LINEKONG
藍港互動

Linekong Interactive Co., Ltd.
藍港互動有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2014

RETIREMENT AND RE-ELECTION OF DIRECTORS

AND

PROPOSED APPOINTMENT OF DIRECTORS AND CHANGE IN THE COMPOSITION OF BOARD COMMITTEES

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

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

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

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

SUMMARY

- Our revenue for the year ended December 31, 2014 amounted to approximately RMB678.7 million (2013: approximately RMB515.0 million), representing an increase of approximately 31.8% as compared to that of the year ended December 31, 2013.

- Our gross profit for the year ended December 31, 2014 amounted to approximately RMB331.3 million, representing an increase of approximately 22.4% from approximately RMB270.6 million recorded in the year ended December 31, 2013.

- The unaudited adjusted non-IFRSs net profit for the year ended December 31, 2014 amounted to approximately RMB164.8 million (2013: approximately RMB84.3 million), representing an increase of approximately 95.4% as compared with the year ended December 31, 2013.

- Loss attributable to owners of the Company under IFRSs for the year ended December 31, 2014 amounted to approximately RMB154.6 million (2013: loss of approximately RMB400.9 million).

- Loss per share under IFRSs for the year ended December 31, 2014 amounted to approximately RMB2.56.

ANNUAL RESULTS

The board (the "**Board**") of Directors of the Company announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2014 together with the comparative figures for the year ended December 31, 2013 as follows:

CONSOLIDATED BALANCE SHEET

As of December 31, 2014

	Note	As of December 31, 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**11,367**	9,786
Intangible assets		**37,127**	6,699
Investments in joint ventures		**—**	—
Deferred income tax assets	9	**5,358**	3,443
Prepayments and other receivables	11	**5,110**	81
		58,962	20,009
Current assets			
Trade receivables	10	**62,829**	43,779
Prepayments and other receivables	11	**51,917**	36,097
Short-term bank deposits		**—**	35,198
Cash and cash equivalents		**1,086,532**	111,777
		1,201,278	226,851
Total assets		**1,260,240**	246,860
EQUITY/(DEFICIT) AND LIABILITIES			
Equity/(Deficit) attributable to owners of the Company			
Share capital	12	**59**	18
Share premium	12	**1,726,828**	—
Share capital for RSU Scheme	12	**(6)**	—
Reserves	13	**206,182**	86,909
Accumulated losses		**(925,746)**	(768,227)
		1,007,317	(681,300)
Non-controlling interests		**(21)**	(20)
Total equity/(deficit)		**1,007,296**	(681,320)

CONSOLIDATED BALANCE SHEET

As of December 31, 2014

		As of December 31,	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Convertible preferred shares	17	**—**	719,831
Deferred revenue	16	**9,048**	19,428
		9,048	739,259
Current liabilities			
Trade and other payables	15	**151,466**	99,795
Current income tax liabilities		**3,769**	11,062
Deferred revenue	16	**88,661**	78,064
		243,896	188,921
Total liabilities		**252,944**	928,180
Total equity/(deficit) and liabilities		**1,260,240**	246,860
Net current assets		**957,382**	37,930
Total assets less current liabilities		**1,016,344**	57,939

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2014

	Note	Year ended December 31, 2014 RMB'000	2013 RMB'000
Revenue	3	**678,684**	514,997
Cost of revenue	4	**(347,359)**	(244,390)
Gross profit		**331,325**	270,607
Selling and marketing expenses	4	**(81,252)**	(85,402)
Administrative expenses	4	**(141,389)**	(68,941)
Research and development expenses	4	**(112,290)**	(58,467)
Other gains – net	5	**6,347**	5,341
Operating profit		**2,741**	63,138
Finance income – net	5	**2,261**	1,141
Fair value loss of preferred shares	17	**(156,949)**	(446,208)
Loss before income tax		**(151,947)**	(381,929)
Income tax expense	6	**(2,636)**	(17,491)
Loss for the year		**(154,583)**	(399,420)
Other comprehensive (loss)/income for the year that will not be reclassified subsequently to profit or loss			
— Currency translation differences		**(2,523)**	15,307
Total comprehensive loss for the year		**(157,106)**	(384,113)
Loss attributable to:			
Equity holders of the Company		**(154,582)**	(400,877)
Non-controlling interests		**(1)**	1,457
Loss for the year		**(154,583)**	(399,420)

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended December 31, 2014

		Year ended December 31,	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Total comprehensive loss attributable to:			
Equity holders of the Company		**(157,105)**	(385,570)
Non-controlling interests		**(1)**	1,457
Total comprehensive loss for the year		**(157,106)**	(384,113)
Loss per share *(expressed in RMB per share)*			
— Basic	7(a)	**(2.56)**	N/A
— Diluted	7(b)	**(2.56)**	N/A
Dividends	8	**—**	—

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

For the year ended December 31, 2014

		Attributable to owners of the Company						
	Note	Share capital *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total deficit *RMB'000*
Balance at January 1, 2013		18	—	29,339	(364,054)	(334,697)	4,580	(330,117)
Comprehensive (loss)/income								
(Loss)/profit for the year		—	—	—	(400,877)	(400,877)	1,457	(399,420)
Other comprehensive income — currency translation differences		—	—	15,307	—	15,307	—	15,307
Total comprehensive income/(loss) for the year		—	—	15,307	(400,877)	(385,570)	1,457	(384,113)
Total contributions by and distributions to equity holders of the Company recognized directly in equity								
Liquidation of subsidiaries		—	—	—	—	—	204	204
Increase in ownership interest in subsidiaries without change of control		—	—	2,059	—	2,059	(2,059)	—
Dividends to non-controlling shareholders of subsidiaries		—	—	—	—	—	(4,202)	(4,202)
Shares awarded to employees	14	—	—	36,908	—	36,908	—	36,908
Appropriation to statutory reserves		—	—	3,296	(3,296)	—	—	—
Total contributions by and distributions to equity holders of the Company recognized directly in equity		—	—	42,263	(3,296)	38,967	(6,057)	32,910
Balance at December 31, 2013		18	—	86,909	(768,227)	(681,300)	(20)	(681,320)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

For the year ended December 31, 2014

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity/ (deficit) RMB'000
Balance at January 1, 2014		18	–	–	86,909	(768,227)	(681,300)	(20)	(681,320)
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(154,582)	(154,582)	(1)	(154,583)
Other comprehensive loss									
— currency translation differences		–	–	–	(2,523)	–	(2,523)	–	(2,523)
Total comprehensive loss for the year		–	–	–	(2,523)	(154,582)	(157,105)	(1)	(157,106)
Total contributions by and distributions to equity holders of the Company recognized directly in equity									
Issuance of shares held for RSU Scheme	14	6	–	–	–	–	6	–	6
Deemed contribution from shareholders for the shares issued for RSU Scheme	14	–	–	(6)	6	–	–	–	–
RSU Scheme:									
— Value of employee services	14	–	–	–	118,853	–	118,853	–	118,853
Conversion of preferred shares to ordinary shares	12	23	1,185,304	–	–	–	1,185,327	–	1,185,327
Issuance of ordinary shares relating to initial public offering, net off underwriting commissions and other issuance costs	12	12	541,524	–	–	–	541,536	–	541,536
Appropriation to statutory reserves		–	–	–	2,937	(2,937)	–	–	–
Total contributions by and distributions to equity holders of the Company recognized directly in equity		41	1,726,828	(6)	121,796	(2,937)	1,845,722	–	1,845,722
Balance at December 31, 2014		59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION, REORGANIZATION AND BASIS OF PREPARATION

1.1 General information

Linekong Interactive Co., Ltd. (the "**Company**"), previously known as Linekong International Co., Ltd., 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 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**"), Hong Kong and other countries and regions.

The Company's shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited since December 30, 2014 (the "**Listing**") by way of its initial public offering ("**IPO**"). Upon the completion of the IPO on December 30, 2014, all of the Company's 153,264,523 outstanding convertible preferred shares were converted into ordinary shares on an one-to-one basis immediately as of the same date. The net proceeds to the Company from the IPO, after deducting underwriting commissions and other issuance costs paid and payable, were approximately RMB541,536,000 (Note 12).

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

1.2 History and reorganization of the Group

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 by Mr. Wang Lei and another individual. Through a series of subsequent equity interests transfers, Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Zhang Yuyu, Mr. Wang Lei and Mr. Wang Wei (the "**Original Founders**") became the five shareholders of Linekong Entertainment in May 2007. 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**".

On May 24, 2007, the Company was incorporated as an exempted company with limited liability in the Cayman Islands. In March 2008, the Company issued ordinary shares to the Original Founders and Mr. Wu Rui, who joined the Company as a project director. As a result, Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Zhang Yuyu, Mr. Wang Lei, Mr. Wang Wei and Mr. Wu Rui became the shareholders of the Company.

For the purpose of introduction of overseas investors and preparation for a listing of the Company's shares on the overseas capital markets, the Group underwent a group reorganisation (the "**Reorganisation**") in April 2008. Pursuant to the Reorganisation, the beneficial interests in PRC Operational Entities were transferred to the Company. The Reorganisation mainly involved the following:

(i) On April 14, 2008, Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**") was established by the Company as a wholly owned subsidiary of the Company in the PRC.

