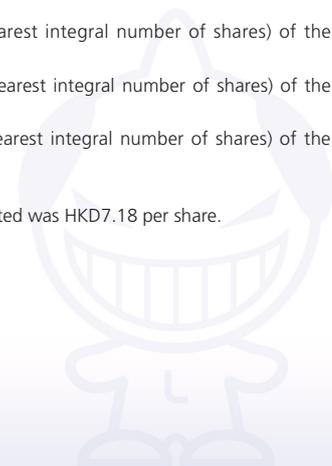
Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
i. Upon 10 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. Upon 16 months upon the acceptance of the offer for grant of share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

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

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

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

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



# Directors' Report

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

### Share Option Scheme (Continued)

#### (g) Duration of Share Option Scheme (Continued)

Notes:

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

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

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

- (5) Please refer to the announcements of the Company dated August 12, 2015, October 9, 2015 and June 15, 2016 for details.
- (6) For details of the accounting policy adopted for the share options and value of share options granted, please refer to note 2 and 22(b) to the financial statements.



## Directors' Report

### INTERESTS IN COMPETING BUSINESS

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

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

### NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

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

### CONTRACTUAL ARRANGEMENTS

Pursuant to applicable PRC Laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting online games business (the **"Principal Business"**) and are restricted to conduct value-added telecommunications services. Accordingly, we cannot acquire equity interest in Linekong Entertainment, which conducts our Principal Business and holds the assets and certain licenses, approvals and permits required for the operation of our Principal Business.

As a result of the foregoing, we, through our wholly-owned subsidiary, Linekong Online (Beijing) Internet Technology Co., Ltd. (**"Beijing Linekong Online"**), entered into a series of contracts (the **"Contractual Arrangements"**) with Linekong Entertainment and Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu (Mr. Wang, Ms. Liao and Mr. Zhang, collectively referred to as the **"Registered Shareholders"**) on January 16, 2014 (and subsequently amended on November 24, 2014) to assert management control over the operations of our Principal Business conducted through Linekong Entertainment, and to enjoy all economic benefits of Linekong Entertainment, and in consideration of which, Beijing Linekong Online shall provide, among others, technology consulting and service to Linekong Entertainment. Linekong Entertainment is an operating company of the Group established under the laws of the PRC and currently holds several domestic operating companies in the PRC to conduct the Principal Business. The Contractual Arrangements are designed to provide our Group with effective control over the financial and operation policies of Linekong Entertainment and, to the extent permitted by PRC law and regulations, the right to acquire the equity interests in and/or the assets of Linekong Entertainment through Beijing Linekong Online. As we operate our Principal Business through Linekong Entertainment, which is controlled by Registered Shareholders, we do not hold any direct equity interest in Linekong Entertainment. Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations. Details of the shareholdings of Linekong Entertainment held by the Registered Shareholders are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

# Directors' Report

## CONTRACTUAL ARRANGEMENTS *(Continued)*

### Major terms of the contracts under the Contractual Arrangements

The Contractual Arrangements currently in effect comprise of four agreements, namely (i) the Amended and Restated Exclusive Technology Consulting and Service Agreement, (ii) the Amended and Restated Exclusive Call Option Agreement, (iii) the Amended and Restated Equity Pledge Agreement and (iv) the Loan Agreement, which were entered into between or amongst Beijing Linekong Online, Linekong Entertainment and the Registered Shareholders (as the case may be), and the irrevocable power of attorney executed by each Registered Shareholder.

A summary of the major terms of the four agreements and the power of attorney of the Contractual Arrangements is as follows:

#### **(a) Amended and Restated Exclusive Technology Consulting and Service Agreement**

Beijing Linekong Online and Linekong Entertainment entered into an Amended and Restated Exclusive Technology Consulting and Service Agreement on January 16, 2014, and as further amended on November 24, 2014, pursuant to which, among others:

- i. Linekong Entertainment agreed to engage Beijing Linekong Online as its exclusive technology consultant and service provider. The technology advices and services which Beijing Linekong Online shall provide to Linekong Entertainment include, but are not limited to, (i) research and development of technologies necessary for the operations of Linekong Entertainment, (ii) application and implementation of technologies relevant to the operations of Linekong Entertainment, (iii) technical services related to advertisement design, software design, and webpage production with respect to Linekong Entertainment's advertising business, and provide management advices and recommendations, and (iv) daily maintenance, supervision, commissioning and troubleshooting of Linekong Entertainment's computer network equipment and other technical services;
- ii. Linekong Entertainment shall pay to Beijing Linekong Online a service fee that equals to the profit before taxation of Linekong Entertainment, including all profits attributable to Linekong Entertainment of, and any other distributions received by Linekong Entertainment from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreement and after offsetting the prior-year loss (if any) and deducting such amounts as required for working capital expenses and tax of each of Linekong Entertainment and its subsidiaries (as the case may be) in any given year; and
- iii. Beijing Linekong Online shall enjoy all economic benefits of, and bear all risks arising from, the conduct of Principal Business by Linekong Entertainment. In the event that Linekong Entertainment incurs significant operating loss or experienced serious difficulties in its operations, Beijing Linekong Online shall provide financial support to Linekong Entertainment and shall have the right to request Linekong Entertainment to cease in operation.

The Amended and Restated Exclusive Technology Consulting and Service Agreement has an initial term of ten (10) years and may be automatically extended for another ten years at the discretion of Beijing Linekong Online. The Amended and Restated Exclusive Technology Consulting and Service Agreement may be terminated by Beijing Linekong Online by giving Linekong Entertainment 30 days' prior written notice of termination or shall be terminated upon the transfer of the entire equity interests in and/or the transfer of all assets of Linekong Entertainment to Beijing Linekong Online or its designated person(s) pursuant to the Amended and Restated Exclusive Call Option Agreement. Linekong Entertainment is not contractually entitled to terminate the Amended and Restated Exclusive Technology Consulting and Service Agreement with Beijing Linekong Online.



## Directors' Report

### CONTRACTUAL ARRANGEMENTS *(Continued)*

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

##### **(b) Amended and Restated Exclusive Call Option Agreement**

Beijing Linekong Online, the Registered Shareholders and Linekong Entertainment entered into an Amended and Restated Exclusive Call Option Agreement on January 16, 2014, and as further amended on November 24, 2014, pursuant to which, among others:

- i. the Registered Shareholders jointly and severally granted to Beijing Linekong Online (exercisable by itself or any direct or indirect shareholder of Beijing Linekong Online and a direct or indirect subsidiary of such shareholder (i.e. being any member of our Group) or an authorised director (being a PRC citizen) of any such member of our Group as designated by Beijing Linekong Online) irrevocable options to (i) purchase, to the extent permitted by PRC laws and regulations, their equity interests in Linekong Entertainment, entirely or partially, at the minimum purchase price permitted under PRC laws and regulations or (ii) acquire to the extent permitted by PRC laws and regulations, all or part of the assets (including all intellectual properties) of Linekong Entertainment at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations;
- ii. Beijing Linekong Online (by itself or any of its designees) may exercise such options at any time until it has acquired all equity interests and/or assets (including all intellectual properties) of Linekong Entertainment, subject to applicable PRC laws and regulations; and
- iii. Beijing Linekong Online shall have the right to forthwith exercise the option granted under the Amended and Restated Exclusive Call Option Agreement when relevant PRC laws and regulations permit the equity interests of Linekong Entertainment to be directly held by Beijing Linekong Online while Linekong Entertainment continues to operation the Principal Business.

The Amended and Restated Exclusive Call Option Agreement shall expire when all the equity interests in and assets of Linekong Entertainment have been transferred to Beijing Linekong Online or its designee, unless and until Beijing Linekong Online, at its sole discretion, gives Linekong Entertainment and the Registered Shareholders a 30 days' prior written notice of termination. Linekong Entertainment and the Registered Shareholders are not contractually entitled to terminate the Amended and Restated Exclusive Call Option Agreement with Beijing Linekong Online.



# Directors' Report

## CONTRACTUAL ARRANGEMENTS *(Continued)*

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

#### (c) Amended and Restated Equity Pledge Agreement

Beijing Linekong Online and the Registered Shareholders entered into the Amended and Restated Equity Pledge Agreement on January 16, 2014, pursuant to which, among others:

- i. each of the Registered Shareholders agreed to pledge all of their respective equity interests in Linekong Entertainment to Beijing Linekong Online to secure performance of all their obligations and the obligations of Linekong Entertainment under the Contractual Arrangements. If any Registered Shareholder breaches or fails to fulfil the obligations, Beijing Linekong Online, as the pledgee, will be entitled to foreclose the pledged equity interests, entirely or partially;
- ii. each Registered Shareholder has undertaken to Beijing Linekong Online, among other things, not to transfer or otherwise dispose his/her equity interests in Linekong Entertainment and not to create or allow any pledge thereon that may affect the rights and interest of Beijing Linekong Online without its prior written consent;
- iii. appropriate arrangements have been made to protect Beijing Linekong Online's interests in the event of death, incapacity, bankruptcy or divorce of the Registered Shareholders or any other circumstances that may affect their exercise of the shareholders' rights to avoid any practical difficulties in enforcing the Amended and Restated Equity Pledge Agreement; and
- iv. if Linekong Entertainment declares any dividend or distribute any income during the term of the pledge, Beijing Linekong Online is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests.

The Amended and Restated Equity Pledge Agreement shall terminate when Linekong Entertainment has fulfilled and performed all obligations under the agreements underlying the Contractual Arrangements or upon the termination of the agreements underlying the Contractual Arrangement.

#### (d) Loan Agreement

In order to satisfy the funding needs in Linekong Entertainment, the Registered Shareholders borrowed a sum of RMB9,970,000 from our Company without interest on or around the date of establishment of Linekong Entertainment. Beijing Linekong Online and the Registered Shareholders subsequently entered into the Loan Agreement, pursuant to which Beijing Linekong Online agreed to lend a total of RMB9,970,000 to the Registered Shareholders without interest, in order to assume the loan originally granted by our Company, for the purpose of acquiring the equity interest in Linekong Entertainment. The relevant portion of the loan will become due and payable upon Beijing Linekong Online's demand under certain circumstances, including but not limited to: (i) the relevant Registered Shareholder resigning or is being removed from the various positions held by him/her in the Group; (ii) the relevant Registered Shareholder becoming insolvent or incurring any other significant personal debt which may affect his/her ability to repay the loan under the Loan Agreement; (iii) Beijing Linekong Online exercising its option to purchase all equity interests in Linekong Entertainment to the extent permitted by PRC laws and regulations as soon as the PRC foreign ownership restrictions applicable to our Group's mobile and online games business have been lifted.

The Loan Agreement is for a term of ten (10) years commencing from April 14, 2008, and may be automatically extended for another ten (10) years upon each expiry. Linekong Entertainment is not contractually entitled to terminate the Loan Agreement with Beijing Linekong Online.

## Directors' Report

### CONTRACTUAL ARRANGEMENTS *(Continued)*

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

##### **(e) Power of Attorney**

On January, 16, 2014, each Registered Shareholder executed an irrevocable Power of Attorney to appoint a director of any direct or indirect shareholder of Beijing Linekong Online or his/her successor who is a PRC citizen as proxy of the relevant Registered Shareholder to exercise all of their respective shareholders' rights in Linekong Entertainment. Pursuant to the Power of Attorney, the shareholders' rights exercisable by the proxy include, but not limited to, the rights to (i) attend shareholders' meetings and pass any shareholders' resolution of Linekong Entertainment; (ii) exercise all shareholders' rights in accordance with applicable laws and the articles and constitutional documents of Linekong Entertainment; (iii) submit and/or file any documents or information to relevant companies registry; and (iv) elect and appoint the legal representative, chairman, directors, supervisors, general manager and other senior management of Linekong Entertainment.

Under each Power of Attorney, each Registered Shareholder irrevocably confirmed that the power of attorney shall remain in full force and effect during the term which the relevant Registered Shareholder remains as a shareholder of Linekong Entertainment.

For further details of the terms of the four agreements and power of attorney of the Contractual Arrangements, please refer the section headed "Contractual Arrangements — Details of the Existing Agreements" of the Prospectus.

##### ***Risks associated with the Contractual Arrangements***

There are certain risks associated with the Contractual Arrangements, which include, but not limited to: (i) if the PRC government finds that the agreement that establish the structure for operating our online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in Linekong Entertainment; (ii) Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business; (iii) we may lose the ability to use and enjoy assets held by Linekong Entertainment that are important to the operation of our business if Linekong Entertainment declares bankruptcy or become subject to a dissolution or liquidation proceeding; (iv) we principally rely on dividends and other distributions on equity paid by Beijing Linekong Online to fund any cash and financing requirements we may have. Any limitation on Beijing Linekong Online's ability to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition. For further details of the risks associated with the Contractual Arrangements, please refer the section headed "Risk Factors — Risks Relating to Our Corporate Structure" of the Prospectus.



# Directors' Report

## CONTRACTUAL ARRANGEMENTS *(Continued)*

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

#### (e) Power of Attorney *(Continued)*

##### ***Measures adopted by our Group***

Our Group has adopted various measures to ensure legal and regulatory compliance and to ensure the sound and effective operation of our Group (including Linekong Entertainment and its subsidiaries) and the implementation of the Contractual Arrangements, which include, but not limited to: (i) as part of the internal control measure, major risks and issues arising from implementation of the Contractual Arrangements has been regularly reviewed, at least on a quarterly basis, by our Board; (ii) the relevant business units and operation divisions of our Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of our Company in relation to compliance and performance conditions the Contractual Arrangements and other related matters; (iii) the company seals, financial seals, contract seals and crucial corporate certificates of Linekong Entertainment and its subsidiaries are kept by the Group's finance department; (iv) the independent non-executive Directors will review the compliance of the Contractual Arrangements on an annual basis and their confirmation will be disclosed in the annual report; (v) if necessary, legal advisors and, or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements and to ensure that the operation and implementation of the Contractual Arrangements as a whole will comply with applicable laws and regulations; (vi) our Group will unwind the Contractual Arrangements as soon as relevant PRC laws and regulations allow the Principal Business to be conducted and operated by owned subsidiaries of our Company without such arrangements in place; (vii) each of Mr. Wang Feng and Ms. Liao Mingxiang, being our executive Directors and the Registered Shareholders, shall abstain from voting on any resolutions at any Board meeting or shareholders' meeting of the Company or Linekong Entertainment (as the case may be) in which he/she may have conflict of interest. For further details of the actions taken by the Company to mitigate the risks associated with the Contractual Arrangements, please refer the section headed "Contractual Arrangements — Operations in Compliance with the Contractual Arrangements" of the Prospectus.

##### ***Revenue and assets subject to the Contractual Arrangements***

For the year ended December 31, 2016, the revenue and net loss subject to the Contractual Arrangements are RMB561.3 million and RMB89.5 million (amounted to approximately 85.2% and 56.9% of the total revenue and net loss of the Group), respectively.

As at December 31, 2016, the total assets subject to the Contractual Arrangements is RMB413.6 million, amounted to approximately 29.7% of the total assets of the Group.

##### ***Change of circumstances***

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



# Directors' Report

## CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

### Connected Transactions

#### Continuing Connected Transactions

The Contractual Arrangements constitute non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules. Each of Mr. Wang Feng and Ms. Liao Mingxiang is a deemed controlling shareholder of the Company and an executive Director and is therefore a connected person of our Company under Rule 20.07(1) of the GEM Listing Rules. Mr. Zhang Yuyu, is a deemed controlling shareholder and a director of Linekong Entertainment and certain of its subsidiaries and is therefore a connected person of our Company under Rule 20.07(1) of the GEM Listing Rules. In addition, Linekong Entertainment is owned as to 75.45%, 13.64% and 10.91% by Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu, respectively, and hence an associate of Mr. Wang Feng. Linekong Entertainment is therefore a connected person of our Company under Rule 20.07(4) of the GEM Listing Rules. Accordingly, the transactions (if any) contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the GEM Listing Rules.

The Stock Exchange has granted a waiver pursuant to Rule 20.103 of the GEM Listing Rules from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules in respect of the transactions contemplated under the Contractual Arrangement; (ii) the requirement of setting an annual caps for the fees payable to Beijing Linekong Online under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as Shares are listed on the GEM. For further details of the waiver granted by the Stock Exchange, please refer the section headed "Connected Transactions — Non-exempted Continuing Connected Transactions" of the Prospectus.

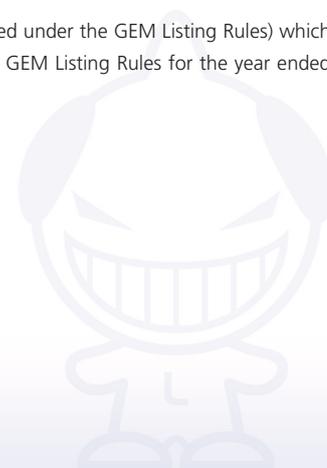
As at December 31, 2016, there was no transaction conducted under the Contractual Arrangements.

### Independent non-executive Directors' confirmation

Our independent non-executive Directors confirmed, after conducting annual review on the Contractual Arrangements and the transactions contemplated thereunder, that:

- (1) no transactions were carried out for the financial year ended December 31, 2016;
- (2) no dividends or other distributions have been made by Linekong Entertainment to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and
- (3) there were no new contracts entered into, renewed or reproduced between our Group and Linekong Entertainment for the financial year ended December 31, 2016.

There were no continuing connected transactions between the Group and its connected person (as defined under the GEM Listing Rules) which are subject to reporting, announcement and independent shareholders' approval requirement under the GEM Listing Rules for the year ended December 31, 2016.



# Directors' Report

## RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 34 to the consolidated financial statements in this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the GEM Listing Rules, except for those described in the paragraph headed "Connected and Continuing Connected Transactions" above, in respect of which the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules have been complied with or waived by the Stock Exchange.

## EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

### Change of Logo of the Company

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

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

### Change in Use of Proceeds

On March 29, 2016, the Company has resolved to change the use of the actual net proceeds from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, being amounted to approximately HKD686.2 million (the "IPO Proceeds"). For details of the change in use of IPO proceeds as of December 31, 2016, please refer to the section headed "Use of IPO Proceeds".

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

### Investment in UGen, Inc.

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

### Re-election of Directors

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



## Directors' Report

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

#### Capital Increase in Linekong Horgos

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

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

#### Investment in Huaying Jiashi

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

#### Investment in appMagics

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

#### Share Purchase by RSU Trustee

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

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

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

# Directors' Report

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

### Grant of Share Options

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

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

Notes:

- (1) The vesting period of the share options is starting from the date of acceptance of the grant to the commencement of the exercise period.
- (2) As of the date of this report, no share options were exercised, cancelled and lapsed.
- (3) The options granted on January 18, 2017 may be exercised in accordance with the following vesting timetable:

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

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

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

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

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

## Directors' Report

### USE OF IPO PROCEEDS

The actual net proceeds of the Company from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, amounted to approximately HKD686.2 million.

As of December 31, 2016, a total amount of approximately HKD137.8 million from the IPO Proceeds had been utilised for the purposes and approximately in the amount set out below:

- (a) approximately HKD63.2 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD16.5 million was used for potential strategic acquisition or investment in companies in online game and related businesses; and
- (c) approximately HKD58.1 million was used for creating pan entertainment environment.

As of December 31, 2016, approximately HKD548.4 million, being the residual part of the IPO Proceeds, remains unutilised. The unutilised IPO Proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group.

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

### CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 23 to 32 of this annual report.

### SUFFICIENCY OF PUBLIC FLOAT

As of the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under our articles of association or applicable laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors in writing and annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

### INDEPENDENT AUDITOR

The financial statements of the Company for the year ended December 31, 2016 were audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

ON BEHALF OF THE BOARD

**Wang Feng**  
Chairman

# Independent Auditor's Report



羅兵咸永道

**To the Shareholders of Linekong Interactive Group Co., Ltd.**

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of Linekong Interactive Group Co., Ltd. (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 80 to 151, which comprise:

- the consolidated balance sheet as of December 31, 2016;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“**ISAs**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“**IESBA Code**”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



# Independent Auditor's Report

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Accounting estimation involved in revenue recognition for sales of in-game virtual items
- Valuation of level 3 financial assets measured at fair value
- Impairment assessment of the investment in an associate

### Key Audit Matter

#### ***Accounting estimation involved in revenue recognition for sales of in-game virtual items***

Refer to note 5 to the consolidated financial statements.

For the year ended December 31, 2016, the Group has generated revenue from sales of in-game virtual items of RMB635.4 million. The recognition of the revenue generated from sales of in-game virtual items involved the estimation of the lives of permanent ownership items ("**Player Relationship Period**").

Management has estimated the Player Relationship Period on a game-by-game basis for revenue recognition.

We focused on this area because of the inherent uncertainties and subjectivities involved in estimation of Player Relationship Period, which could result in differences in the periods when revenue is recognised.

### How our audit addressed the Key Audit Matter

Our procedures in relation to estimation of Player Relationship Period in revenue recognition for the sales of in-game virtual items included:

- We assessed whether the Group's revenue recognition policies complied with relevant IFRSs as adopted.
- We assessed the appropriateness of the methodologies and assumptions used in the estimation of Player Relationship Period by checking the mathematic formula as well as comparing them with historical data and industry practice.
- On a sample basis, we checked the key inputs used in the estimation including the quantity of paying players of games and their log-in records with the original data directly extracted from the game servers.
- For selected samples, we recalculated the related Player Relationship Period of selected games, and compared the results with Player Relationship Period prepared by management.

We found that the assumptions adopted and estimation made by management were supported by the evidence we gathered and consistent with our understanding.



# Independent Auditor's Report

## Key Audit Matter

### **Valuation of level 3 financial assets measured at fair value**

Refer to note 3.3 to the consolidated financial statements.

As of December 31, 2016, the Group has level 3 financial assets of RMB150.0 million, including an associate measured at fair value through profit or loss, financial assets at fair value through profit or loss and available-for-sale financial assets.

One or more significant input of the valuation for level 3 financial assets are not based on active market prices, observable market data.

Management assessed and measured the level 3 financial assets using discounted cash flow method. An external valuer was engaged by management to assist the valuation. The determination of model adopted, inputs and assumptions adopted require significant judgement and estimation, which could give a material impact to the fair value measured. We therefore focused on this area.

## How our audit addressed the Key Audit Matter

Our procedures in relation to the valuation of level 3 financial assets measured at fair value included:

- We evaluated the Group's internal valuation process as well as external valuer's competence, capability and objectivity in those cases where external valuer was involved.
- We worked with our in-house valuation specialist to assess the appropriateness of valuation model adopted, and to challenge the reasonableness of the key inputs and assumptions including assessing the reasonableness of the discount rate based on relevant market data of comparable companies.
- We evaluated management's future cash flow forecasts, and the process by which they were drawn up, including testing the underlying calculations.
- We challenged the key assumptions including revenue growth rates in the cash flow forecasts by comparing them to historical results, economic and industry performances.
- We compared the input data used in the cash flow forecasts against the historical figures, the approved budgets and the business plans.

We found that the key assumptions adopted by management were supported by the evidence we gathered and consistent with our understanding.



## Independent Auditor's Report

### Key Audit Matter

#### ***Impairment assessment of the investment in an associate***

Refer to note 11 to the consolidated financial statements.

As of December 31, 2016, the Group has an equity investment of RMB164.4 million in an associate, Fuze Entertainment Co., Ltd. ("Fuze"), which was accounted for by using equity accounting.

The investments using equity accounting are reviewed at each reporting date to determine whether there is any indication of impairment. Fuze incurred operating losses for the year ended December 31, 2016, which was considered as an indication of impairment. Management performed the impairment assessment with assistance from an external valuer engaged by management, and based on it, the recoverable amount of the investment in Fuze was determined by the fair value less disposal cost, which was higher than the carrying amount of the investment as of December 31, 2016. The model adopted, inputs and assumptions used for the impairment assessment require significant judgement and estimation, which could give a material impact to the outcome. We therefore focused on this area.

### How our audit addressed the Key Audit Matter

Our procedures in relation to the impairment assessment of the investment in Fuze included:

- We evaluated the Group's internal valuation process as well as external valuer's competence, capability and objectivity.
- We worked with our in-house valuation specialist to assess the appropriateness of valuation model adopted, and to challenge the reasonableness of the key inputs and assumptions including assessing the discount rate based on relevant market data of capital of comparable companies.
- We evaluated management's future cash flow forecast, and the process by which it was drawn up, including testing the underlying calculations.
- We further discussed with management to understand the key factors that would affect the forecasted sales, including latest business plan, market condition and sales pattern. We evaluated these factors with supporting evidences including sales contracts and agent agreements.
- We challenged the key assumptions including revenue growth rates in the cash flow forecast by comparing them to historical results, economic and industry performances.
- We compared the input data used in the cash flow forecast against the historical figures, the approved budget and Fuze's business plans.
- We evaluated management's estimation of the disposal cost using our industry knowledge as well as considering typical transaction cost in market.

We found that assumptions adopted by management were supported by the evidence we gathered and consistent with our understanding.



# Independent Auditor's Report

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all of the information included in the Linekong Interactive Group Co., Ltd. 2016 annual report other than the consolidated financial statements and our auditor's report thereon ("**the Other Information**").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



## Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ling Tung Man, Tom.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, March 21, 2017



## Consolidated Balance Sheet

	Note	As of December 31,	
		2016 RMB'000	2015 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	13,649	14,468
Intangible assets	7	39,406	29,343
Films in progress	8	24,418	–
Investments using equity accounting	11	176,362	180,183
An associate measured at fair value through profit or loss	12	19,229	–
Available-for-sale financial assets	13	115,125	44,370
Financial assets at fair value through profit or loss	14	15,637	41,409
Deferred income tax assets — net	15	1,431	7,490
Prepayments and other receivables	17	20,389	20,465
Restricted deposits	19	106,139	–
		<b>531,785</b>	<b>337,728</b>
<b>Current assets</b>			
Trade receivables	16	78,947	45,079
Prepayments and other receivables	17	112,905	89,675
Financial assets at fair value through profit or loss	14	17,125	19,543
Short-term bank deposits	18	312,963	–
Cash and cash equivalents	19	338,655	794,461
		<b>860,595</b>	<b>948,758</b>
<b>Total assets</b>		<b>1,392,380</b>	<b>1,286,486</b>



## Consolidated Balance Sheet (continued)

		As of December 31,	
		2016	2015
	Note	RMB'000	RMB'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	20	59	59
Share premium	20	1,720,691	1,722,308
Shares held for RSU Scheme	20	(2)	(3)
Reserves	21	426,480	325,713
Accumulated losses		(1,135,029)	(977,657)
		<b>1,012,199</b>	<b>1,070,420</b>
<b>Non-controlling interests</b>		<b>(1,909)</b>	<b>(1,907)</b>
<b>Total equity</b>		<b>1,010,290</b>	<b>1,068,513</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	23	99,400	–
Deferred revenue	25	7,021	3,267
		<b>106,421</b>	<b>3,267</b>
<b>Current liabilities</b>			
Bank borrowings	23	600	–
Trade and other payables	24	171,940	107,472
Current income tax liabilities		17,813	3,885
Deferred revenue	25	85,316	103,349
		<b>275,669</b>	<b>214,706</b>
<b>Total liabilities</b>		<b>382,090</b>	<b>217,973</b>
<b>Total equity and liabilities</b>		<b>1,392,380</b>	<b>1,286,486</b>

The notes on pages 86 to 151 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 80 to 151 were approved by the Board of Directors on March 21, 2017 and were signed on its behalf.