(ii) Pursuant to a series of contractual agreements signed on April 22, 2008 (the "**Contractual Arrangements**") among Beijing Linekong Online, Linekong Entertainment and the Original Founders, Beijing Linekong Online acquired effective control over the financial and operational policies of Linekong Entertainment and became exposed to the variable returns arising from Linekong Entertainment. Accordingly, Linekong Entertainment became the subsidiary of Beijing Linekong Online for accounting purpose.

(iii) Beijing Linekong Online also entered into a series of contractual arrangements on April 22, 2008 with the Original Founders and Beijing Huanteng Dongli Culture Media Co., Ltd. ("**Beijing Huanteng**"). Beijing Huanteng was established in 2004 in the PRC and acquired by the Original Founders with nil consideration in January 2008. No business was carried out by Beijing Huanteng since it was acquired by the Original Founders and it did not have significant net assets. These contractual arrangements with the Original Founders and Beijing Huanteng were terminated in March 2014.

Upon completion of the Reorganisation, the Company became the ultimate holding company of the Group.

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in 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, 2014 and 2013, 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.

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

1.3 Basis of presentation

The Group's Game Business has been carried out by the PRC Operational Entities and other subsidiaries of the Company in other countries and regions. The PRC Operational Entities were under the control of Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu (the "**Founders**"), and through the Contractual Arrangements, both the PRC Operational Entities and the business carried out by them are under the effective control of Beijing Linekong Online, and ultimately the Company. Accordingly, the financial statements of the Group has been prepared on a consolidated basis and is presented using the carrying value of the Group's Game Business for the years ended December 31, 2014 and 2013.

Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014:

Amendment to IAS 32	"Financial instruments: Presentation" on offsetting financial assets and financial liabilities
Amendments to IAS 36	"Impairment of assets", on the recoverable amount disclosures for non-financial assets
IFRIC 21	"Levies"
Annual improvements 2012: IFRS 2	"Share-based payment"
Applicable to share-based payment transactions for which the grant date is on or after July 1, 2014	

The adoption of above amendments and interpretations does not have any significant financial effect on the Group's consolidated financial statements.

Other amendments which are effective for the financial year beginning on January 1, 2014 as below, are not relevant to the Group:

Amendments to IFRS 10, 12 and IAS 27	"Consolidation for investment entities"
Amendment to IAS 39	"Recognition and measurement" on the novation of derivatives and the continuation of hedge accounting
Annual improvements 2012:	
— IFRS 3	— "Business combinations"
— IFRS 9	— "Financial instruments"
— IAS 37	— "Provisions, contingent liabilities and contingent assets"
— IAS 39	— "Financial instruments: Recognition and measurement"
Applicable to business combinations where the acquisition date is on or after July 1, 2014	

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been issued but not effective for annual periods beginning on January 1, 2014, which have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
Amendment to IAS 19	— "Employee benefits" on defined benefit plans	July 1, 2014
Annual improvements 2012:		July 1, 2014
— IFRS 8	— "Operating segments"	
— IAS 16 and IAS 38	— "Property, plant and equipment" and "Intangible assets"	
— IAS 24	— "Related Party Disclosures"	
Annual improvements 2013:		July 1, 2014
— IFRS 3	— "Business combinations"	
— IFRS 13	— "Fair value measurement"	
— IAS 40	— "Investment property"	
IFRS 14	"Regulatory Deferral Accounts"	January 1, 2016
Amendment to IFRS 11	"Joint arrangement" on acquisition of interest in joint operations	January 1, 2016
Amendment to IAS 16 and IAS 38	"Property, plant and equipment" and "Intangible assets" on clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendments to IAS 16 and IAS 41	"Property, plant and equipment" and "Agriculture" on bearer plants	January 1, 2016
Amendments to IFRS 10 and IAS 28	"Events after the reporting period" and "Investments in associates and joint ventures" on sale or contribution of assets between an investor and its associate or joint venture	January 1, 2016
Amendment to IAS 27	"Separate Financial Statements" on equity method in separate financial statements	January 1, 2016
Annual improvements 2014:		January 1, 2016
— IFRS 5	— "Non-current assets held for sale and discontinued operations"	
— IFRS 7	— "Financial instruments: Disclosures"	
— IAS 19	— "Employee benefits"	
— IAS 34	— "Interim financial reporting"	

		Effective for annual periods beginning on or after
Amendments to IFRS 10, IFRS 12 and IAS 28	"Consolidated Financial Statements", "Disclosure of interests in other entities" and "Investments in Associates and Joint Ventures" on investment entities: applying the consolidation exception	January 1, 2016
Amendments to IAS 1	"Presentation of Financial Statements" on the disclosure initiative:	January 1, 2016
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2017
IFRS 9	"Financial instruments"	January 1, 2018

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 and none of these is expected to have a significant effect on the Group's consolidated financial statements based on the preliminary assessment.

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) (the "**New Companies Ordinance**") come into operation as from the Company's first financial year commencing on or after March 3, 2014 in accordance with section 358 of that New Companies Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the New Companies Ordinance on its consolidated financial statements in the period of initial application of Part 9 of the New Companies Ordinance. So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected. New Companies Ordinance is effective for annual periods commencing on or after March 3, 2014 with prospective application. No early application is allowed.

3. REVENUE AND SEGMENT INFORMATION

Segment reporting

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

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Development and operations of online games:		
— Sales of in-game virtual items	**629,896**	477,747
— License fee and technical support fee	**48,788**	37,250
	678,684	514,997

The Group offers its online games in different forms: client-based games, webgames and mobile games. A breakdown of revenue derived from different forms of the Group's games for the years ended December 31, 2014 and 2013 is as follows:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	**597,897**	249,158
— Webgames	**30,313**	145,746
— Client-based games	**50,474**	120,093
	678,684	514,997

The chief operating decision maker of the Company consider that the Group's operations are 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, 2014 and 2013.

Almost all the Group's non-current assets were located in the PRC as at December 31, 2014 and 2013. Revenue from overseas customers was only generated by PRC Operational Entities before March 31, 2014 and generated by both PRC Operational Entities and the Group's oversea entities since April 2014. The revenue generated by the Group's oversea entities represents less than 10% of the total revenue of the Group for the year ended December 31, 2014.

4. 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,	
	2014	2013
	RMB'000	*RMB'000*
Service charges by Game Distribution Channels	**237,396**	173,015
Content fee to game developers	**47,953**	18,679
Bandwidth and server custody fees	**10,806**	9,232
Payment handling costs	**2,002**	2,332
Employee benefit expenses (excluding share-based compensation expenses)	**97,961**	93,379
Share-based compensation expenses	**118,853**	36,908
Depreciation of property, plant and equipment	**7,118**	6,310
Amortization and impairment of intangible assets	**4,120**	1,545
Other receivables write-off	**406**	1,365
Trade receivables write-off	**1,221**	—
Impairment charges on trade and other receivables	**160**	1,074
Business tax and related surcharges *(Note (a))*	**14,875**	21,194
Promotion and advertising expenses	**59,651**	69,934
Traveling and entertainment expenses	**7,205**	4,904
Office rental expenses	**8,848**	5,966
Other professional service fees	**6,413**	1,290
Game development outsourcing costs	**1,504**	3,250
Utilities and office expenses	**1,414**	830
Statutory auditors' remuneration	**2,405**	155
Listing-related expenses	**43,578**	637
Others	**8,401**	5,201
Total	**682,290**	457,200

Note:

(a) Business tax, value-added tax and related surcharges that are applicable to the Group are as follows:

Category	**Tax rate**	**Basis of levies**
Business tax	5%	Revenue from sales of in-game virtual items, licensing and technical support
Value-added tax ("**VAT**")	6%	Revenue from sales of in-game virtual items, licensing and technical support generated by Tianjin Baba Liusi Network Technology Co., Ltd. ("**Tianjin 8864**") is subject to VAT services since June 1, 2014. Such revenue is recognised net of VAT amount.
City construction tax	7%	Actual business tax and VAT payment
Educational surcharges	3%	Actual business tax and VAT payment
Local educational surcharges	2%	Actual business tax and VAT payment

5. OTHER GAINS AND FINANCE INCOME

Other gains — net

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Government subsidies *(Note (a))*	**3,819**	4,253
Gain arising from disposal of subsidiaries	**6**	—
Gain arising from liquidation of subsidiaries	**—**	1,458
Foreign exchange gains/(losses), net	**433**	(1,230)
(Loss)/Gain on disposals of property, plant and equipment	**(7)**	28
Return on short-term investments *(Note (b))*	**1,890**	—
Others	**206**	832
	6,347	5,341

Note:

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

(b) Return on short-term investments represents return on investments in certain wealth management products with principal protected issued by commercial banks in the PRC.

Finance income — net

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Finance income		
Interest income	**2,580**	1,164
Finance costs		
Issuance costs of Preferred Shares	**(300)**	—
Foreign exchange losses, net	**(19)**	(23)
Finance income — net	**2,261**	1,141

6. INCOME TAX EXPENSE

The income tax expense of the Group for each of the years ended December 31, 2014 and 2013 is analyzed as follows:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Current income tax	**4,551**	9,587
Deferred income tax	**(1,915)**	7,904
Income tax expense	**2,636**	17,491

(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, 2014 and 2013 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")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the years ended December 31, 2014 and 2013, based on the existing legislation, interpretations and practices in respect thereof. Beijing Linekong Online, Linekong Entertainment, Shouyoutong and Tianjin 8864 obtained the Software Enterprise Certificates and were accredited as software enterprises under the relevant PRC laws, regulations and rules. Accordingly, Beijing Linekong Online, Linekong Entertainment, Shouyoutong and Tianjin 8864 are exempt from EIT for two years, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years, commencing from the first year of profitable operation and before 2017, provided that it continues to be qualified as software enterprise during such period. Beijing Linekong Online obtained the Software Enterprise Certificate in May 2014, and the specific periods when the tax exemption and reduction are applicable are yet to commence. The applicable schedules of preferential income tax rate for Linekong Entertainment, Shouyoutong and Tianjin 8864 are as follows:

	2014	2013
	RMB'000	*RMB'000*
Linekong Entertainment	**50% reduction**	50% reduction
Shouyoutong	**50% reduction**	50% reduction
Tianjin 8864	**EIT exemption**	EIT exemption

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 its tax assessable profits for that year ("**Super Deduction**"). Linekong Entertainment and Shouyoutong have claimed such Super Deduction in ascertaining its tax assessable profits for the year ended December 31, 2013.

(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, 2014, 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, 2014 and December 31, 2013, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

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

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Loss before income tax	**(151,947)**	(381,929)
Tax calculated at statutory income tax rates applicable to loss before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	**9,176**	16,098
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**(44,658)**	(24,738)
Super Deduction for research and development expenses	**—**	(3,774)
Expenses not deductible for tax purposes:		
— Share-based compensation	**29,713**	9,227
— Others	**1,260**	5,035
Different applicable tax rate between current year and the year when the deferred tax assets are realized	**(5,434)**	(1,030)
Unrecognized temporary difference *(Note (ii))*	**5,089**	12,481
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	**4,800**	2,808
Write-off of unutilised deferred income tax arising in prior years	**2,690**	1,384
Income tax expense	**2,636**	17,491

Note:

(i) The Company is exempted from Cayman Islands income tax. As such, the operating results reported by the Company on a standalone basis, including the fair value change of Preferred Shares, are not subject to any income tax.

(ii) The Group has assessed the realisation of deductible temporary differences and unused tax losses for each entity as of December 31, 2014 and 2013. 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.

7. LOSS PER SHARE

The Company's ordinary shareholders had not paid the par value of the ordinary shares until June 2014, therefore were not entitled to dividends for the year ended December 31, 2013. The calculation of (loss)/earnings per share for the year ended December 31, 2013 is not applicable accordingly.

For the purpose of computing basic and diluted loss per share, the number of ordinary shares outstanding during each year have been adjusted retroactively in the computation of both basic and diluted loss per share for the years ended December 31, 2014 and 2013 to reflect the proportional changes in the number of ordinary shares outstanding as a result of the share split described in Note 12(a).

(a) Basic

Basic loss per share for the year ended December 31, 2014 is calculated by dividing the loss of the Group attributable to the equity holders of the Company of the year by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31, 2014 *RMB'000*
Loss attributable to equity holders of the Company	(154,582)
Weighted average number of ordinary shares in issue (thousand shares) *(Note (i))*	60,500
Basic loss per share (expressed in RMB per share)	(2.56)

Note:

(i) Had all ordinary shares fully paid upon insurance, the weighted average number of ordinary shares in issue for the years ended December 31, 2013, and 2014 for purpose of computing the basic loss per share would be 100,444,400 for the year ended December 31, 2013, and 101,689,110 for the year ended December 31, 2014, and the basic loss per share would be RMB(3.99) and RMB(1.52), respectively for the years ended December 31, 2013, and 2014.

(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, 2014, the Company had two categories of potential ordinary shares, the RSUs and Preferred Shares before conversion to ordinary shares on December 30, 2014. As the Group incurred loss for the year ended December 31, 2014, 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 year ended December 31, 2014 are the same as basic loss per share of the year.

8. DIVIDEND

No dividends have been paid or declared by the Company during each of the years ended December 31, 2014 and 2013.

9. DEFERRED INCOME TAX

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

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Deferred income tax assets:		
— To be recovered within 12 months	**4,854**	908
— To be recovered after 12 months	**580**	2,749
	5,434	3,657
Deferred income tax liabilities:		
— To be settled within 12 months	**(76)**	(214)
— To be settled after 12 months	**—**	—
	(76)	(214)
	5,358	3,443

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

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Beginning of the year	**3,443**	11,347
Recognized in profit or loss	**1,915**	(7,904)
End of the year	**5,358**	3,443

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	Provision for impairment of other receivables and intangible assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year Ended December 31, 2013					
At beginning of the year	6,438	2,456	270	3,716	12,880
Charged to profit or loss	(4,118)	(2,297)	(257)	(2,551)	(9,223)
At end of the year	2,320	159	13	1,165	3,657
Year Ended December 31, 2014					
At beginning of the year	**2,320**	**159**	**13**	**1,165**	**3,657**
Credited/(Charged) to profit or loss	**2,251**	**451**	**(13)**	**(912)**	**1,777**
At end of the year	**4,571**	**610**	**—**	**253**	**5,434**

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognize deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB73,796,000 as at December 31, 2014 (2013: RMB56,876,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2015 to 2019.

Deferred income tax liabilities:

	Trademarks and licenses *RMB'000*
Year Ended December 31, 2013	
At beginning of the year	(1,533)
Credited to profit or loss	1,319
At end of the year	(214)
Year Ended December 31, 2014	
At beginning of the year	**(214)**
Credited to profit or loss	**138**
At end of the year	**(76)**

10. TRADE RECEIVABLES

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**63,909**	44,882
Less: impairment provision	**(1,080)**	(1,103)
	62,829	43,779

(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,	
	2014	2013
	RMB'000	*RMB'000*
0–60 days	**45,935**	40,322
61–90 days	**6,570**	2,360
91–180 days	**7,003**	1,285
181 days–365 days	**2,386**	174
over 1 year	**2,015**	741
	63,909	44,882

(b) As at December 31, 2014 and 2013, trade receivables of past due but not impaired were approximately RMB26,541,000 and RMB8,903,000, respectively. These related to a number of third-party Game Distribution Channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Outstanding after due dates:		
0–60 days	**16,218**	5,285
61–90 days	**3,030**	2,249
91–180 days	**4,236**	1,226
181 days–365 days	**1,953**	139
over 1 year	**1,104**	4
	26,541	8,903

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

	Year Ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**(1,103)**	—
Provision for impairment	**(160)**	(1,103)
Receivables written off during the year as uncollectible	**183**	—
At end of the year	**(1,080)**	(1,103)

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

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

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
RMB	**41,109**	18,177
USD	**22,177**	26,705
Others	**623**	—
	63,909	44,882

11. PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Group		
Current		
Prepaid service charges to Game Distribution Channels	**22,724**	18,786
Prepayment to game developers	**11,220**	2,070
Staff advance	**2,464**	1,111
Amount due from related parties	**—**	12,128
Prepaid rental, advertising cost and others	**10,839**	5,203
Rental and other deposits	**3,927**	2,550
Others	**743**	1,181
	51,917	43,029
Less: provision for impairment of other receivables	**—**	(6,932)
	51,917	36,097
Non-current		
Prepaid service charges to Game Distribution Channels	**—**	1
Prepayment to game developers	**39**	80
Rental and other deposits	**2,472**	—
Others	**2,599**	—
	5,110	81

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Company		
Amount due from a subsidiary *(Note (i))*	**1,230**	18
Others	**82**	—
	1,312	18

Note:

(i) The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

12. SHARE CAPITAL AND SHARE PREMIUM

	Note	**Number of ordinary shares** *('000)*	**Nominal value of ordinary shares** *USD'000*	**Number of preferred shares** *('000)*	**Nominal value of preferred shares** *USD'000*
Authorized:					
As of January 1, 2013 and December 31, 2013		47,161	47	2,839	3
Reclassification and re-designation on issuance of Series C Preferred Shares	17	(623)	(1)	623	1
Share split	(a)	1,814,991	—	135,009	—
Reclassification and re-designation on issuance of Series D Preferred Shares	17	(14,794)	—	14,794	—
Cancellation and re-authorization	(c)	153,265	4	(153,265)	(4)
As of December 31, 2014		**2,000,000**	**50**	**—**	**—**

	Note	Number of ordinary shares ('000)	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Shares hold for RSU Scheme RMB'000
Issued:						
As of January 1, 2013 and December 31, 2013		2,511	3	18	—	—
Share split	(a)	97,933	—	—	—	—
Issuance of shares held for RSU Scheme	14(d)	42,162	1	6	—	—
Shares transferred to RSU Scheme	14(d)	—	—	—	—	(6)
Issuance of new shares upon IPO	(b)	73,968	2	12	541,524	—
Conversion of Preferred Shares into ordinary shares	(c)	153,265	4	23	1,185,304	—
As of December 31, 2014		**369,839**	**10**	**59**	**1,726,828**	**(6)**

(a) On January 15, 2014, the Board of Directors of the Company approved a share split of the Company's share capital at a ratio of 1 to 40 (the "**Share Split**"). Immediately after such split, the authorized share capital of the company has been re-classified and re-designated into 1,861,529,000 ordinary shares with par value of USD0.000025 each and 138,471,000 Preferred Shares with par value of USD0.000025 each.