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**Wang Feng**  
 Director

\_\_\_\_\_  
**Liao Mingxiang**  
 Director



## Consolidated Statement of Comprehensive (Loss)/Income

	Note	Year ended December 31,	
		2016	2015
		RMB'000	RMB'000
Revenue	5	658,442	540,828
Cost of revenue	26	(367,837)	(323,828)
<b>Gross profit</b>		<b>290,605</b>	217,000
Selling and marketing expenses	26	(201,129)	(180,060)
Administrative expenses	26	(102,054)	(83,224)
Research and development expenses	26	(139,496)	(120,562)
Other gains — net	28	35,558	104,018
<b>Operating loss</b>		<b>(116,516)</b>	(62,828)
Finance income — net	29	4,225	16,373
Share of loss of investments using equity accounting	11	(28,621)	(5,430)
<b>Loss before income tax</b>		<b>(140,912)</b>	(51,885)
Income tax expense	30	(16,462)	(1,912)
<b>Loss for the year</b>		<b>(157,374)</b>	(53,797)
<b>Other comprehensive income/(loss)</b>			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		21,022	8,399
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		(2,449)	(1,534)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		3,991	2,430
Items that will not be reclassified to profit or loss:			
— Currency translation differences		45,042	47,354
<b>Other comprehensive income for the year, net of tax</b>		<b>67,606</b>	56,649
<b>Total comprehensive (loss)/income for the year</b>		<b>(89,768)</b>	2,852
<b>Loss attributable to:</b>			
Owners of the Company		(157,372)	(51,911)
Non-controlling interests		(2)	(1,886)
<b>Loss for the year</b>		<b>(157,374)</b>	(53,797)
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of the Company		(89,766)	4,738
Non-controlling interests		(2)	(1,886)
<b>Total comprehensive (loss)/income for the year</b>		<b>(89,768)</b>	2,852
<b>Loss per share (expressed in RMB per share)</b>			
— Basic	31(a)	(0.45)	(0.15)
— Diluted	31(b)	(0.45)	(0.15)

The notes on pages 86 to 151 are integral parts of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

	Attributable to owners of the Company						Non-controlling interests	Total equity	
	Note	Share capital	Share premium	Shares held for RSU Scheme	Reserves	Accumulated losses			Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at January 1, 2015</b>		59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296
<b>Comprehensive (loss)/income</b>									
Loss for the year		-	-	-	-	(51,911)	(51,911)	(1,886)	(53,797)
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	8,399	-	8,399	-	8,399
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	-	-	(1,534)	-	(1,534)	-	(1,534)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	2,430	-	2,430	-	2,430
— Currency translation differences		-	-	-	47,354	-	47,354	-	47,354
<b>Total comprehensive income/ (loss) for the year</b>		-	-	-	56,649	(51,911)	4,738	(1,886)	2,852
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
Employee share option and RSU Scheme:									
— Value of employee services	22	-	-	-	62,882	-	62,882	-	62,882
— Vesting of shares		-	(3)	3	-	-	-	-	-
Repurchase of shares		-	(4,517)	-	-	-	(4,517)	-	(4,517)
<b>Total contributions by and distributions to owners of the Company for the year</b>		-	(4,520)	3	62,882	-	58,365	-	58,365
<b>Balance at December 31, 2015</b>		59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513



## Consolidated Statement of Changes in Equity (continued)

	Attributable to owners of the Company						Non-controlling interests	Total equity	
	Note	Share capital	Share premium	Shares held for RSU Scheme	Reserves	Accumulated losses			Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at January 1, 2016</b>		59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513
<b>Comprehensive (loss)/income</b>									
Loss for the year		-	-	-	-	(157,372)	(157,372)	(2)	(157,374)
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	21,022	-	21,022	-	21,022
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	-	-	(2,449)	-	(2,449)	-	(2,449)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	3,991	-	3,991	-	3,991
— Currency translation differences		-	-	-	45,042	-	45,042	-	45,042
<b>Total comprehensive income/ (loss) for the year</b>		-	-	-	67,606	(157,372)	(89,766)	(2)	(89,768)
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
Employee share option and RSU Scheme:									
— Value of employee services	22	-	-	-	33,161	-	33,161	-	33,161
— Vesting of shares		-	(1)	1	-	-	-	-	-
Repurchase of shares		-	(1,616)	-	-	-	(1,616)	-	(1,616)
<b>Total contributions by and distributions to owners of the Company for the year</b>		-	(1,617)	1	33,161	-	31,545	-	31,545
<b>Balance at December 31, 2016</b>		59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290

The notes on pages 86 to 151 are integral parts of these consolidated financial statements.



## Consolidated Statement of Cash Flows

	Note	Year ended December 31,	
		2016 RMB'000	2015 RMB'000
<b>Cash flows from operating activities</b>			
Cash used in operations	33	(88,376)	(105,090)
Income tax paid		(3,743)	(3,928)
<b>Net cash used in operating activities</b>		<b>(92,119)</b>	<b>(109,018)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(7,277)	(10,395)
Purchase of intangible assets		(17,967)	(22,408)
Purchase of a convertible note		–	(30,767)
Net cash received from disposal of property, plant and equipment		145	103
Proceeds from disposal of intangible assets		–	2,629
Cash consideration paid for investment in an investment using equity accounting	11	(12,000)	(132,744)
Purchase of available-for-sale financial assets		(328,860)	(494,644)
Proceeds from disposal of available-for-sale financial assets	13	328,749	460,103
Capital injection in an associate measured at fair value through profit or loss		(15,000)	–
Purchase of financial assets at fair value through profit or loss	14	(3,887)	(65,796)
Proceeds from disposal of financial assets at fair value through profit or loss	14	–	87,156
Payments for films in progress		(22,848)	–
Prepayments for investments	17	(11,564)	–
Loan granted to a related party		–	(55,460)
Loan granted to a third party		–	(10,000)
Loan repayments received from a related party		–	58,187
Loan repayments received from a third party		10,966	–
Purchase of short-term investments		–	(230,000)
Proceeds from matured short-term investments		–	230,000
Return on short-term investment received		–	821
Increase in restricted deposits	19	(106,139)	–
Increase in short term bank deposits	18	(312,963)	–
<b>Net cash used in investing activities</b>		<b>(498,645)</b>	<b>(213,215)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings	23	100,000	–
Interests paid		(944)	–
Subscription received for preferred shares issued by a subsidiary		30,000	–
Return of the subscription due to cancellation of the issuance of preferred shares		(30,000)	–
Payments for issuance costs of ordinary shares relating to IPO		–	(6,087)
Payment of repurchase of shares		(1,616)	(4,517)
<b>Net cash generated from/(used in) financing activities</b>		<b>97,440</b>	<b>(10,604)</b>
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		794,461	1,086,532
Exchange gain on cash and cash equivalents		37,518	40,766
<b>Cash and cash equivalents at end of the year</b>		<b>338,655</b>	<b>794,461</b>

The notes on pages 86 to 151 are integral parts of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1. GENERAL INFORMATION

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

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

The Group’s major subsidiaries are based in the PRC and majority of their transactions are denominated in Renminbi (“**RMB**”). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As of December 31, 2016 and 2015, other than the restrictions from exchange control regulations, there is no significant restriction on the Group’s ability to access or use the assets and settle the liabilities of the Group.

The consolidated financial statements are presented in RMB, unless otherwise stated, and have been approved by the Company’s Board of Directors on March 21, 2017.

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

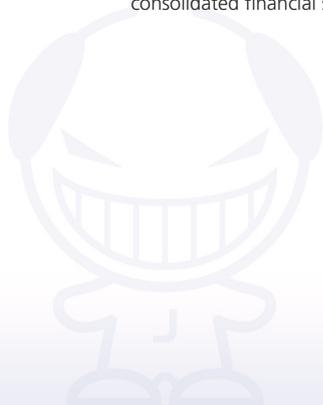
## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.



# Notes to the Consolidated Financial Statements

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

### 2.1 Basis of preparation (Continued)

#### 2.1.1 Changes in accounting policies and disclosures

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

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

Amendments to IFRS 11	“Accounting for acquisitions of interests in joint operations”
Amendments to IAS 16 and IAS 38	“Clarification of acceptable methods of depreciation and amortisation”

Amendments from annual improvements 2014 to:

— IFRS 7	— “Financial instruments: Disclosures”
— IAS 19	— “Employee benefits”

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

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

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

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

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

# Notes to the Consolidated Financial Statements

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

### 2.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over the entity and is exposed to or has rights to receive variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

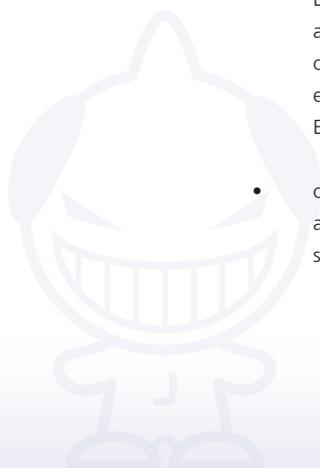
Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (i) Subsidiaries arising from Reorganisation

On March 30, 2007, Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd., "**Linekong Entertainment**") was established to carry out the Group's Game Business in the PRC. Several domestic operating companies have been established by Linekong Entertainment as its subsidiaries since 2007 and these operating companies together with Linekong Entertainment are collectively defined as the "**PRC Operational Entities**". The wholly-owned subsidiary, Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**"), has entered into a series of contractual agreements (the "**Contractual Agreements**") with Linekong Entertainment and its equity holders on April 22, 2008, which enable Beijing Linekong Online and the Group to:

- exercise effective financial and operational control over Linekong Entertainment;
- exercise equity holders' voting rights of Linekong Entertainment;
- receive substantially all of the economic interest returns generated by Linekong Entertainment in consideration for the business support, technical and consulting services provided by Beijing Linekong Online;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Linekong Entertainment from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations, and all or part of the assets of Linekong Entertainment at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations. Beijing Linekong Online may exercise such options at any time until it has acquired all equity interests and/or all assets of Linekong Entertainment;
- obtain a pledge over the entire equity interest of Linekong Entertainment from its respective equity holders as collateral security for all of Linekong Entertainment's payments due to Beijing Linekong Online and to secure performance of Linekong Entertainment's obligation under the Contractual Arrangements.



# Notes to the Consolidated Financial Statements

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

### 2.2 Consolidation *(Continued)*

#### (a) Subsidiaries *(Continued)*

##### (i) Subsidiaries arising from Reorganisation *(Continued)*

The Group does not have any equity interest in Linekong Entertainment. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Linekong Entertainment and has the ability to affect those returns through its power over Linekong Entertainment and is considered to control Linekong Entertainment. Consequently, the Company regards Linekong Entertainment as an indirect subsidiary under IFRSs. The Group has consolidated the financial position and results of operations of Linekong Entertainment in the consolidated financial statements of the Group during the year ended December 31, 2016 and 2015.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Linekong Entertainment and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Linekong Entertainment. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Beijing Linekong Online, Linekong Entertainment and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

#### (b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

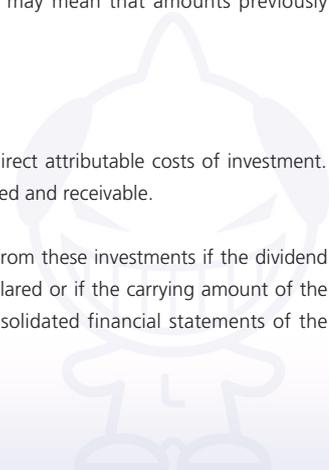
#### (c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income/(loss) in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income/(loss) are reclassified to profit or loss.

### 2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.



# Notes to the Consolidated Financial Statements

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

### 2.4 Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

#### (a) Equity method of accounting

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition net of any accumulated impairment losses. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of loss of investments using equity accounting" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

#### (b) Fair value through profit or loss

The Group has invested as a limited partner in a PE Fund and exerted significant influence. The Group has applied the measurement exemption within IAS 28 "Investment in Associates and Joint Ventures" for mutual funds, unit trusts and similar entities and such an investment is measured at fair value through profit or loss, and presented as "an associate measured at fair value through profit or loss" in the balance sheet.

### 2.5 Segment reporting

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

# Notes to the Consolidated Financial Statements

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

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

#### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet date presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statements of comprehensive (loss)/income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income as currency translation differences.

### 2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

# Notes to the Consolidated Financial Statements

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

### 2.7 Property, plant and equipment *(Continued)*

Depreciation on property, plant and equipment is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Furniture and office equipment	3 years
Server and other equipment	3–5 years
Motor vehicles	4–5 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains — net", in the consolidated statements of comprehensive (loss)/income.

### 2.8 Intangible assets

#### (a) Computer software

Computer software is initially recognised and measured at cost less amortisation. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised over their estimated useful lives of five years.

#### (b) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the game product so that it will be available for use or sell; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. During the years ended December 31, 2016 and 2015, there were no development costs meeting these criteria and capitalised as intangible assets.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

#### (c) Trademarks and licences

Separately acquired trademarks and licences are reported at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 31 months and 2 to 6 years, respectively.

# Notes to the Consolidated Financial Statements

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

### 2.9 Films in progress

Films in progress are stated at cost less any provision for impairment losses. Cost includes all direct costs associated with the production of films. Cost of films is transferred to film rights upon completion.

### 2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.11 Financial assets

#### 2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

##### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "short-term bank deposits" in the balance sheet (Notes 2.14, 2.15 and 2.16).

##### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.



# Notes to the Consolidated Financial Statements

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

### 2.11 Financial assets *(Continued)*

#### 2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset, or on the settlement date — the date on which an asset is delivered to or by the Group. The method used is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within “Other (losses)/gains — net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as “gains and losses from investment securities”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group’s right to receive payments is established.



# Notes to the Consolidated Financial Statements

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

### 2.11 Financial assets (Continued)

#### 2.11.3 Impairment of financial assets

##### (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “**loss event**”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

##### (b) Assets classified as available for sale

The Group also assesses at the end of each reporting period whether there is objective evidence that an available-for-sale financial asset or a group of an available-for-sale financial assets is impaired.

For debt securities classified as available-for-sale, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale will not be reversed even if in a subsequent period, the fair value of the instrument increases.

# Notes to the Consolidated Financial Statements

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

### 2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

### 2.13 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not designate any derivatives as hedging instruments.

### 2.14 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected to be in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2.11.2 for further information about the Group's accounting for trade receivables and note 2.11.3 for a description of the Group's impairment policies.

### 2.15 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

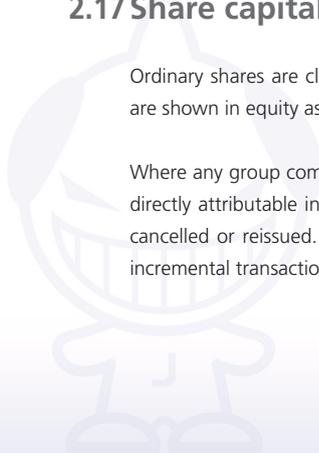
### 2.16 Term deposits

Term deposits represent time deposits placed with banks. Deposits with original maturities of one year or less are reported as current assets. Interest earned is recorded as interest income in the consolidated statements of comprehensive (loss)/income during the periods presented.

### 2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.



# Notes to the Consolidated Financial Statements

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

### 2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

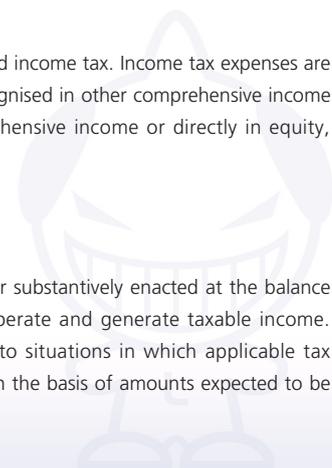
All other borrowing costs are recognised in income statement in the period in which they are incurred.

### 2.21 Current and deferred income tax

The income tax expenses for the period comprises expenses relating to current and deferred income tax. Income tax expenses are recognised in the profit or loss, except to the extent that the expenses relate to items recognised in other comprehensive income or directly in equity, in which case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.



# Notes to the Consolidated Financial Statements

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

### 2.21 Current and deferred income tax *(Continued)*

#### (b) Deferred income tax

##### Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

##### Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.22 Employee benefits

The Group contributes based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under such plan and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to the plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.



# Notes to the Consolidated Financial Statements

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

### 2.23 Share-based payments

#### (a) Equity-settled share-based payment transactions

The Group receives services from employees as consideration for equity instruments of the Company or the Company's subsidiaries. The fair value of the services received in exchange for the grant of the shares, restricted shares units ("RSUs") and options is recognised as expenses.

In terms of shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of the shares, RSUs and options granted:

- including the impact of any market performance vesting conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market performance and service vesting conditions are included in assumptions about the number of shares, RSUs and options that are expected to vest. The total expenses are recognised over the vesting period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares, RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expenses during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

#### (b) Share-based payment transactions among group entities

The grant by the Company of its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity in the separate financial statements of the Company.



# Notes to the Consolidated Financial Statements

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

### 2.24 Revenue recognition

The Group engages in development and operation of online games. The Group primarily receives proceeds from sales of in-game virtual credits ("**Game Credits**") to the game players and licensing games and providing technical support to third party publishing partners.

The Group recognises revenue when it can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's revenue streams as described below. Revenue is recorded at the fair value of consideration received or receivable net of sale tax, discounts and other promotions.

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

The Group publishes its self-developed games as well as games licensed from third-party developers through its own web-based platforms (8864.com, Linekong.com) and cooperation with various third-party game distribution channels, payment collection channels and prepaid game card distributors. These game distribution channels include third party web-based platforms (such as 360.com, 4399.com), online application stores (such as Apple Inc.'s App Store installed in mobile phones and tablets), and web-based and mobile game portals in certain countries and regions (collectively referred to as "**Game Distribution Channels**").

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

#### Principal Agent Consideration

The Group has evaluated the respective roles and responsibilities of the Group, third-party game developers, third-party Game Distribution Channels, third-party payment channels and third-party prepaid game card distributors in the delivery of game experience to the Paying Players in determining if the Group is acting as a principal or as an agent in the arrangement, and therefore if the Group's revenue from such arrangement should be reported on a gross or net basis, by assessing various factors, including but not limited to whether the Group (i) has the primary responsibility in the arrangement, and (ii) has latitude in establishing the selling prices.

The Group operates both its self-developed games and licensed games and takes primary responsibilities in the delivery of game experiences to the Paying Players, including marketing and promotion, determining distribution and payment channels, hosting game servers and providing customer services. In addition, the Group also controls game and service specifications and pricing of the in-game virtual items. Therefore the Group considers itself the principal in the delivery of game experience to the Paying Players as the Group has exposure to the significant risks and rewards associated with the operation of the games and thus records revenues on a gross basis. Payment to third-party game developers and channel service charges by Game Distribution Channels and third-party payment channels are recorded as cost of revenue.

As the Group has determined that it is the principal in the delivery of game experience to the Paying Players, the Paying Players are identified by the Group to be its customers. Accordingly the Group considers the actual price paid by the Paying Players to be the gross amount of its revenue. In determining the gross amount of revenue generated from operations of the Group's self-developed games and licensed games, the Group makes estimates of the discounts given to the Paying Players by the third-party Game Distribution Channels and third-party prepaid game card distributors based on available information and recorded such discounts as a deduction of revenue.

# Notes to the Consolidated Financial Statements

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

### 2.24 Revenue recognition *(Continued)*

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

##### Recognition of revenue generated from sales of in game virtual items

Upon the sales of Game Credits, the Group typically has an implied obligation to provide services which enable the in game virtual items exchanged from the Game Credits to be displayed or used in the games. As a result, the proceeds received from sales of Game Credits directly through the Game Distribution Channels' own charging systems or third-party payment collection channels are initially recorded by the Group as deferred revenue, while the proceeds received from sales of prepaid game cards are initially recorded as advance received from sales of prepaid game cards in trade and other payables. Such advance from sales of prepaid game cards is transferred to deferred revenue when the game cards are activated by the players, i.e. the first time the players use the pre-paid game cards to credit the Game Credits to their game accounts.

The Paying Players use the Game Credits to purchase in-game virtual items. Deferred revenue from the sales of Game Credits is immediately or ratably recognised as revenue only when the services relating to the in-game virtual items purchased by the Paying Players are rendered to the respective Paying Players. For the purposes of determining when services have been provided, the Group has determined the following:

- Consumable items represent in-game items that can be consumed by a specific player action or expire over a pre-determined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. The common characteristics of the consumable items include (a) items will be no longer displayed on the player's game account after a specified period of time ranging from several days to several months or after a player consumes the items through performing in-game actions, and (b) once the items are consumed or expired, the Group does not have further obligations in connection with such items. Revenues in relation to consumable items are recognised (as a release from deferred revenue) over the period that they are expiring or after they are consumed, as the Group's obligations in connection with such items have been fully rendered to the players after their consumption or expiration.
- Permanent ownership items represent in-game items that are accessible by the Paying Players as long as they play the game. The Group will provide continuous online game services in connection with these permanent ownership items until they are no longer used by the Paying Players. Revenues in relation to the permanent ownership items are recognised over their estimated lives. The Group considers player behaviour patterns in estimating the lives of permanent ownership items ("**Player Relationship Period**"), which is the average period between the first date the Paying Players charge their accounts and the last date these Paying Players would play the game, and it represents the Group's best estimate for the lives of the in-game permanent ownership items purchased by the Paying Players.

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

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

# Notes to the Consolidated Financial Statements

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

### 2.24 Revenue recognition *(Continued)*

#### **(b) Revenue generated from licensing and technical support fees**

The Group also derives revenue from licensing games and providing technical support services to third-party publishing partners primarily from overseas market.

Licensing revenue is recognised on a straight-line basis over the licensing period. Technical support revenue is recognised when technical support services are rendered.

The Group has evaluated the respective roles and responsibilities of the Group and the international game publishers in the delivery of game experience to overseas Paying Players and concluded that the international game publishers have the primary responsibility in these license arrangements as they are responsible for marketing and promotion of the games in each overseas market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under license. Accordingly, the Group records technical support fees, which are calculated based on a pre-determined percentage of the proceeds received by international game publishers from the overseas Paying Players, on a net basis.

### 2.25 Interest income

Interest income mainly represents interest income from bank deposits and loans and is recognised using effective interest method.

### 2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the periods necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 2.27 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or Board of Directors, where appropriate.



# Notes to the Consolidated Financial Statements

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group is subject to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, concentration risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group. Risk management is carried out by the senior management of the Group and approved by the Board of Directors.

#### (a) Market risk

##### (i) Foreign exchange risk

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

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

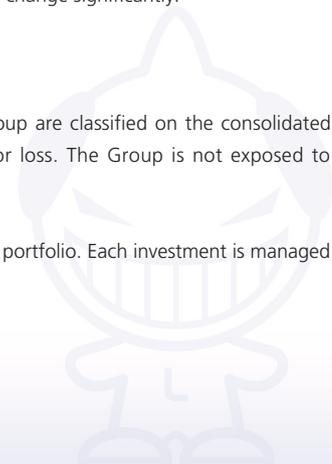
##### (ii) Interest rate risk

Other than interest-bearing cash and cash equivalents, short-term bank deposits, restricted deposits and loans, the Group has no other significant interest-bearing assets. Loans were granted at fixed rate and expose the Group to fair value interest risk. The Group's interest rate risk arises from bank borrowings, borrowings were offered at fixed rates and expose the Group to fair value interest rate risk. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets and liabilities resulted from the changes in interest rates, because the interest rates of bank balances, loans and borrowings are not expected to change significantly.

##### (iii) Price risk

The Group is exposed to price risk because of investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

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



# Notes to the Consolidated Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (a) Market risk (Continued)

##### (iii) Price risk (Continued)

The Group's available-for-sale financial assets are held for capital appreciation and business strategic purposes. The Group does not actively trade these investments. The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2015: 5%) higher/lower as at 31 December 2016, the other comprehensive income would have been approximately RMB4,317,000 (2015: RMB1,542,000) higher/lower.

The Group's fair value through profit or loss financial assets are held for trading or host equity instruments with redemption features designated in this category. The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 5% higher/lower, the post-tax loss for the year ended 31 December 2016 would have been approximately RMB1,481,000 (2015: RMB2,726,000) lower/higher.

#### (b) Credit risk

The carrying amounts of cash and cash placed with banks and financial institutions, trade receivables, other receivables (including loans) included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

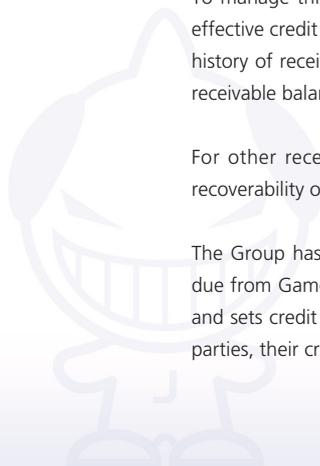
To manage risk of bank deposits, deposits are mainly placed with reputable financial institutions. There has been no recent history of default in relation to these financial institutions.

For trade receivables, a significant portion of trade receivables at the end of each reporting period was due from those Game Distribution Channels in cooperation with the Group. If the strategic relationship with Game Distribution Channels is terminated or scaled-back; or if the co-operative arrangements with the Game Distribution Channels are altered; or if they experience financial difficulties in paying the Group, the Group's trade receivables might be adversely affected in terms of recoverability.

To manage this risk, the Group maintains frequent communications with the Game Distribution Channels to ensure the effective credit control. In view of the history of cooperation with the Game Distribution Channels and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from Game Distribution Channels is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences.

The Group has no significant concentrations of credit risk with respect to its customers, except for the trade receivables due from Game Distribution Channels and payment channels as discussed below. The Group assesses the credit quality of and sets credit limits on its debtors by taking into account their financial position, the availability of guarantees from third parties, their credit history and other factors such as current market conditions.



## Notes to the Consolidated Financial Statements

### 3. FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Concentration risk

There are no customers whose revenues individually represent greater than 10% of the total revenues of the Group for the years ended December 31, 2016 and 2015.