(b) On December 30, 2014, the Company completed its IPO on the GEM of The Stock Exchange of Hong Kong Limited. In the IPO, the Company issued 73,968,000 new shares at par value of USD0.000025 each for cash consideration of HKD9.8 each, and raised gross proceeds of approximately HKD724,886,000 (equivalent to RMB572,059,000). The respective paid up capital amount was approximately RMB12,000 and share premium arising from the issuance was approximately RMB572,047,000. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB30,523,000 were treated as a deduction against the share premium arising from the issuance.

(c) Upon completion of the IPO, all of the Company authorised 153,264,523 Preferred Shares with par value of USD0.000025 each have been cancelled and 153,264,523 ordinary shares of par value of USD0.000025 each have been authorized. All of the Company's outstanding 153,264,523 Preferred Shares were converted into ordinary shares on an one-to-one basis immediately. As a result, the Preferred Shares were derecognized and transferred to share capital and share premium.

13. RESERVES

	Capital reserve	Currency translation differences	Statutory surplus reserve fund	Share-based compensation reserve	Other reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note(i))	*(Note 14)*	*(Note 14(d))*	
Group						
Balance at January 1, 2013	(9,890)	13,719	3,324	22,186	—	29,339
Appropriation to statutory reserves	—	—	3,296	—	—	3,296
Increase in ownership interest in subsidiaries without change of control	2,059	—	—	—	—	2,059
Shares awarded to employees	—	—	—	36,908	—	36,908
Currency translation differences	—	15,307	—	—	—	15,307
Balance at December 31, 2013	(7,831)	29,026	6,620	59,094	—	86,909
Balance at January 1, 2014	**(7,831)**	**29,026**	**6,620**	**59,094**	**—**	**86,909**
Appropriation to statutory reserves	**—**	**—**	**2,937**	**—**	**—**	**2,937**
Deemed contribution from shareholders for the shares issued for RSU scheme	**—**	**—**	**—**	**—**	**6**	**6**
RSU Scheme:						
— Value of employee services	**—**	**—**	**—**	**118,853**	**—**	**118,853**
Currency translation differences	**—**	**(2,523)**	**—**	**—**	**—**	**(2,523)**
Balance at December 31, 2014	**(7,831)**	**26,503**	**9,557**	**177,947**	**6**	**206,182**

	Capital reserve	Currency translation differences	Share-based compensation reserve	Other Reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Note 14(d))	
Company					
Balance at January 1, 2013	—	2,602	17,235	—	19,837
Shares awarded to employees	—	—	36,908	—	36,908
Currency translation differences	—	11,254	—	—	11,254
Balance at December 31, 2013	—	13,856	54,143	—	67,999
Balance at January 1, 2014	**—**	**13,856**	**54,143**	**—**	**67,999**
Deemed contribution from shareholders for the shares issued for RSU scheme	**—**	**—**	**—**	**6**	**6**
RSU Scheme:					
— Value of employee services	**—**	**—**	**118,853**	**—**	**118,853**
Currency translation differences	**—**	**(2,513)**	**—**	**—**	**(2,513)**
Balance at December 31, 2014	**—**	**11,343**	**172,996**	**6**	**184,345**

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 capitalized 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 appropriated needs not to be made.

14. SHARE-BASED PAYMENTS

(a) Shares awarded to employees

During 2007 to 2012, the Group granted equity interests in certain subsidiaries of the Group to employees of the subsidiaries in return for their services to the Group. These shares granted are subject to vesting schedule or service conditions.

Financial impact of the above granted shares is not material to the consolidated financial statements for the years ended December 31, 2014 and 2013.

(b) Shares awarded to the Founders

In 2013, Mr. Wang Lei agreed to transfer his 166,667 shares in the Company to Mr. Wang Feng, at a consideration of RMB9,659,000.

In 2013, Mr. Lu Chao agreed to transfer his 44,444 shares in the Company to Ms. Liao Mingxiang, at a consideration of RMB2,150,000.

All above shares were transferred to the Founders at the consideration lower than the fair value of the shares of the Company to award the contributions to the business development of the Group by these Founders. For those share awards with no future service conditions or vesting period attached to, the share awards were vested immediately upon transfer. The difference between the identifiable consideration paid by the Founders and the fair value of the shares at the time of the transfer is recognized as employee benefit expenses accordingly. For those share awards which are subject to vesting period, the difference between the identifiable consideration paid by the Founders and the fair value of the shares at the time of the transfer is recognised over the vesting period.

The share-based compensation expenses amounting to RMB36,908,236 were charged to the profit or loss for the year ended December 31, 2013 in relation to the shares awarded to the Founders. The fair values of the awarded shares were calculated based on the fair value of the Company's shares at the respective grant dates. The Company adopted discounted cash flow method in determining the Company's share price and the key assumptions adopted in the valuation at the grant date include the discount rate of 24% and 21% and projections of future performances.

(c) RSUs

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

As provided in respective grant letters, the RSUs are vested in four different ways:

(i) 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.

(ii) 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% on the date ending 42 and 48 months from the grant date.

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

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

The RSUs are exercisable only if the grantees remained employed by the Group. The RSU Scheme will be valid and effective for a period of ten years commencing from the date of the grant of the RSUs unless it is terminated earlier in accordance with the rules of RSU Scheme.

31,371,494 RSUs were granted to employees and directors on March 21, 2014. As of December 31, 2014, no RSUs were exercisable.

	Number of RSUs Year ended December 31,
Movements in the number of RSUs outstanding:	
At January 1, 2014	—
Granted	**31,371,494**
Lapsed	**(95,422)**
At December 31, 2014	**31,276,072**

(d) Shares held for RSU Scheme

Pursuant to a resolution passed by the Board 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 the 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.

(e) Fair value of RSUs

The Directors has 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 above RSUs as of the grant date. 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%

(f) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive loss. As of December 31, 2014, the Expected Retention Rate of employees was assessed to be 95% and the Expected Retention Rate of Directors, senior management was assessed to be 100%.

15. TRADE AND OTHER PAYABLES

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Group		
Trade payables *(Note (i))*	**66,069**	19,346
Other taxes payables	**9,693**	15,729
Salary and staff welfare payables	**36,275**	33,476
Accrued expenses and liabilities	**32,796**	15,630
Advance received from licence fees	**2,790**	2,913
Advance received from sales of prepaid game cards	**3,391**	5,099
Advance from payment vendors	**452**	5,459
Amount due to related parties	**—**	2,143
	151,466	99,795

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Company		
Amount due to a subsidiary *(Note (ii))*	**26**	22
Accrued expenses and liabilities	**19,419**	86
	19,445	108

Note:

(i) Trade payables were 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,	
	2014	2013
	RMB'000	*RMB'000*
0–180 days	**60,140**	13,830
181–365 days	**2,688**	4,670
1–2 years	**2,395**	458
2–3 years	**458**	221
over 3 years	**388**	167
	66,069	19,346

(ii) The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

16. DEFERRED REVENUE

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Current		
— License fee and technical support fee	**12,584**	15,312
— Sales of in-game virtual items *(Note (i))*	**75,980**	62,328
— Government subsidies	**97**	424
	88,661	78,064
Non-current		
— License fee and technical support fee	**6,689**	15,596
— Sales of in-game virtual items *(Note (i))*	**2,220**	3,818
— Government subsidies	**139**	14
	9,048	19,428

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, 2014 and 2013. In particularly, 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 recognized on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB7,883,000 as of December 31, 2014 (2013: RMB10,167,000), respectively.

17. CONVERTIBLE PREFERRED SHARES

On April 23, 2008, the Company entered into a share purchase agreement with the Series A Investors and pursuant to which, the Company issued 1,777,778 shares of Series A Preferred Shares at a price of USD1.125 per share (71,111,120 shares at a price of USD0.0281 adjusted as a result of the Share Split in Note 12(a)) with total consideration of USD2,000,000 (equivalent to approximately RMB14,274,174). The issuance of the Series A Preferred Shares completed on April 25, 2008.

On May 7, 2008, the Company entered into a share purchase agreement with the Series B Investors and pursuant to which, the Company issued 1,061,360 shares of Series B Preferred Shares at a price of USD15.075 per share (42,454,400 shares at a price of USD0.3769 adjusted as a result of the Share Split described in Note 12(a)) total consideration of USD16,000,000 (equivalent to approximately RMB112,025,600). The issuance of the Series B Preferred Shares completed on May 7, 2008.

On January 15, 2014, the Company entered into a share purchase agreement with the Series C Investors and pursuant to which, the Company issued 622,637 shares of Series C Preferred Shares at a price of USD48.1822 per share (24,905,480 shares at a price of USD1.2046 adjusted as a result of the Share Split described in Note 12(a)) with total consideration of USD30,000,000 (equivalent to approximately RMB183,786,000). Concurrent with the issuance of Series C Preferred Shares and pursuant to the share purchase agreement, Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu sold 113,086 ordinary shares, 84,814 ordinary shares and 84,814 ordinary shares, respectively, to the Series C Investors at a price of USD34.0110 per ordinary share, and the Series A Investors and the Series B Investors sold an aggregate of 848,142 Series A Preferred Shares and 339,257 Series B Preferred Shares to the Series C Investors at a price of approximately USD34.0110 per share. The above transactions were completed on January 27, 2014.