Revenues generated from sales of in-game virtual items through Game Distribution Channels representing over 10% of the total revenues of the Group for the years ended December 31, 2016 and 2015 are as follows:

	Year ended December 31,	
	2016	2015
Game Distribution Channel A	33.0%	23.6%
Game Distribution Channel B	7.9%	13.7%
	40.9%	37.3%

The trade receivables from Game Distribution Channels represented over 10% of trade receivables balances of the Group as of December 31, 2016 and 2015 were as follows:

	As of December 31,	
	2016	2015
Game Distribution Channel A	46.1%	25.4%

##### (d) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
<b>At December 31, 2016</b>				
Bank borrowings	612	104,366	–	104,978
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	138,389	–	–	138,389
	139,001	104,366	–	243,367
<b>At December 31, 2015</b>				
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	73,293	–	–	73,293

# Notes to the Consolidated Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital, share premium and capital reserves) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>At December 31, 2016</b>				
<b>Assets</b>				
An associate measured at fair value through profit or loss	–	–	19,229	19,229
Financial assets at fair value through profit or loss				
— Listed securities	17,125	–	–	17,125
— Unlisted securities	–	–	15,637	15,637
Available-for-sale financial assets	–	–	115,125	115,125
	<b>17,125</b>	<b>–</b>	<b>149,991</b>	<b>167,116</b>
<b>At December 31, 2015</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
— Listed securities	19,543	–	–	19,543
— Unlisted securities	–	–	41,409	41,409
Available-for-sale financial assets	–	–	44,370	44,370
	19,543	–	85,779	105,322

The Group did not have any financial liabilities that were measured at fair value as of December 31, 2016.

There were no transfers among level 1, 2 and 3 during the year ended December 31, 2016.

# Notes to the Consolidated Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (*Continued*)

### 3.3 Fair value estimation (*Continued*)

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting year. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- a combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples.

There were no changes in valuation techniques used during the year ended December 31, 2016.

For the fair value measurements categorised within level 3 of the fair value hierarchy, the significant assumptions and inputs utilised in the valuation using discounted cash flow method by the Company for the year ended December 31, 2016 were as follows:

Discount rate:	20%–35%
Terminal growth rate:	3%
Discount for lack of marketability:	10%–22%
Volatility:	40%–61%

The changes in level 3 instruments for the years ended December 31, 2016 and 2015 are presented in Notes 12, 13 and 14.



# Notes to the Consolidated Financial Statements

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### (a) Estimates of the Player Relationship Period

As described in Note 2.24(a), the Group recognises revenue from permanent ownership virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual or quarterly basis. Any adjustments arising from changes in the Player Relationship Period as a result of updated information will be accounted for prospectively as a change in accounting estimate.

#### (b) Fair value of Level 3 financial assets

As mentioned in Note 3.3, the fair value of Level 3 financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets and financial assets measured at fair value through profit or loss that are not traded in active markets.

#### (c) Estimated impairment of investments in associates

The Group tests whether investments in associates have suffered impairment, in accordance with the accounting policy states in Note 2.4. The recoverable amounts of the associates have been determined using the discounted cash flow analysis. Significant estimates on assumptions, such as the forecast of the associate's future performance and the discount rate used in the analysis, are required to be made by the Company in the analysis. Based on the Group's testing result, the investments in associates did not suffer impairment as of December 31, 2016, and no impairment loss was recognised consequently.



## Notes to the Consolidated Financial Statements

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

#### 4.1 Critical accounting estimates and assumptions *(Continued)*

##### **(d) Recognition of share-based compensation expenses**

The fair values of RSUs and share options granted as mentioned in Note 22 are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognises an expense for those RSUs and share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of RSUs and share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

The fair value of RSUs and share options at the time of grant is to be expensed over the vesting period of these share-based awards based on an accelerated graded attribution approach. Under the accelerated graded attribution approach, each vesting installment of a graded vesting award is treated as a separate share-based award, which means that each vesting installment will be separately measured and attributed to expense, resulting in accelerated recognition of share-based compensation expenses.

Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expenses recognised by the Group in respect of the services rendered for the year ended December 31, 2016 were RMB33,161,000, which would have been RMB1,570,000 lower/RMB1,765,000 higher should the discount rate used in discount cash flow analysis was higher/lower by 100 basis points from management's estimates.

##### **(e) Current and deferred income taxes**

The Group is subject to income taxes in several jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.



# Notes to the Consolidated Financial Statements

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

### 4.2 Critical judgments in applying the Group's accounting policies

#### (a) Revenue deferred of certain games

As mentioned in Note 2.24, in the case the Group does not possess relevant data and information to differentiate revenues attributable to permanent ownership and consumable virtual items of a specific game, revenues from both permanent ownership and consumable virtual items are deferred and recognised ratably over the expected Player Relationship Period of the specific game.

#### (b) Critical judgment in recognition of associates

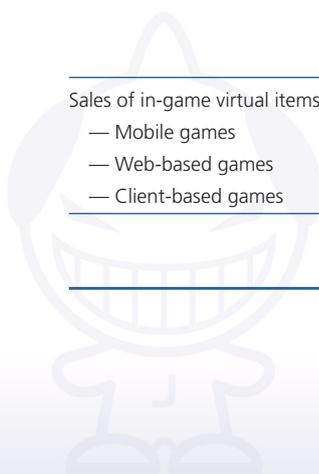
The Company has assessed the level of influence that the Group has on equity investment in Fuze Entertainment Co., Ltd. ("Fuze") undertaken during the year ended December 31, 2015 (Note11). According to the shareholders agreements of Fuze, the Group has been entitled the right to appoint certain directors of the board of directors of Fuze since the completion of issuance of series A preferred shares by Fuze in June 2015. The directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in Fuze' operational and financial policy-making processes and representation in board of directors. The Company also assessed that and the risk and reward characteristics of the preferred shares held by the Company are substantially similar to Fuze's ordinary shares, therefore the investment in Fuze has been classified as an investment in associates.

## 5. REVENUE AND SEGMENT INFORMATION

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

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

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



## Notes to the Consolidated Financial Statements

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

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

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

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

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

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

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Mainland China	81,366	43,187
Overseas countries and regions	7,727	680
	<b>89,093</b>	43,867



## Notes to the Consolidated Financial Statements

### 6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment <i>RMB'000</i>	Server and other equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At January 1, 2015</b>					
Cost	7,434	22,556	3,654	5,069	38,713
Accumulated depreciation	(4,311)	(18,363)	(1,075)	(3,597)	(27,346)
Net book amount	3,123	4,193	2,579	1,472	11,367
<b>Year ended December 31, 2015</b>					
Opening net book amount	3,123	4,193	2,579	1,472	11,367
Additions	3,224	1,831	670	4,666	10,391
Depreciation	(1,801)	(3,028)	(619)	(1,691)	(7,139)
Disposals	(7)	(5)	(139)	–	(151)
Closing net book amount	4,539	2,991	2,491	4,447	14,468
<b>At December 31, 2015</b>					
Cost	10,215	23,963	4,065	9,735	47,978
Accumulated depreciation	(5,676)	(20,972)	(1,574)	(5,288)	(33,510)
Net book amount	4,539	2,991	2,491	4,447	14,468
<b>Year ended December 31, 2016</b>					
Opening net book amount	<b>4,539</b>	<b>2,991</b>	<b>2,491</b>	<b>4,447</b>	<b>14,468</b>
Additions	<b>1,956</b>	<b>258</b>	<b>688</b>	<b>4,230</b>	<b>7,132</b>
Depreciation	<b>(2,456)</b>	<b>(1,297)</b>	<b>(758)</b>	<b>(3,407)</b>	<b>(7,918)</b>
Disposals	<b>(14)</b>	<b>(12)</b>	<b>(7)</b>	–	<b>(33)</b>
Closing net book amount	<b>4,025</b>	<b>1,940</b>	<b>2,414</b>	<b>5,270</b>	<b>13,649</b>
<b>At December 31, 2016</b>					
Cost	<b>11,674</b>	<b>22,798</b>	<b>4,058</b>	<b>13,470</b>	<b>52,000</b>
Accumulated depreciation	<b>(7,649)</b>	<b>(20,858)</b>	<b>(1,644)</b>	<b>(8,200)</b>	<b>(38,351)</b>
Net book amount	<b>4,025</b>	<b>1,940</b>	<b>2,414</b>	<b>5,270</b>	<b>13,649</b>

Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive (loss)/income:

	Year ended December 31,	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of revenue	1,906	3,712
Administrative expenses	2,479	1,642
Selling and marketing expenses	774	460
Research and development expenses	2,759	1,325
	<b>7,918</b>	7,139

## Notes to the Consolidated Financial Statements

### 7. INTANGIBLE ASSETS

	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
<b>At January 1, 2015</b>			
Cost	42,240	2,737	44,977
Accumulated amortisation	(6,167)	(1,683)	(7,850)
Net book amount	36,073	1,054	37,127
<b>Year ended December 31, 2015</b>			
Opening net book amount	36,073	1,054	37,127
Additions	22,024	393	22,417
Amortisation	(11,845)	(596)	(12,441)
Disposals	(15,245)	–	(15,245)
Impairment	(2,515)	–	(2,515)
Closing net book amount	28,492	851	29,343
<b>At December 31, 2015</b>			
Cost	46,296	3,130	49,426
Accumulated impairment	(2,515)	–	(2,515)
Accumulated amortisation	(15,289)	(2,279)	(17,568)
Net book amount	28,492	851	29,343
<b>Year ended December 31, 2016</b>			
Opening net book amount	28,492	851	29,343
Additions	29,188	989	30,177
Amortisation	(13,786)	(666)	(14,452)
Disposals	(733)	–	(733)
Impairment	(4,929)	–	(4,929)
Closing net book amount	38,232	1,174	39,406
<b>At December 31, 2016</b>			
Cost	71,714	4,119	75,833
Accumulated impairment	(5,807)	–	(5,807)
Accumulated amortisation	(27,675)	(2,945)	(30,620)
Net book amount	38,232	1,174	39,406

Amortisation charges were expensed in the following categories in the consolidated statements of comprehensive (loss)/income:

	Year ended December 31,	
	2016 RMB'000	2015 RMB'000
Cost of revenue	7,735	4,913
Administrative expenses	338	158
Selling and marketing expenses	52	42
Research and development expenses	6,327	7,328
	14,452	12,441

# Notes to the Consolidated Financial Statements

## 8. FILMS IN PROGRESS

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	–	–
Additions of the year	24,418	–
End of the year	24,418	–

## 9. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	Assets at fair value through profit & loss RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
<b>Assets as per balance sheet</b>				
<b>As of December 31, 2016</b>				
Available-for-sale financial assets	–	–	115,125	115,125
Trade receivables	78,947	–	–	78,947
Other receivable (excluding prepayments)	22,946	–	–	22,946
Financial assets at fair value through profit or loss	–	32,762	–	32,762
An Associate at fair value through profit or loss	–	19,229	–	19,229
Restricted deposits	106,139	–	–	106,139
Short-term bank deposits	312,963	–	–	312,963
Cash and cash equivalents	338,655	–	–	338,655
	859,650	51,991	115,125	1,026,766
<b>As of December 31, 2015</b>				
Available-for-sale financial assets	–	–	44,370	44,370
Trade receivables	45,079	–	–	45,079
Other receivable (excluding prepayments)	36,901	–	–	36,901
Financial assets at fair value through profit or loss	–	60,952	–	60,952
Cash and cash equivalents	794,461	–	–	794,461
	876,441	60,952	44,370	981,763

	Liabilities as amortized cost RMB'000
<b>Liabilities as per balance sheet</b>	
<b>As of December 31, 2016</b>	
Bank Borrowings	100,000
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	138,389
	238,389
<b>As of December 31, 2015</b>	
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	73,293

# Notes to the Consolidated Financial Statements

## 10. SUBSIDIARIES

The following is a list of the principal subsidiaries (including structured entities) as of December 31, 2016:

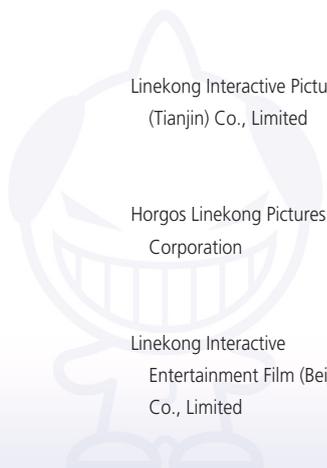
Company Name	Kind of legal entity	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity Interest Held	Principal activities and place of operation
<b>(a) Directly held by the Company:</b>					
Linekong Online (Beijing) Internet Technology Co., Ltd	Limited liability company	PRC/April 14, 2008	USD34,000,000	100%	Technology consulting and services/PRC
Linekong Holdings Limited	Limited liability company	BVI/January 8, 2014	USD1	100%	Investment holdings/BVI
Creative Ace Limited	Limited liability company	Cayman Islands/ June 17, 2015	USD50,000	100%	Investment holdings/ Cayman Islands
<b>(b) Indirectly held by the Company:</b>					
Linekong Asia Co., Limited	Limited liability company	Hong Kong/ March 27, 2014	HKD10,000	100%	Investment holdings/ Hong Kong
Linekong Korea Co., Ltd.	Limited liability company	South Korea/ April 16, 2014	KER100,000,000	100%	Game operation and game research and development/ South Korea
Linekong Interactive Entertainment (Hong Kong) Co., Limited	Limited liability company	Hong Kong/ April 27, 2012	HKD10,000	100%	Game operation/ Hong Kong
Ace Incorporation Limited	Limited liability company	Hong Kong/ September 4, 2015	HKD1	100%	Investment holdings/ Hong Kong
Linekong US Inc.	Limited liability company	United States of America ("US")/ June 12, 2015	USD100	100%	Game operation and game research and development/ US
<b>(c) Controlled by the Company pursuant to the Contractual Agreements:</b>					
Linekong Entertainment Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB10,000,000	100%	Game operation and game research and development/ PRC
Duobianxing (Beijing) Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB30,000	100%	Game research and development/PRC
Beijing Sanqiren Technology Co., Ltd.	Limited liability company	PRC/December 7, 2007	RMB100,000	100%	Game research and development/PRC
Linekong Xingyun (Beijing) Technology Co., Ltd.	Limited liability company	PRC/January 16, 2008	RMB100,000	100%	Game research and development/PRC



# Notes to the Consolidated Financial Statements

## 10. SUBSIDIARIES (Continued)

Company Name	Kind of legal entity	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity Interest Held	Principal activities and place of operation
<b>(c) Controlled by the Company pursuant to the Contractual Agreements: (Continued)</b>					
Zhuhai Linekong Online Technology Co., Ltd.	Limited liability company	PRC/October 30, 2008	RMB10,000,000	97%	Game research and development/PRC
Shouyoutong (Beijing) Technology Co., Ltd. (“Shouyoutong”, previously known as Beijing Huoying Shidai Network Technology Co., Ltd.)	Limited liability company	PRC/August 26, 2011	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Technology Co., Ltd.	Limited liability company	PRC/June 13, 2012	RMB1,000,000	100%	Game research and development/PRC
Tianjin Baba Liusi Network Technology Co., Ltd. (“Tianjin 8864”)	Limited liability company	PRC/December 26, 2012	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Information Technology Co., Limited	Limited liability company	PRC/May 20, 2014	RMB2,000,000	100%	Game research and development/PRC
Beijing Lanhujing Technology Co., Limited	Limited liability company	PRC/May 29, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Quweizhijian Network Technology Co., Limited	Limited liability company	PRC/July 25, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Feng and Long Interactive Culture Co., Limited	Limited liability company	PRC/June 5, 2015	RMB10,000,000 (paid-in capital)/ RMB12,500,000 (registered capital)	80%	Game operation and game research and development/PRC
Linekong Interactive Pictures (Tianjin) Co., Limited	Limited liability company	PRC/December 4, 2015	RMB10,000,000	100%	Film and television drama series production and distribution/PRC
Horgos Linekong Pictures Corporation	Limited liability company	PRC/June 14, 2016	RMB50,000,000	100%	Film and television drama series production and distribution/PRC
Linekong Interactive Entertainment Film (Beijing) Co., Limited	Limited liability company	PRC/August 8, 2016	RMB3,000,000	100%	Film and television drama series production and distribution/PRC



# Notes to the Consolidated Financial Statements

## 11. INVESTMENTS USING EQUITY ACCOUNTING

	Year ended December 31,	
	2016 RMB'000	2015 RMB'000
Beginning of the year	180,183	–
Addition of the year	12,000	163,791
Share of losses	(28,621)	(5,430)
Dilution gain	–	12,725
Gain arising from other shareholders' contribution to an associate	5,619	–
Other comprehensive income	3,991	2,430
Currency translation difference	3,190	6,667
End of the year	176,362	180,183

Name	Principal activities/country of incorporation	% Interest held as of December 31,		Nature of the relationship
		2016	2015	
Fuze Entertainment Co., Ltd. (“Fuze”)	Gaming hardware development and sale/Cayman Islands	36.82%	31.92%	Note (a)
Huaying Jiashi (Beijing) International Culture Media Co., Ltd. (“Huaying”)	Film distribution/PRC	21.05%	–	Note (b)

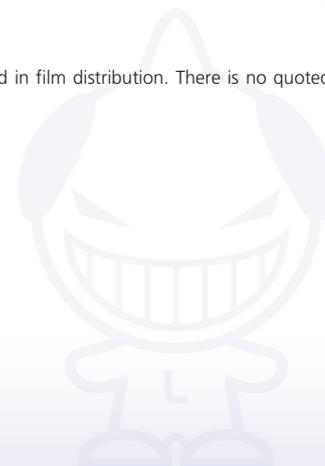
Notes:

- (a) The Group has been entitled the right to appoint certain directors of the board of directors of Fuze thus the directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in its operational and financial decision-making processes, therefore the investment in Fuze was accounted for using equity accounting method consistently for the years ended December 31, 2016 and 2015.

Fuze is a limited liability company incorporated in the Cayman Islands and is engaged in gaming hardware development and sale. There is no quoted market price available for its shares.

- (b) In July 2016, a subsidiary of the Company entered into an investment agreement with shareholders of Huaying, and pursuant to which the Group purchased 21.05% equity interests in Huaying with a consideration of RMB12,000,000. The Group has been entitled the right to appoint one director out of four of the board of directors of Huaying thus the directors of the Company consider that the Group has significant influence exercised on Huaying in its operational and financial decision-making processes, therefore the investment in Huaying was accounted for using equity accounting method.

Huaying Jiashi is a limited liability company incorporated in Beijing, PRC and is primarily engaged in film distribution. There is no quoted market price available for its shares.



# Notes to the Consolidated Financial Statements

## 11. INVESTMENTS USING EQUITY ACCOUNTING (Continued)

### Summarised financial information for associates

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

#### Summarised balance sheet

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Current assets	275,134	359,625
Non-current assets	52,428	39,966
Current liabilities	(85,013)	(6,516)
Non-current liabilities	–	(30,000)
Net assets	242,549	363,075

#### Summarised statement of comprehensive loss

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Revenue	12,730	–
Loss before income tax	(83,469)	(19,024)
Loss	(83,469)	(19,024)
Other comprehensive income	11,884	7,614
Total comprehensive loss	(71,585)	(11,410)
Total comprehensive loss, the Group's share	(23,109)	(2,586)
Amortisation of fair value adjustments	(1,521)	(414)
Total comprehensive loss after adjustment, the Group's share	(24,630)	(3,000)



## Notes to the Consolidated Financial Statements

### 11. INVESTMENTS USING EQUITY ACCOUNTING (Continued)

#### Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in Fuze.

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Net assets of the associate	242,549	363,075
Net assets of the associate, the Group's share	89,307	113,800
Adjustment of fair values	1,625	3,146
Net assets after adjustment, the Group's share	90,932	116,946
Goodwill	73,430	63,237
<b>Carrying value</b>	<b>164,362</b>	180,183

For the year ended December 31, 2016, the Group's share of Huaying's profit and other comprehensive income is nil. As of December 31, 2016, the carrying value of the Group's investments in Huaying is RMB12,000,000.

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

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Unlisted fund	19,229	–

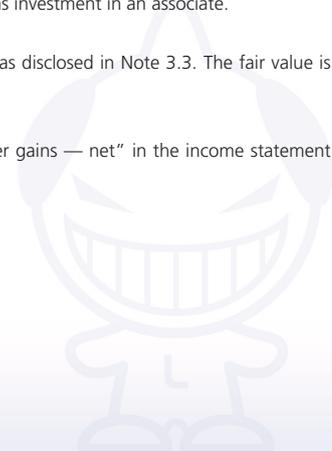
Name	Principal activities/country of incorporation	% Interest held as of December 31,		Nature of the relationship
		2016	2015	
Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "Jikebang Fund")	Investment holding as a private equity fund/PRC	22.45%	–	Note

Note:

On January 4, 2016, Linekong Entertainment invested RMB15,000,000 in Jikebang Fund as a limited partner. The directors of the Company determined that the Group has significant influence on Jikebang Fund and this investment was classified as investment in an associate.

Jikebang Fund is not traded on an active market, its fair value is determined using valuation techniques as disclosed in Note 3.3. The fair value is within level 3 of the fair value hierarchy.

Changes in fair value of an associate measured at fair value through profit or loss are recorded in "other gains — net" in the income statement (Note 28).



# Notes to the Consolidated Financial Statements

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
<b>Included in non-current assets</b>		
Unlisted equity investments (Note (a))	115,125	44,370
	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	44,370	–
Additions (Note (b))	371,215	494,644
Net gains transfer to equity	29,918	9,829
Net gains transfer from equity	(4,078)	(1,753)
Disposals	(326,300)	(458,350)
End of the year	115,125	44,370

Notes:

- (a) As of December 31, 2016, unlisted equity investments include equity investments held by the Group in several private companies, equity funds and production of films in PRC.

The equity interests held by the Group in the private companies and funds is less than 10% for each entity and the Group does not have control nor significant influence over the operating and financial decisions of each of these entities respectively. Therefore, the Group classified its investment in each of these entities as an available-for-sale financial asset.

Investments in film production represent funds provided to the film companies for collaborate on the production of films and/or television programmes. The investments are governed by the relevant investment agreements entered into between the Group and the film companies whereby the Group is entitled to receive a percentage of the proceeds generated from the distribution of the related films and/or television programmes after they are released. The Group has agreed the project plan and budget but does not participate in any of the ongoing production or commercialisation decisions. Therefore, the Group determined its investment in film production as financial assets and classified each of them as an available-for-sale financial asset.

There are no quoted market prices available for all the underlying entities and film productions. The Group has determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 3.3. The fair value are within level 3 of the fair value hierarchy.

Gains or losses arising from the changes in fair value of available-for-sale financial assets are recognised as other comprehensive (loss)/income.

- (b) Except for the equity investment as mentioned in above (a), the Group purchased certain wealth management products issued by commercial banks in the PRC at an aggregate cash consideration of RMB322,800,000. These wealth management products are return non-guaranteed and redeemable on demand or with a term less than three months. The Group has classified its investments in such wealth management products as available-for-sale financial assets. Fair values of these investments were estimated based on the statements provided by the banks. As of December 31, 2016, all these investments have been disposed. The related gains previously recognised in other comprehensive income have been reclassified to profit or loss.

## Notes to the Consolidated Financial Statements

### 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
<b>Included in current assets</b>		
Listed securities — Hong Kong (Note (a))	17,125	19,543
<b>Included in non-current assets</b>		
Unlisted securities (Note (b))	15,637	41,409

Notes:

- (a) The fair value of all listed equity securities is based on their current bid price in an active market.
- (b) The unlisted securities represent shares held by the Group in certain entities, which are redeemable upon occurrence of certain future events which are at option of the Group. Therefore, the Group has designated each of these investments as a financial asset at fair value through profit or loss upon initial recognition.

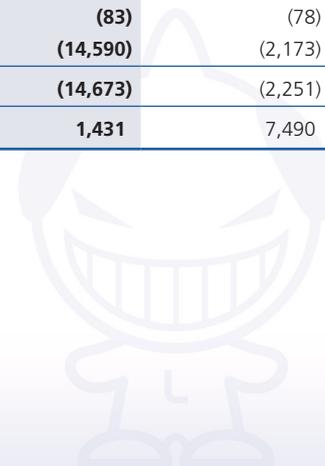
Each of these entities is a private company and there is no quoted market price available for its shares. The Group has determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 3.3. The fair value are within level 3 of the fair value hierarchy.

- (c) Changes in fair values of financial assets at fair value through profit or loss are recorded in "other-gains net" in the income statement.

### 15. DEFERRED INCOME TAX — NET

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

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



## Notes to the Consolidated Financial Statements

### 15. DEFERRED INCOME TAX — NET (Continued)

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

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

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

Deferred income tax assets:

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

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB151,960,742 as of December 31, 2016 (December 31, 2015: RMB82,693,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2017 to 2021.



## Notes to the Consolidated Financial Statements

### 15. DEFERRED INCOME TAX — NET (Continued)

Deferred income tax liabilities:

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

### 16. TRADE RECEIVABLES

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

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

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

## Notes to the Consolidated Financial Statements

### 16. TRADE RECEIVABLES (Continued)

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

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

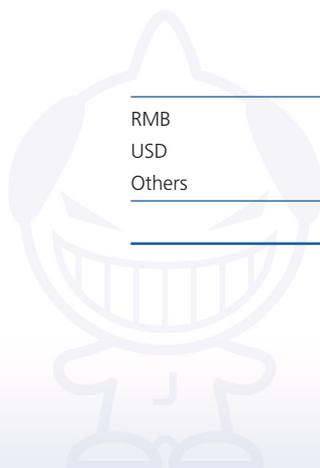
- (c) Movements of the Group's provision for impairment of trade receivables are as follows:

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

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

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

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



## Notes to the Consolidated Financial Statements

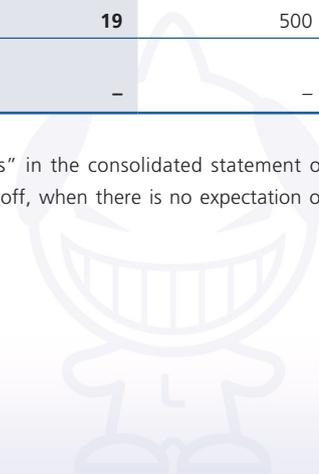
### 17. PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
<b>Current</b>		
Prepaid service charges to Game Distribution Channels	31,307	29,525
Prepayment to game developers	33,923	30,685
Staff advance (Note (a))	693	608
Loans to employees (Note (b))	4,283	1,266
— Loans to key management (Note 34)	2,162	188
— Loans to other employees	2,121	1,078
Prepaid rental, advertising cost and others	33,498	12,973
Rental and other deposits	731	3,038
Interests receivable	902	7,925
Others	7,568	3,655
	<b>112,905</b>	<b>89,675</b>
<b>Non-current</b>		
Prepaid service charges to Game Distribution Channels	56	56
Loans to employees (Note (b))	2,587	3,750
— Loans to key management (Note 34)	208	2,067
— Loans to other employees	2,379	1,683
Rental and other deposits	3,942	3,466
Loans to a third party (Note (c))	–	10,723
Prepayment for investments	11,564	–
Others	2,240	2,470
	<b>20,389</b>	<b>20,465</b>

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

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

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



# Notes to the Consolidated Financial Statements

## 17. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

- (a) Staff advances represent the advances to employees for various expenses to be incurred in the ordinary course of business.
- (b) Loans to employees represent the housing loans provided to certain employees. These housing loans are unsecured and with a term ranging from 2 to 5 years.
- (c) On May 25, 2015, Linekong Entertainment, as the lender, entered into a loan agreement with the borrower, Jiangsu Strawbear Pictures Co. Ltd. Pursuant to the agreement, Linekong Entertainment granted an unsecured loan to the borrower in the principal amount of RMB10,000,000 with interest rate of 12% per annum. Maturity period of the loan is no longer than two years from May 25, 2015. The loan was early settled by the borrower in March 2016.