On May 8, 2014, the Company entered into a share purchase agreement with Series D Investor and pursuant to which, the Company issued 14,793,523 shares of Series D Preferred Shares at a price of USD1.3519 per share with total consideration of USD20,000,000 (equivalent to approximately RMB123,120,000). The issuance of the Series D Preferred Shares completed on May 9, 2014.

Upon completion of the IPO on December 30, 2014, all the Preferred Shares were automatically converted into ordinary shares on an one-to-one basis. As a result, 153,264,523 ordinary shares were issued, and the balance of Preferred Shares was transferred to share capital and share premium of the Company on that date. All preferred rights entitled to the holders of Preferred Shares lapsed and such holders thereafter hold rights pari passu to all other ordinary shareholders.

The Group monitors Preferred Shares on a fair value basis which is in accordance with its risk management strategy and does not bifurcate any feature from its respective debt host instruments and designates the entire hybrid contracts as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of comprehensive loss.

Prior to the completion of the IPO, the directors had used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation method to determine the fair value of the Preferred Shares under liquidation preferences as of the dates of issuance and at the end of each reporting period. Key valuation assumptions are used to estimate the fair value of the Preferred Shares as follows:

	As of December 31, 2013
Discount rate used to determine the underlying share value of the Company	21%
Risk-free interest rate	0.11%
Volatility	52.12%

Discount rate was estimated by weighted average cost of capital as of each valuation date. The directors estimated the risk-free interest rate based on the yield of US Treasury Notes with a maturity life equal to period from the valuation date to the expected exit date. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry. Probability weight under each of the redemption feature and liquidation preferences was based on the directors' best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Preferred Shares on each valuation date.

Upon completion of the IPO on December 30, 2014, the fair value of the Preferred Shares was assessed at the market price in the amount of HKD9.80 (approximately RMB7.73) per share.

The movement of the Preferred Shares is set out as below:

	RMB'000
At January 1, 2013	288,975
Changes in fair value	446,208
Currency translation differences	(15,352)
At December 31, 2013	719,831
Changes in fair value of the Preferred Shares for the year included in profit or loss	446,208
At January 1, 2014	**719,831**
Issuance of Series C Preferred Shares and Series D Preferred Shares	**306,906**
Changes in fair value	**156,949**
Currency translation differences	**1,641**
Conversion into ordinary shares	**(1,185,327)**
At December 31, 2014	**—**
Changes in fair value of the Preferred Shares for the year included in profit or loss	**156,949**

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Overview

We have been a reputable online game company and became a leading mobile game developer and publisher in the PRC in recent years. We are a leader in mobile game development business and were ranked tenth among all mobile game developers in the PRC with a market share of 2.32% in 2014. We have emerged as a leader in mobile game publishing business since we started publishing third-party developed mobile game at the end of March 2014 and were ranked eighth among all mobile game publishers in the PRC with a market share of 4.17% in terms of gross billings from third-party developed mobile games in April to July 2014.

2014 was a great year for the Group. The Group has continued to develop new mobile games as well as publish new high-quality licensed games from third-party game developers, which further expanded our player base and diversified our revenue sources. Leveraging on our strong game development and publishing capabilities, we have achieved significant growth in our mobile game business in 2014. Revenue from mobile games accounted for approximately 88.1% of our total revenue during 2014, comparing to approximately 48.4% for the year ended December 31, 2013. Based on our global strategy, the Group set up subsidiaries in Hong Kong and South Korea in 2014 and started publishing our games in South Korea. In addition to working with about 150 third-party game distribution channels in the PRC, the Group has endeavoured to strengthen our own game distribution platform, 8864.com and game operation system in order to attract and retain more players. As of December 31, 2014, the 8864.com platform had approximately 85.0 million registered users, compared to approximately 70.6 million registered users as of December 31, 2013. Finally, the shares of the Company (the "**Shares**") were successfully listed on the GEM of the Stock Exchange on December 30, 2014, marking a milestone for the Group in improving its capital strength and corporate governance as well as enhancing its competitive edge.

Industry review

During the year of 2014, the mobile game industry in the PRC continued to develop with a rapid growth as a result of rising penetration of smart phones and other mobile devices and high-speed mobile and Wi-Fi networks. Along with enhanced functions of smart phones, midcore and hardcore games became widespread among mobile game players, which have been our target and specialised market. According to the report issued by Analysys International dated October 10, 2014, the market size of mobile games in the PRC reached RMB13.9 billion in 2013 and is expected to further increase to RMB42.7 billion in 2016, representing a compound annual growth rate of 45.4%. In 2014, the aforesaid market size has been increased to RMB29.4 billion. We have continued to deepen market penetration of mobile games so as to preserve our competitive edge in the highly competitive mobile market.

Our games

In 2014, we further capitalised on our early mover advantage and the tremendous growth opportunities in the fast growing mobile game market in the PRC and abroad, and continued to maintain our leading position in mobile games in our target markets. During 2014, we stepped up our research and development efforts to produce new and innovative mobile games, as well as to update and improve our existing games.

Our two self-developed games, *Excalibur* and *Sword of Heaven*, continued to perform well in 2014 and maintained their significances in our game portfolio during the year. Revenue from mobile games accounted for approximately 88.1% of our total revenue in 2014, comparing to approximately 48.4% for the year ended December 31, 2013. Especially, *Excalibur*, *Sword of Heaven* and *Blade of God* all achieved peak monthly gross billings of more than RMB30 million in a short period after commercialisation. Revenue generated from these three games was approximately RMB541.2 million, accounting for approximately 79.7% of our total revenue during the year ended December 31, 2014. *Excalibur* had been named as the "Top-Ten Classic Mobile Game Masterpiece", and *Sword of Heaven* had been named as the "Top-Ten Most Anticipated Original Mobile Game" and "the Most Popular Mobile Game" in 2014. *Blade of God* was awarded the "Best Collectible Card Mobile Game" at the 2nd Global Mobile Game Congress in 2014.

In 2014, we commercialised three new mobile games, among which *Sword of Heroes* was self-developed and the other two games, *Blade of God* and *Go! Generals!*, were licensed from independent third parties. All of the three games operate on both iOS and Android platforms, which have further enhanced and diversified our game portfolio. Revenue generated from these three new games was approximately RMB225.6 million, contributing approximately 33.2% to our total revenue.

As of December 31, 2014, we had commercialised 17 online games, including ten self-developed games and seven licensed games. Among these games, five were mobile games, four were webgames, seven were client-based games and one had both client-based version and web version. Whilst there was decrease in the contribution of the revenue generated from webgames and client-based games after we shifted our focus to mobile games, our mobile games have increasingly become the most significant contributor to our revenue from all forms of games in 2014. We also experienced increase in terms of percentage of our total revenue from our third-party licensed games during the year ended December 31, 2014 compared with the year ended December 31, 2013 due to the rapid growth of our publishing business.

The following table sets forth the breakdown of our revenue by (i) game forms, (ii) self-developed games and licensed games, and (iii) development and operations of online games for the years indicated:

	For the year ended December 31,			
	2014		2013	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Mobile games	**597,897**	**88.1**	249,158	48.4
Webgames	**30,313**	**4.5**	145,746	28.3
Client-based games	**50,474**	**7.4**	120,093	23.3
Total	**678,684**	**100**	514,997	100

	For the year ended December 31,			
	2014		2013	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Self-developed games	**441,420**	**65.0**	421,607	81.9
Licensed games	**237,264**	**35.0**	93,390	18.1
Total	**678,684**	**100**	514,997	100

	For the year ended December 31,			
	2014		2013	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Sales of in-game virtual items	**629,896**	**92.8**	477,747	92.8
License fee and technical support fee	**48,788**	**7.2**	37,250	7.2
Total	**678,684**	**100**	514,997	100

Our game distribution platforms and payment collection channels

In 2014, we distributed our games through about 150 distribution channels, including our own channel and third-party channels. Our own distribution channel, 8864.com, has grown rapidly since its establishment in 2011. As of December 31, 2014, 8864.com had approximately 85.0 million registered users, compared to approximately 70.6 million users as of December 31, 2013. Revenue generated from 8864.com accounted for approximately 16.5% of our revenue from sales of in-game virtual items in 2014. We have continued to utilise our primary game distribution platforms, including major online application stores (such as Apple Inc.'s App Store and Google Play) in the PRC and overseas markets as well as distribution channels with larger user base, such as Tencent Android App, Baidu Mobile Assistant, 91 Mobile Assistant and UC for the domestic market in the PRC, webgame portals and our own game portal, 8864.com. During the year of 2014, in order to enlarge market penetration of our mobile games through new distribution channels, we have also further strengthened our cooperative relationships with the three major Chinese wireless telecommunications operators in the PRC, and made our mobile games available in their online application stores. Currently, all of our commercialised games are available in Apple Inc.'s App Store.