## 18. SHORT-TERM BANK DEPOSITS

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Short-term bank deposits	312,963	-

## 19. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents		
— Cash at bank and in hand	331,617	786,618
— Cash at other financial institutions	7,038	7,843
	338,655	794,461
Restricted deposits		
— Matured after 12 months	106,139	-

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
RMB	126,061	180,057
USD	10,570	21,839
HKD	200,960	590,401
Others	1,064	2,164
	338,655	794,461

Note:

As of December 31, 2016, HKD118,700,000, approximately equivalent to RMB106,139,000, (December 31, 2015: Nil) are restricted deposits held at bank as reserve for serving of a loan facility with total a credit line of RMB100,000,000 provided by the bank, and which will expire in 2018.

## Notes to the Consolidated Financial Statements

### 20. SHARE CAPITAL AND SHARE PREMIUM

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

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

### 21. RESERVES

	Capital reserve <i>RMB'000</i>	Currency translation differences <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i> <i>(Note (i))</i>	Share-based compensation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Balance at January 1, 2015</b>	(7,831)	26,503	9,557	177,947	6	206,182
Changes in fair value of available-for-sale financial assets, net of tax <i>(Note 13)</i>	–	–	–	–	8,399	8,399
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax <i>(Note 28)</i>	–	–	–	–	(1,534)	(1,534)
Share of other comprehensive income of an investment accounted for using the equity method, net of tax <i>(Note 11)</i>	–	–	–	–	2,430	2,430
Employee share option and RSU scheme: — Value of employee services <i>(Note 22)</i>	–	–	–	62,882	–	62,882
Currency translation differences	–	47,354	–	–	–	47,354
<b>Balance at December 31, 2015</b>	(7,831)	73,857	9,557	240,829	9,301	325,713
<b>Balance at January 1, 2016</b>	<b>(7,831)</b>	<b>73,857</b>	<b>9,557</b>	<b>240,829</b>	<b>9,301</b>	<b>325,713</b>
Changes in fair value of available-for-sale financial assets, net of tax <i>(Note 13)</i>	–	–	–	–	21,022	21,022
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax <i>(Note 28)</i>	–	–	–	–	(2,449)	(2,449)
Share of other comprehensive income of investments using equity method, net of tax <i>(Note 11)</i>	–	–	–	–	3,991	3,991
Employee share option and RSU scheme: — Value of employee services <i>(Note 22)</i>	–	–	–	33,161	–	33,161
Currency translation differences	–	45,042	–	–	–	45,042
<b>Balance at December 31, 2016</b>	<b>(7,831)</b>	<b>118,899</b>	<b>9,557</b>	<b>273,990</b>	<b>31,865</b>	<b>426,480</b>

# Notes to the Consolidated Financial Statements

## 21. RESERVES (Continued)

Note:

- (i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group, i.e. the PRC Operational Entities, it is required to appropriate 10% of the annual net profits of the PRC Operational Entities, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any net profit. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital of the entity, any further appropriation is at the discretion of the entity's shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory surplus reserve fund after such usage is no less than 25% of the entity's registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions in the Articles of Association of Beijing Linekong Online, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by Beijing Linekong Online to its reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the annual net profit. When the balance of the reserve fund reaches 50% of the registered capital, such appropriation needs not to be made.

## 22. SHARE-BASED PAYMENTS

### (a) Restricted Share Units ("RSUs")

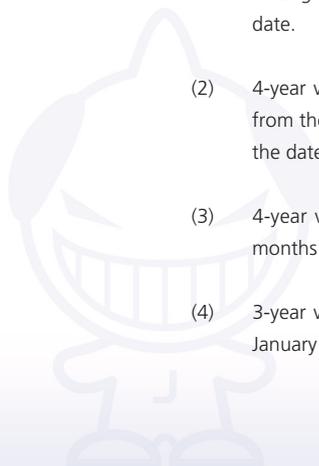
Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company set up a restricted share unit scheme ("RSU Scheme") with the objective to incentivize directors, senior management, employees and any person who provides or has provided consultancy or other advisory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

#### (i) Grant of the RSUs

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

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

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



# Notes to the Consolidated Financial Statements

## 22. SHARE-BASED PAYMENTS (Continued)

### (a) Restricted Share Units (“RSUs”) (Continued)

#### (i) Grant of the RSUs (Continued)

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

- (1) 4-year vesting: 25% on September 11, 2015, 12.5% each on every six months from September 11, 2015.
- (2) 2-year vesting: 25% each on every six months from the grant date.
- (3) one-off vesting: 100% on July 1, 2015.

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

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

Movements in the number of RSUs outstanding:

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

As of December 31, 2016 and 2015, 24,858,985 and 19,412,664 RSUs have been vested unconditionally, respectively.

#### (ii) Shares held for RSU Scheme

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

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders’ equity; the costs of these shares totalling approximately RMB6,488 were credited to “other reserves” as deemed contribution from shareholders. As a result of the vesting of 5,446,321 RSUs during the year ended December 31, 2016, costs of these RSUs totally approximately RMB906 was transferred out from treasury shares upon vesting of these RSUs.

# Notes to the Consolidated Financial Statements

## 22. SHARE-BASED PAYMENTS (Continued)

### (a) Restricted Share Units (“RSUs”) (Continued)

#### (iii) Fair value of RSUs

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

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

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

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

### (b) Share options

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

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

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



## Notes to the Consolidated Financial Statements

### 22. SHARE-BASED PAYMENTS (Continued)

#### (b) Share options (Continued)

##### (i) Grant of share options

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

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

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

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

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

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

Out of the 6,654,798 outstanding options (December 31, 2015: 7,709,192), 1,657,298 options (December 31, 2015: Nil) were exercisable. Share options outstanding as of December 31, 2016 include 462,298 (December 31, 2015: 1,849,192) share options, 4,742,500 (December 31, 2015: 5,860,000) share options and 1,450,000 (December 31, 2015: Nil) with the exercise price of HKD8.10, HKD7.18 and HKD4.366 per share option, respectively. All these options will expire in 10 years from the grant date.



# Notes to the Consolidated Financial Statements

## 22. SHARE-BASED PAYMENTS (Continued)

### (b) Share options (Continued)

#### (ii) Fair value of share options

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

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

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

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

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

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

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements

### 22. SHARE-BASED PAYMENTS (Continued)

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

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

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

#### (d) Expected retention rate of grantees

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

### 23. BANK BORROWINGS

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Bank borrowings		
— Secured loans	100,000	–
Included in:		
Current liabilities	600	–
Non-current liabilities	99,400	–

- (a) Bank borrowings are secured by the restricted deposits of RMB106,139,000. (2015: Nil) (Note 19).
- (b) The fair value of the borrowings approximately equals their carrying amount, as the impact of discounting is not significant.
- (c) Effective interest rates per annum on borrowings is 2.55%–2.77%. (2015: Nil)
- (d) Borrowings are repayable as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Within 1 year	600	–
Between 1 and 2 years	99,400	–
	100,000	–

- (e) As at 31 December 2016, the Group's borrowings are denominated in RMB.

## Notes to the Consolidated Financial Statements

### 24. TRADE AND OTHER PAYABLES

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

Note:

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

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



## Notes to the Consolidated Financial Statements

### 25. DEFERRED REVENUE

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

Note:

- (i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of December 31, 2016 and 2015. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games, as described in note 2.24. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB6,921,000 as of December 31, 2016 (December 31, 2015: RMB8,086,000).



## Notes to the Consolidated Financial Statements

### 26. EXPENSES BY NATURE

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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Service charges by game distribution channels	249,593	196,763
Content fee to game developers	60,786	71,285
Bandwidth and server custody fees	16,642	13,242
Payment handling costs	435	955
Employee benefit expenses (excluding share-based compensation expenses) (Note 27(a))	172,006	131,483
Share-based compensation expenses	33,161	62,882
Depreciation of property, plant and equipment (Note 6)	7,918	7,139
Amortisation and impairment of intangible assets (Note 7)	19,381	14,956
Impairment charges on trade and other receivables	4,242	2,399
Prepayment write-off	6,973	–
Promotion and advertising expenses	175,979	156,608
Traveling and entertainment expenses	5,951	5,147
Office rental expenses	16,180	14,466
Other professional service fees	11,710	9,277
Game development outsourcing costs	13,767	7,233
Utilities and office expenses	3,837	1,888
Auditors' remuneration		
— Audit services	5,100	5,530
— Non-audit services	180	–
Others	6,675	6,421
<b>Total</b>	<b>810,516</b>	<b>707,674</b>



## Notes to the Consolidated Financial Statements

### 27. EMPLOYEE BENEFIT EXPENSES

#### (a) Employee benefit expenses

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	129,821	103,622
Pension costs — defined contribution plans	10,285	8,402
Other social security costs, housing benefits and other employee benefits	31,900	19,459
Share-based compensation expenses	33,161	62,882
	205,167	194,365

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

#### (b) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2016 and 2015 include 3 and 4 directors whose emoluments are reflected in the analysis presented in Note 38(a), respectively. The aggregate amounts of emoluments for the remaining 2 and 1 individuals for each of the years ended December 31, 2016 and 2015 are set out below:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	1,644	1,285
Pension costs — defined contribution plans	88	44
Other social security costs, housing benefits and other employee benefits	113	54
Share-based compensation expenses	5,701	2,679
	7,546	4,062

The emoluments payable to these individuals for the years ended December 31, 2016 and 2015 fell within the following bands:

	Year ended December 31,	
	2016	2015
Emoluments band		
HKD3,500,001 to HKD4,000,000	1	—
HKD4,000,001 to HKD4,500,000	—	—
HKD4,500,001 to HKD5,000,000	1	1
	2	1

For the years ended December 31, 2016 and 2015, neither directors nor the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

## Notes to the Consolidated Financial Statements

### 28. OTHER GAINS — NET

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

Notes:

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

### 29. FINANCE INCOME — NET

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
<b>Finance income</b>		
Interest income on bank deposits	5,373	10,648
Interest income on loans to a related party (Note 34)	–	953
Interest income on loans to a third party	243	723
<b>Finance costs</b>		
Interest cost on bank borrowings	(1,018)	–
Foreign exchange (losses)/gains, net	(373)	4,049
<b>Finance income — net</b>	<b>4,225</b>	<b>16,373</b>

# Notes to the Consolidated Financial Statements

## 30. INCOME TAX EXPENSE

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

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

### (a) Cayman Islands income tax

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

### (b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the years ended December 31, 2016 and 2015 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

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

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the years ended December 31, 2016 and 2015, except for Tianjin 8864 and Shouyoutong, which were accredited as software enterprises and subject to below preferential income tax rate:

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

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

### (d) PRC Withholding Tax ("WHT")

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

As of December 31, 2016, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of December 31, 2016 and 2015, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

# Notes to the Consolidated Financial Statements

## 30. INCOME TAX EXPENSE (Continued)

### (d) PRC Withholding Tax ("WHT") (Continued)

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

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
<b>Loss before income tax</b>	<b>(140,912)</b>	(51,885)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions (Note (i))	<b>(20,470)</b>	(29,138)
<b>Tax effects of:</b>		
Preferential income tax rates applicable to subsidiaries	–	(5,145)
Super Deduction for research and development expenses	<b>(10,042)</b>	(1,909)
Expenses not deductible for tax purposes:		
— Share-based compensation	<b>7,902</b>	15,721
— Others	<b>18,844</b>	17,137
Unrecognised temporary differences (Note (ii))	<b>22,024</b>	10,856
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	<b>1,194</b>	3,045
Adjustment to deferred income tax arising in prior years	<b>(2,990)</b>	(8,655)
<b>Income tax expense</b>	<b>16,462</b>	1,912

Notes:

- (i) The Company is exempt from Cayman Islands income tax. As such, the operating results reported by the Company on a standalone basis, are not subject to any income tax.
- (ii) The Group has assessed the realisation of deductible temporary differences and unused tax losses for each Group entity as of December 31, 2016 and 2015. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.



## Notes to the Consolidated Financial Statements

### 31. LOSS PER SHARE

#### (a) Basic

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

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

#### (b) Diluted

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

For the year ended December 31, 2016 and 2015, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the years ended December 31, 2016 and 2015, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the years ended December 31, 2016 and 2015 are the same as basic loss per share of the years.

### 32. DIVIDENDS

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



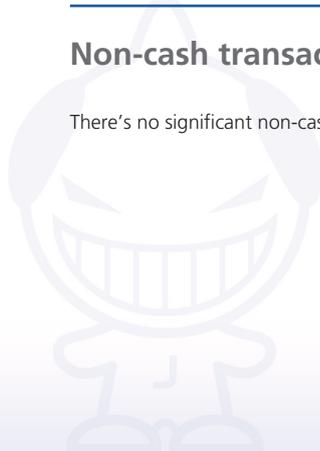
# Notes to the Consolidated Financial Statements

## 33. CASH USED IN OPERATIONS

	Note	Year ended December 31,	
		2016 RMB'000	2015 RMB'000
<b>Loss before income tax</b>		<b>(140,912)</b>	(51,885)
Adjustments for:			
— Impairment charges on trade and other receivables	26	4,242	2,399
— Prepayment write-off	26	6,973	—
— Depreciation of property, plant and equipment	6	7,918	7,139
— Amortisation of intangible assets	7	14,452	12,441
— Impairment charges on intangible assets	7	4,929	2,515
— (Gain)/loss on disposals of property, plant and equipment	28	(138)	48
— (Gain)/loss on disposals of intangible assets	28	(2,459)	1,863
— Share-based payments	27	33,161	62,882
— Share of loss of investments using equity method	11	28,621	5,430
— Gain arising from other shareholders' contribution to an associate	11	(5,619)	—
— Fair value gain from an associate measured at fair value through profit or loss	12	(4,229)	—
— Interest cost on bank borrowings		1,018	—
— Gain on disposal of available-for-sale financial assets		(2,449)	(1,753)
— Dilution gains arising from deemed disposal of investments	11	—	(12,725)
— Return on short-term investment	28	—	(821)
— Interest income from loan to a third party		(243)	(723)
— Interest income from loan to a related party		—	(953)
— Realised/unrealised fair value gains on financial assets at fair value through profit or loss	28	(8,950)	(67,196)
— Realised fair value gains on derivatives	28	—	(14,540)
— Foreign exchange losses/(gains), net	29	373	(4,049)
		<b>(63,312)</b>	(59,928)
<b>Changes in working capital:</b>			
— Trade receivables		(38,110)	15,851
— Prepayments and other receivables		(29,844)	(42,890)
— Trade and other payables		57,169	(27,030)
— Deferred revenue		(14,279)	8,907
<b>Cash used in operations</b>		<b>(88,376)</b>	(105,090)

### Non-cash transactions

There's no significant non-cash transaction for the year ended December 31, 2016 and 2015.



# Notes to the Consolidated Financial Statements

## 34. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the consolidated financial statements, the following significant transactions were carried out between the Group and its related parties during the years ended December 31, 2016 and 2015. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

### (a) Related party transactions

#### (i) A loan granted to related party

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Loan granted	–	55,460
Interest charged	–	953
	–	56,413

Note:

On July 7, 2015, the Company, as the lender, entered into a loan agreement with the borrower, Fuze. Pursuant to the agreement, the Company granted an unsecured loan to the borrower in the principal amount of USD9,000,000 (or its equivalent in other currencies). Maturity period of the loan is 12 months from the date of the issuance of the loan. The loan was fully issued to Fuze in instalments in July 2015 in the currency of USD and RMB. Interest rate on this USD and RMB loan is 3% per annum and 4.85% per annum respectively. The loan was fully repaid by Fuze in December 2015.

### (b) Balances with related parties

#### (i) Amount due from related parties

The amount due from the related parties as of December 31, 2016 and 2015 was unsecured.

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Zhao Jun	2,370	2,255

Note:

The Group granted a housing loan with amount of RMB2,000,000 to a director in May 2015. The loan is unsecured, fully repayable on December 31, 2017 and with an interest rate of 5% per annum.

The Group granted a housing loan with amount of HKD500,000 (approximately equivalent to RMB447,000) to a director in September 2015. The loan is unsecured, fully repayable before December 31, 2018 and with an interest rate of 3.7% per annum. The housing loan is partially repaid with amount of HKD280,000 (approximately equivalent to RMB250,000) by the director in December 2015.

## Notes to the Consolidated Financial Statements

### 34. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (b) Balances with related parties (Continued)

##### (ii) Amount due to related parties

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Fuze	–	1,447

#### (c) Key management personnel compensations

The compensations paid or payable to key management personnel (including directors, CEO and other senior executives) for employee services are shown below:

	Year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	12,524	12,179
Pension costs — defined contribution plans	553	445
Other social security costs, housing benefits and other employee benefits	628	509
Share-based compensation expenses	21,835	42,944
	35,540	56,077



## Notes to the Consolidated Financial Statements

### 35. COMMITMENTS

#### (a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	167	3,154
Purchase of film rights and production of films	14,188	–
Capital investment in investees	17,835	31,757
	<b>32,190</b>	34,911

There were no other significant commitments authorised but not contracted at the end of each of the reporting dates.

#### (b) Operating lease commitments — group company as lessee

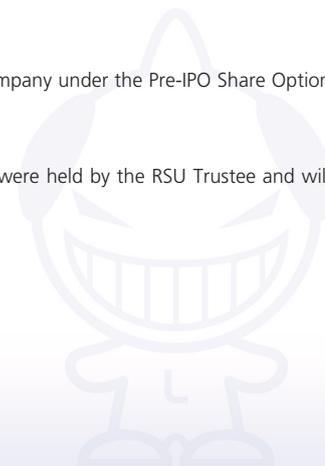
The Group leases office premises under non-cancellable operating lease agreements. The lease terms are between 1 year to 3 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Not later than 1 year	9,842	14,221
Later than 1 year and not later than 3 years	1,731	10,562
	<b>11,573</b>	24,783

### 36. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On January 15, 2017, Linekong Entertainment entered into an equity transfer agreement with certain buyers and pursuant to which, Linekong entertainment has agreed to sell all its 2.35% equity interests in MicroFunPlus Co., Ltd. ("MicroFunPlus") with a consideration of RMB31,200,000 to these buyers. The equity investment in MicroFunPlus was accounted as an available-for-sale financial asset in the Group's consolidated financial statement as of December 31, 2016.
- (b) On January 18, 2017, 9,225,000 share options were granted to eligible persons by the Company under the Pre-IPO Share Option Scheme with exercise price of HKD3.10 per share option.
- (c) In January 2017, the Company repurchased its shares totaling 428,500 shares and which were held by the RSU Trustee and will be used to satisfy share-based payment awards.



# Notes to the Consolidated Financial Statements

## 37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### Balance sheet of the Company

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Other receivables	208	–
Investments using equity accounting	164,362	180,183
Investments in subsidiaries	535,813	469,020
	<b>700,383</b>	649,203
<b>Current assets</b>		
Prepayment and other receivables	206,736	59,630
Financial assets at fair value through profit or loss	17,125	19,543
Short-term bank deposits	312,963	–
Cash and cash equivalents	162,487	583,669
	<b>699,311</b>	662,842
<b>Total assets</b>	<b>1,399,694</b>	1,312,045
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	59	59
Share premium	1,720,691	1,722,308
Shares held for RSU Scheme	(2)	(3)
Reserves (Note (a))	431,177	312,807
Accumulated losses (Note (a))	(758,606)	(729,548)
<b>Total equity</b>	<b>1,393,319</b>	1,305,623
<b>Liabilities</b>		
<b>Current liabilities</b>		
Other payables	6,375	6,422
<b>Total liabilities</b>	<b>6,375</b>	6,422
<b>Total equity and liabilities</b>	<b>1,399,694</b>	1,312,045

The balance sheet of the Company was approved by the Board of Directors on March 21, 2017 and was signed on its behalf.

Wang Feng  
Director

Liao Mingxiang  
Director



## Notes to the Consolidated Financial Statements

### 37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note:

(a) Reserves movement of the Company

	Capital reserve RMB'000	Currency translation differences RMB'000	Share-based compensation reserve RMB'000	Other Reserves RMB'000	Total Reserve RMB'000	Accumulated losses RMB'000
<b>Balance at January 1, 2015</b>	–	11,343	172,996	6	184,345	(814,999)
Profit for the year	–	–	–	–	–	85,451
Share of other comprehensive income of investments accounted for using the equity method, net of tax (Note 11)	–	–	–	2,430	2,430	–
Employee share option and RSU scheme:						
— Value of employee services	–	–	62,882	–	62,882	–
Currency translation differences	–	63,150	–	–	63,150	–
<b>Balance at December 31, 2015</b>	–	74,493	235,878	2,436	312,807	(729,548)
<b>Balance at January 1, 2016</b>	–	<b>74,493</b>	<b>235,878</b>	<b>2,436</b>	<b>312,807</b>	<b>(729,548)</b>
Loss for the year	–	–	–	–	–	(29,058)
Share of other comprehensive income of investments accounted for using the equity method, net of tax (Note 11)	–	–	–	3,991	3,991	–
Employee share option and RSU scheme:						
— Value of employee services	–	–	33,161	–	33,161	–
Currency translation differences	–	81,218	–	–	81,218	–
<b>Balance at December 31, 2016</b>	–	<b>155,711</b>	<b>269,039</b>	<b>6,427</b>	<b>431,177</b>	<b>(758,606)</b>



# Notes to the Consolidated Financial Statements

## 38. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended December 31, 2015:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:						Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total
	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note viii)	Contributions to a defined retirement benefit plan	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Chairman</b>									
Mr. Wang Feng (i)	-	1,901	160	-	14,314	98	-	-	16,473
<b>Executive directors</b>									
Ms. Liao Mingxiang (ii)	-	1,537	130	-	4,776	98	-	-	6,541
Mr. Mao Zhihai (iii)	-	720	3	-	1,138	47	-	-	1,908
Mr. Zhao Jun (iv)	-	555	804	-	4,776	98	-	-	6,233
Mr. Mei Song (iv)	-	555	1,003	-	7,161	98	-	-	8,817
<b>Independent non-executive directors</b>									
Mr. Ma Ji (v)	286	-	-	-	-	-	-	-	286
Mr. Zhang Xiangdong (v)	286	-	-	-	-	-	-	-	286
Mr. Chen Tong (v)	133	-	-	-	-	-	-	-	133
Mr. Wang Xiaodong (vi)	154	-	-	-	-	-	-	-	154
Ms. Zhao Yifang (vi)	154	-	-	-	-	-	-	-	154
<b>Non-executive director</b>									
Mr. Qian Zhonghua (vii)	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,013</b>	<b>5,268</b>	<b>2,100</b>	<b>-</b>	<b>32,165</b>	<b>439</b>	<b>-</b>	<b>-</b>	<b>40,985</b>

# Notes to the Consolidated Financial Statements

## 38. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

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

For the year ended December 31, 2016:

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated value of other benefits (Note viii)	Contributions to a defined retirement benefit plan	Remunerations paid or receivable in respect of accepting office as director	RMB'000	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Chairman</b>									
Mr. Wang Feng (i)	-	2,162	-	-	4,693	106	-	-	6,961
<b>Executive directors</b>									
Ms. Liao Mingxiang (ii)	-	1,684	1	-	1,565	106	-	-	3,356
Mr. Zhao Jun (iv)	-	676	480	-	1,852	106	-	-	3,114
Mr. Mei Song (iv)	-	676	-	-	2,634	106	-	-	3,416
<b>Independent non-executive directors</b>									
Mr. Ma Ji (v)	286	-	-	-	-	-	-	-	286
Mr. Zhang Xiangdong (v)	286	-	-	-	-	-	-	-	286
Mr. Wang Xiaodong (vi)	286	-	-	-	-	-	-	-	286
Ms. Zhao Yifang (vi)	286	-	-	-	-	-	-	-	286
<b>Non-executive director</b>									
Mr. Qian Zhonghua (vii)	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,144</b>	<b>5,198</b>	<b>481</b>	<b>-</b>	<b>10,744</b>	<b>424</b>	<b>-</b>	<b>-</b>	<b>17,991</b>

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

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

(iii) Mr. Mao Zihai was appointed on January 10, 2014 as the chief financial officer and on January 27, 2014 as the Company's director. Mr. Mao Zihai resigned on June 11, 2015, from his role as the Company's director and chief financial officer.

(iv) Mr. Zhao Jun and Mr. Mei Song were appointed on June 11, 2015, as the executive director of the Company.

(v) Mr. Ma Ji, Mr. Chen Tong and Mr. Zhang Xiangdong were appointed on April 24, 2014, as the independent non-executive directors of the Company. Mr. Chen Tong retired from the Company on June 11, 2015.

(vi) Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed on June 11, 2015.

(vii) Mr. Qian Zhonghua was appointed on January 27, 2014 as the non-executive director of the Company.

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

# Notes to the Consolidated Financial Statements

## 38. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

### (b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: Nil).

### (c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2015: Nil).

### (d) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2015: Nil).

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

The information about loans entered into by the Company or subsidiary undertaking of the Company in favour of directors is as follows:

Name of director	Outstanding amount		Outstanding amount at the end of the year	Maximum outstanding during the year	Amounts fallen due but not been paid	Provisions	Term	Interest rate	Security
	Total amount payable	at the beginning of the year							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			

#### As December 31, 2015:

Zhao Jun:

Loan1	2,067	–	2,067	2,067	–	–	Fully repayable on December 31, 2017	5%	Nil
Loan2	414	–	188	414	–	–	Repayable 1 year	3.7%	Nil

Name of director	Outstanding amount		Outstanding amount at the end of the year	Maximum outstanding during the year	Amounts fallen due but not been paid	Provisions	Term	Interest rate	Security
	Total amount payable	at the beginning of the year							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			

#### As December 31, 2016:

Zhao Jun:

Loan1	2,162	2,067	2,162	2,162	–	–	Repayable 1 year	5%	Nil
Loan2	208	188	208	208	–	–	Fully repayable on December 31, 2018	3.7%	Nil

During the year, except for the loans disclosed above, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2015: Nil).

## Notes to the Consolidated Financial Statements

### 38. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

#### **(f) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).



## Summary of Financial Information

	2016	2015	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>658,442</b>	540,828	678,684	514,997	265,633
<b>Loss before income tax</b>	<b>(140,912)</b>	(51,885)	(151,947)	(381,929)	(122,213)
<b>Loss for the year</b>	<b>(157,374)</b>	(53,797)	(154,583)	(399,420)	(123,024)
<b>Total comprehensive (loss)/income for the year</b>	<b>(89,768)</b>	2,852	(157,106)	(384,113)	(122,111)
<b>Total assets</b>	<b>1,392,380</b>	1,286,486	1,260,240	246,860	120,853
<b>Total liabilities</b>	<b>382,090</b>	217,973	252,944	928,180	450,970
<b>Total equity and liabilities</b>	<b>1,392,380</b>	1,286,486	1,260,240	246,860	120,853
<b>Net current assets/(liabilities)</b>	<b>584,926</b>	734,052	957,382	37,930	(50,433)
<b>Total assets less current liabilities</b>	<b>1,116,711</b>	1,071,780	1,016,344	57,939	(22,728)