We have also continued to expand our business relationships with an increasing number of payment collection channels as our business continued to expand during 2014. Third-party distribution channels continued to be our largest type of payment collection channels in terms of revenue contribution, representing a growth of approximately 59.9% compared with 2013. We saw decrease in revenue with respect to payments through third-party payment vendors and prepayment cards, accounting for approximately 14.2% and 2.3% of revenue generated from sales in-game virtual items in 2014 compared with that of approximately 22.5% and 8.7% respectively in 2013, which was in line with payment preference change of game players. The following table sets forth a breakdown of revenue contributed by our payment collection channels in absolute amounts and as percentages of our total revenue for the years indicated, together with the change (expressed in percentages) from 2013 to 2014:

	For the year ended December 31,				
	2014		2013		Change
	RMB'000	***approximate %***	*RMB'000*	*approximate %*	*(approximate %)*
Third-party distribution channel	**526,184**	**83.5**	329,011	68.8	59.9
Third-party payment vendor	**89,503**	**14.2**	107,316	22.5	(16.6)
Prepayment cards	**14,209**	**2.3**	41,420	8.7	(65.7)
Sales of in-game virtual items	**629,896**	**100**	477,747	100	31.8

International markets

We have traditionally licensed our games, including our self-developed games and licensed games for which we have global exclusive licenses, to third-party publishers in the international markets. As of December 31, 2014, our games were published in 41 countries and regions outside mainland China. In 2014, the Group set up two subsidiaries in Hong Kong and South Korea, and has started publishing the Korean version of *Sword of Heaven* in South Korea. Revenue generated from overseas market reached approximately RMB60.5 million in the year ended December 31, 2014, representing a growth rate of approximately 76.9% compared to approximately RMB34.2 million in 2013.

Our players

Our cumulative registered players increased from approximately 132.3 million as of December 31, 2013 to over approximately 174.4 million as of December 31, 2014. Driven by the success of our games and primarily due to the strategic focus that we placed on our mobile game business, our mobile game business, both in terms of active player base and revenue, continued to experience significant growth in 2014. Commencing in 2014, active players of our mobile games well exceed those of our client-based games and webgames.

The table below sets forth certain information relating to our mobile games, webgames and client-based games for the years indicated:

	For the year ended December 31,		
	2014	2013	Changes in *(approximate %)*
Monthly Active Players ("MAUs") *(in thousands)*			
Mobile games	**4,197.9**	1,489.0	181.9
Webgames	**105.1**	1,312.0	(92.0)
Client-based games	**370.6**	635.2	(41.7)
Total	**4,673.6**	3,436.2	36.0
Daily Active Players ("DAUs") *(in thousands)*			
Mobile games	**598.1**	212.8	181.1
Webgames	**35.3**	162.7	(78.3)
Client-based games	**118.0**	164.2	(28.1)
Total	**751.4**	539.7	39.2
Average Monthly Paying Players			
Mobile games	**224,945**	73,848	204.6
Webgames	**3,596**	29,143	(87.7)
Client-based games	**9,251**	25,184	(63.3)
Total	**237,792**	128,175	85.5
Monthly average revenue per paying player *(RMB)*			
Mobile games	**221.5**	281.9	(21.4)
Webgames	**702.5**	423.5	65.9
Client-based games	**454.7**	399.1	13.9
All games	**237.8**	337.1	(29.5)
Revenue *(in RMB'000)*			
Mobile games	**597,897**	249,158	140.0
Webgames	**30,313**	145,746	(79.2)
Client-based games	**50,474**	120,093	(58.0)
Total	**678,684**	514,997	31.8

Our operation and technology infrastructure

We have built a robust technology infrastructure to support our overall business operation and system maintenance. Our operation and maintenance infrastructure is built through our own research and development efforts as well as hardware and software acquired from third parties. We had a technical support team located in Beijing, the PRC, to maintain our current technology infrastructure, to ensure the stability of our operations and to monitor and maintain our servers to avoid any breakdown and fix any technical problems when they arise.

As of December 31, 2014, we owned and leased a total of 895 dedicated servers hosted in eight Internet data centers, six of which are located in the mainland China, one in Hong Kong and one in South Korea. By leveraging our sophisticated and advanced technology infrastructure, we have further enhanced our development capability and efficiency and optimised our game operation. We also leased 69 server cabinets and multiple connections with an aggregate bandwidth of 1.55 gigabits per second that connect our servers with the Internet backbones in the PRC. Our large infrastructure provides the necessary support for the operation of our diversified game portfolio and enables players from around the world to easily access and play our game smoothly. As a result, we are able to satisfy additional capacity needs attributable by the expansion of our game portfolio and our player base with minimum incremental cost.

Prospects

The Group will synergize the self-developing and publishing business, vigorously promote the "Great Entertainment" strategy, and proactively proceed with the construction of IP ecological system. Meanwhile, we will strengthen the layout of our "Great Entertainment" and IP ecological system through strategic investment.

In 2015, the Group will launch more popular IP supported games including One Hundred Thousand Bad Jokes (十萬個冷笑話), The Legend of Zhen Huan (甄環傳) and The White Hared Witch (白髮魔女傳). In particular, the One Hundred Thousand Bad Jokes (十萬個冷笑話) was launched on all platforms on March 18, 2015 and achieved remarkable results, with over 1,420,000 DAUs after 3 days post-launch. The One Hundred Thousand Bad Jokes (十萬個冷笑話) is a 3D RPG collectible card game applying round system, which was adapted from an original and highly popular online funny comic in the PRC. Such comic has been played over 2 billion times online in an accumulative basis. The Legend of Zhen Huan (甄環傳) is a 3D collectible card game applying round system, which was adapted from The Legend of Zhen Huan (甄環傳), one of the most popular TV shows in the PRC. The TV shows has been played over 7 billion times online. The White Haired Witch (白髮魔女傳) is a 3D MMORPG game adapted from a famous Kung Fu novel with same name in the PRC.

In 2015, the Group will attach more importance to the iPhone App Store market and endeavour to boost the ranking of our games in the Top Charts of iPhone and other Apple tablet devices. Meanwhile, we will expand the influence of our games on all platforms through focusing on marketing in the iPhone user market, together with joint operation on the mainstream Android platforms in the PRC.

On the overseas market, it is expected that we will establish subsidiaries in more countries and regions in 2015 and gradually build a comprehensive global R&D and publishing system, so as to popularize more diversified self-developed and licensed games in more countries and regions.

Comparison of business objectives with actual business progress

The following is a comparison of the Group's business plan as set out in the Company's prospectus dated December 9, 2014 (the "**Prospectus**") with actual business progress for the year ended December 31, 2014.

Business objectives	**Business plans**	**Progress up to December 31, 2014**
Development of new games, on-going optimisation and update of existing games and purchase of intellectual properties for popular entertainment franchises	• Start closed beta testing of *DT All Star* and *Warrior Crash* • Start development of console version of *Sword of Heroes*	1) We have not started closed beta testing of *DT All Star* and *Warrior Crash* and still optimising these two games internally. We have decided to perform more internal testings of *DT All Star* and *Warrior Crash*. 2) We have started to develop the console version of *Sword of Heroes*.
Licence and publishing of high-quality games from third-party developers	• Commercialise *Crazy Myth*	We have not commercialised *Crazy Myth*. We have decided to perform more internal and close beta testing of *Crazy Myth*.
Enhance and promote our own distribution platform, 8864.com	• Make our OKSDK software (an interfacing software developed by us) freely available to third-party game developers	We made our OKSDK software freely available to third-party game developers.
Development of our own game development tools and potential purchase of commercialised game engines developed by third parties	• Complete development of our software tools package 1.0	We have completed development of our software tools package 1.0.

Business objectives	**Business plans**	**Progress up to December 31, 2014**
Expand our business in overseas markets	• Publish additional games in South Korea, Hong Kong and Macau Special Administrative Region of the PRC ("**Macau**") through our own subsidiaries • Initiate market research on Southeast Asian online game markets	1) We have not published any additional games in South Korea, Hong Kong and Macau through our own subsidiaries as of December 31, 2014. We have decided to conduct more research and development on the localisation of our games suitable for South Korea, Hong Kong and Macau region. 2) We have initiated market research on Southeast Asian online game markets.

Financial Review

The following table is a summary of our consolidated statements of comprehensive income for the years ended December 31, 2013 and 2014, together with changes (expressed in approximate percentages) from 2013 to 2014:

	For the year ended December 31,				
	2014		2013		Change
	RMB'000	***approximate %***	*RMB'000*	*approximate %*	*approximate %*
Revenue	**678,684**	**100.0**	514,997	100.0	31.8
Cost of revenue	**(347,359)**	**(51.2)**	(244,390)	(47.5)	42.1
Gross profit	**331,325**	**48.8**	270,607	52.5	22.4
Selling and marketing expenses	**(81,252)**	**(12.0)**	(85,402)	(16.6)	(4.9)
Administrative expenses	**(141,389)**	**(20.8)**	(68,941)	(13.4)	105.1
Research and development expenses	**(112,290)**	**(16.5)**	(58,467)	(11.4)	92.1
Other gains-net	**6,347**	**0.9**	5,341	1.0	18.8
Operating profit	**2,741**	**0.4**	63,138	12.3	(95.7)
Finance income-net	**2,261**	**0.3**	1,141	0.2	98.2
Fair value loss of preferred shares	**(156,949)**	**(23.1)**	(446,208)	(86.6)	(64.8)
Loss before income tax	**(151,947)**	**(22.4)**	(381,929)	(74.2)	(60.2)
Income tax expense	**(2,636)**	**(0.4)**	(17,491)	(3.4)	(84.9)
Loss for the year	**(154,583)**	**(22.8)**	(399,420)	(77.6)	(61.3)
Non-IFRS Measure:					
Adjusted net profit (unaudited)	**164,797**	**24.3**	84,333	16.4	95.4
Dividends	**—**	**—**	—	—	—

Revenue

The Group's revenue increased by approximately 31.8% from approximately RMB515.0 million for the year ended December 31, 2013 to approximately RMB678.7 million for the year ended December 31, 2014. The increase was primarily due to (i) an increase in revenue generated from *Sword of Heaven* and an upgraded version of the game which was launched in October 2014, and (ii) an increase in revenue generated from *Blade of God* which was launched in March 2014.

Revenue by game forms and sources

The following table sets out the breakdown of revenue by game forms and sources for the years ended December 31, 2013 and 2014, respectively:

	For the year ended December 31,			
	2014		2013	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Mobile games	**597,897**	**88.1**	249,158	48.4
Webgames	**30,313**	**4.5**	145,746	28.3
Client-based games	**50,474**	**7.4**	120,093	23.3
Total	**678,684**	**100**	514,997	100

	For the year ended December 31,			
	2014		2013	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Self-developed games	**441,420**	**65.0**	421,607	81.9
Licensed games	**237,264**	**35.0**	93,390	18.1
Total	**678,684**	**100**	514,997	100

Revenue by games

The following table sets forth a breakdown of revenue by games for the years ended December 31, 2013 and 2014, respectively:

	For the year ended 31 December			
	2014		2013	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Sword of Heaven	**213,889**	**31.5**	9,910	1.9
Blade of God	**186,171**	**27.4**	—	—
Excalibur	**141,126**	**20.8**	238,970	46.4
Sword of Heroes	**29,780**	**4.4**	—	—
Three Kingdoms	**26,154**	**3.9**	91,322	17.7
Daybreak	**21,782**	**3.2**	74,175	14.4
Journey to the West	**9,542**	**1.4**	18,556	3.7
Bubble Ninjia	**3,863**	**0.6**	50,161	9.7
Others	**46,377**	**6.8**	31,903	6.2
Total	**678,684**	**100**	514,997	100

Cost of revenues

The Group's cost of revenue for the year ended December 31, 2014 was approximately RMB347.4 million, representing an increase of approximately 42.1% from approximately RMB244.4 million for the corresponding period in 2013. The Group's cost of revenue, excluding share based compensation amounting to approximately RMB6.7 million for the year ended December 31, 2014, was approximately RMB340.7 million, representing an increase of approximately 39.4% from approximately RMB244.4 million for the corresponding period in 2013. The increase in the Group's costs of revenue was primarily due to the increase of service charges by mobile game distribution channels. On the other hand, content fee paid to game developer also contributed to the increase of cost of revenue, which was primarily the content fee paid to the developer of *Blade of God*, a licensed game which was commercialised in March 2014. In general, the increase in cost of revenue was in line with the growth of our game revenue in 2014.

Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2014 was approximately RMB331.3 million, representing an increase of approximately 22.4% from approximately RMB270.6 million for the year ended December 31, 2013. The Group's gross profit, excluding share based compensation for the year ended December 31, 2014 was approximately RMB338.0 million, representing an increase of approximately 24.9% from approximately RMB270.6 million for the year ended December 31, 2013. The increase in the Group's gross profit was primarily due to the increase in the revenue generated from the mobile games.

The Group's gross profit margin for the year ended December 31, 2014 was approximately 48.8%, representing a decrease of approximately 3.7 percentage points compared to approximately 52.5% for the year ended December 31, 2013. The Group's gross profit margin, excluding share based compensation for the year ended December 31, 2014 was approximately 49.8%, representing a decrease of approximately 2.7 percentage points compared to approximately 52.5% for the year ended December 31, 2013. The decrease in the Group's gross profit margin was primarily due to the combined effect of increased service charges by distribution channels and content fee paid to game developers.

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended December 31, 2014 were approximately RMB81.3 million, representing a slight decrease of approximately 4.9% from approximately RMB85.4 million for the corresponding period in 2013. The Group's selling and marketing expenses, excluding share based compensation for the year ended December 31, 2014 were approximately RMB75.4 million, representing a decrease of approximately 11.7% from approximately RMB85.4 million for the year ended December 31, 2013. The decrease in the Group's selling and marketing expenses was primarily due to the decrease in promotion and advertising expenses incurred for 2014 as a result of more accurate and targeted advertising program adopted by the Group.

Administrative expenses

The Group's administrative expenses for the year ended December 31, 2014 were approximately RMB141.4 million, representing an increase of approximately 105.1% from approximately RMB68.9 million for the year ended December 31, 2013. The Group's administrative expenses, excluding share based compensation and Listing related expenses for the year ended December 31, 2014 were approximately RMB38.0 million, representing an increase of approximately 21.0% from approximately RMB31.4 million for the year ended 31 December, 2013. The increase in the Group's administrative expenses was primarily due to other professional service fees during the Listing process.

Research and development costs

The Group's research and development expenses for the year ended December 31, 2014 were approximately RMB112.3 million, representing an increase of approximately 92.1% from approximately RMB58.5 million for the year ended December 31, 2013. The Group's research and development expenses, excluding share based compensation for the year ended December 31, 2014 were approximately RMB65.9 million, representing an increase of approximately 12.7% from approximately RMB58.5 million for the year ended December 31, 2013. The increase in the Group's research and development expenses was primarily due to (i) the increase in salaries and welfare expenses for game research and development staff, and (ii) the increase in amortisation of trademarks and licenses.

Other gains — net

The Group's other income gains for the year ended December 31, 2014 was approximately RMB6.3 million, compared to approximately RMB5.3 million for the corresponding period in 2013. The increase in the Group's other income gains was primarily due to investment income of approximately RMB1.9 million generated from short-term investments.

Finance income — net

Our finance income increased from approximately RMB1.1 million in 2013 to approximately RMB2.3 million in 2014 as a result of the increase in interest income over increased cash balance in 2014. No interest was capitalised during the year ended December 31, 2014 (2013: Nil).

Fair value loss of preferred shares

Fair value loss of the Preferred Shares decreased significantly to approximately RMB156.9 million for the year ended December 31, 2014 from approximately RMB446.2 million for the year ended December 31, 2013. The decrease in fair value loss of the Preferred Shares was mainly due to the decrease in the valuation of the Preferred Shares. All Preferred Shares were automatically converted into ordinary Shares upon the Listing in December 2014. It is expected that such cost would not recur in the forthcoming financial year.

Income tax expense

The Group's income tax expense for the year ended December 31, 2014 was approximately RMB2.6 million, representing a decrease of approximately 84.9% from approximately RMB17.5 million for the year ended December 31, 2013. The decrease in the Group's income tax expenses was primarily because the Group conducted more effective tax planning and applied preferential enterprise income tax rate in 2014.

Loss for the year

As a result of the foregoing, our loss attributable to equity holders of the Company decreased by approximately 61.3% from approximately RMB399.4 million in 2013 to approximately RMB154.6 million in 2014.

Non-IFRSs Measure — Adjusted net profit

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we also use adjusted net 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 profit was derived from our net profit for the year excluding share-based compensation expenses, fair value loss of the Preferred Shares and Listing-related expenses. The adjusted net profit is an unaudited figure.

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

	For the year ended 31 December,		
	2014	2013	Change
	RMB'000	*RMB'000*	*approximate %*
Loss for the year	**(154,583)**	(399,420)	(61.3)
Add:			
Share-based compensation expenses	**118,853**	36,908	222.0
Listing-related expenses	**43,578**	637	6,741.1
Fair value loss of Preferred Shares	**156,949**	446,208	(64.8)
Adjusted net profit (unaudited)	**164,797**	84,333	95.4

The Group's adjusted net profit for the year ended December 31, 2014 was approximately RMB164.8 million, representing an increase of approximately 95.4% from approximately RMB84.3 million for the year ended December 31, 2013. The increase in our adjusted net profit is generally in line with the increase in our revenue, and also as a result of the decreased amount of selling and marketing expenses. We have presented adjusted net profit for the year in this announcement as we believe that the adjusted net 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 Listing-related expenses, share-based compensation expenses and fair value loss of the Preferred Shares, which were converted to ordinary Shares on December 30, 2014. Accordingly, the Company envisages that it will not incur any further fair value change of the liability component of Preferred Shares or Listing-related expenses. However, adjusted net profit for the year should not be considered in isolation or construed as an alternative to net profit or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net profit for the year presented in this announcement may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

Liquidity and Financial Resources

In 2014, we financed our operations primarily through cash generated from our operating activities. We have also strengthened our cash position by the net proceeds we received from the Listing which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the year ended December 31, 2014, the Group's idle capital was invested in short-term wealth management products which are principal protected and are issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or speculative derivative instruments.

Cash and cash equivalents

As of December 31, 2014, we had cash and cash equivalents of approximately RMB1,086.5 million (December 31, 2013: approximately RMB111.8 million), which primarily consisted of cash at bank and in hand and which were mainly denominated in Renminbi (as to approximately 22.8%), Hong Kong dollars (as to approximately 51.3%), U.S. dollars (as to approximately 25.7%) and other currencies (as to approximately 0.2%).

Net proceeds from our Listing, after deducting the underwriting commission and other estimated expenses in connection with the Listing, which the Company received amounted to approximately HK$686.2 million. As at the date of this announcement, the net proceeds from our Listing had not yet been utilised and all of the net proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group. In 2015, we will start utilising the net proceeds from our Listing and for purposes consistent with those set out in the section headed “Statement of Business Objectives and Use of Proceeds” in the Prospectus.

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, 2014, our total capital expenditure amounted to approximately RMB43.3 million (2013: approximately RMB8.8 million), including the purchase of furniture and office equipment of approximately RMB2.8 million (2013: approximately RMB1.1 million), server and other equipment of approximately RMB1.9 million (2013: approximately RMB2.9 million), motor vehicles of approximately RMB2.4 million (2013: Nil), leasehold improvements of approximately RMB1.6 million (2013: approximately RMB0.4 million), trademarks and licenses approximately RMB33.9 million (2013: approximately RMB4.0 million) and computer software of approximately RMB0.6 million (2013: approximately RMB0.3 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

During the year ended December 31, 2014, we did not have any short-term or long-term bank borrowings.

As at December 31, 2014, the gearing ratio of the Group, calculated as total liabilities, excluding the Preferred Shares, divided by total assets, was approximately 20.1% (December 31, 2013: approximately 84.4%).

Charge on group assets

As at December 31, 2014, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (December 31, 2013: Nil).

Information on employees and remuneration policy

As of December 31, 2014, the Group had 568 employees (December 31, 2013: 402), 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, 2013 and December 31, 2014 respectively:

	As at December 31,			
	2014		2013	
Function	**Number of Employees**	**approximate % of total employees**	Number of Employees	approximate % of total employees
Research and development	**336**	**59.2**	241	60.0
Game publishing	**171**	**30.1**	123	30.6
— Game licensing	**30**	**5.3**	21	5.2
— Customer service	**67**	**11.8**	36	9.0
— Sales and marketing	**74**	**13.0**	66	16.4
General and administrative	**61**	**10.7**	38	9.4
Total	**568**	**100**	402	100

The total remuneration of the employees of the Group was approximately RMB216.8 million for the year ended December 31, 2014 (2013: approximately RMB130.3 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 as incentive to the Directors and eligible persons, details of which are set out in the paragraph headed "Share Option Scheme" of this announcement.

In addition, the Company has adopted a restricted unit share 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 for the year ended December 31, 2014 were approximately RMB118.9 million, representing an increase of approximately 222.0% from approximately RMB36.9 million for corresponding period in 2013. The income was primarily due to the grant of 31,371,494 restricted share units (the "**RSUs**") on March 21, 2014.

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

Significant Investments, material acquisitions or disposal of subsidiaries and associated companies

In preparation for the Listing, the Company underwent corporate reorganisation, the details of which are set out in the section headed "History, Reorganization and Corporate Structure" of the Prospectus.

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended December 31, 2014.

Contingent Liabilities

As at December 31, 2014, the Group did not have any significant contingent liabilities (December 31, 2013: Nil).

Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Approximately 29.6% of the sales are denominated in currencies other than the functional currency of the operating units making the sales for the year ended December 31, 2014 (December 31, 2013: approximately 19.2%). 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 counter parties.

Most of the transactions of the Company are denominated and settled in its functional currency, U.S. dollars. The Company's foreign exchange risk primarily arose from the cash and cash equivalents denominated in Hong Kong dollars. If Hong Kong dollars had strengthened/weakened by 5% against U.S. dollars with all other variables held constant, the post-tax loss would have been approximately RMB27,620,000 lower/higher for the year ended December 31, 2014 (2013: nil), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in Hong Kong dollars.

For the Group's PRC subsidiaries whose functional currency is RMB, if U.S. dollars had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB877,000 lower/higher for the years ended December 31, 2014 (2013: approximately RMB1,346,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in U.S. dollars.

The Group currently does not have any hedging policy in respect of the foreign currency risk. However, our management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, we are not exposed to any significant foreign currency exchange risk in our operation.

Dividend

The Board did not recommend the payment of a final dividend for the year ended December 31, 2014.

Purchase, Sale or Redemption of Listed Securities of the Company

The Shares have been listed on the GEM of the Stock Exchange since December 30, 2014. Save as the Listing, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2014.

EVENT AFTER THE REPORTING PERIOD

(a) On January 9, 2015, the over-allotment option described in the Prospectus was partially exercised by the joint global coordinators (for themselves and on behalf of the international underwriters) in respect of an aggregate of 10,375,000 Shares, representing approximately 14.03% of the offer Shares initially available under the Listing before exercise of any over-allotment option, to cover over-allocations under the Listing. The over-allotment Shares were sold by the over-allotment option grantors at HK$9.80 per Share, being the offer price per Share under the Listing. As the over-allotment option was granted by the over-allotment option grantors (and not the Company), the Company did not receive any proceeds from the exercise of the over-allotment option. Therefore, the amount of the net proceeds received by the Company from the Listing was not affected by the exercise of the over-allotment option.

(b) On January 21, 2015, the Company granted 2,275,000 RSUs to employees and directors of the Group pursuant to the RSU Scheme. The underlying Shares involved by the grant of RSUs will be settled by existing Shares held by the trustee of the RSU Scheme described in Note 14(d) to the consolidated financial statements.

(c) On February 4, 2015, Linekong Entertainment entered into an agreement to acquire 5% of the equity interests in Shanghai Newbility Games Co., Ltd ("**Newbility**") with consideration of RMB1,750,000. Newbility is a limited liability company registered in Shanghai, the PRC and mainly engaged in game research and development.

(d) On March 6, 2015, the Company entered into a secured convertible note purchase agreement with, among others, Fuze Entertainment Co., Ltd., ("**Fuze**"), pursuant to which the Company conditionally agreed to purchase convertible promissory notes issued by Fuze in the principal sum of US$5,000,000, with interest accrued on the outstanding principal amount at the rate 6% per annum, and a maturity period of one year ending on March 6, 2016. Fuze is a limited liability company registered in the Cayman Islands and a gaming hardware developer.

(e) On March 12, 2015 (after trading hours), the Company as the subscriber entered into a subscription agreement (the "**Subscription Agreement**") with SMI Holdings Group Limited (stock code: 198) as the target company (the "**Target**"), pursuant to which the Company has conditionally agreed to subscribe and the Target has conditionally agreed to issue 139,582,733 Target's shares (the "**Subscription Shares**") for the total consideration of US$5,000,000 (equivalent to approximately HK$38,804,000), equivalent to approximately HK$0.278 per Subscription Share (together the "**Subscription**"). The Subscription Shares to be allotted and issued to the Company represent (i) approximately 1.37% of the existing issued share capital of the Target of 10,175,967,571 shares as at March 12, 2015; and (ii) approximately 1.35% of the then Target's issued share capital of 10,315,550,304 Target's shares as enlarged by the issue and allotment of the Subscription Shares.

As certain applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) were more than 5% but less than 25%, the Subscription constituted a discloseable transaction of the Company and was subject to the requirements under Chapter 19 of the GEM Listing Rules.

As at the date of this announcement, the Subscription under the Subscription Agreement has not been completed.

(f) On March 12, 2015, Linekong Entertainment entered into an agreement to acquire 5.51% of the equity interests in Beijing Chunqiu Yongle Culture and Communication Co., Ltd. ("**Yongle**") with the consideration of RMB23,000,000. Yongle is a limited liability company registered in Beijing, PRC and mainly engages in operation of sports, arts and recreational events and tickets marketing.

CORPORATE GOVERNANCE PRACTICE

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 from December 30, 2014 (the "**Listing Date**") up to the date of this announcement, except for the deviation from code provision A.2.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. From the Listing Date up to the date of this announcement, 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 three executive Directors (including Mr. Wang Feng), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

INTERESTS IN COMPETING BUSINESS

Mr. Wang Feng holds approximately 4.02% of the total equity interest in Beijing Locojoy Technology Co., Ltd ("**Locojoy**"), an Internet company operating in the PRC, which is primarily engaged in developing and publishing online games. Mr. Wang does not hold any directorship, nor is he entitled to any special shareholder's rights (such as information right or management right) in Locojoy. There is no overlapping management between Locojoy and our Company.

Mr. Qian Zhonghua, a non-executive Director, is a managing director of Fosun Equity Investment Management Ltd. 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 four business engines comprising insurance, industrial operations, investment and asset management. The Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including listed companies, Perfect World Co., Ltd. (NASDAQ: PWRD) and DeNA Co., Ltd. (a company listed on the Tokyo Stock Exchange, Stock Code: 2432), and in private mobile 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 does not hold any board seat in the two listed online and mobile game portfolio companies. On the other hand, 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 and the Fosun Group 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 year ended December 31, 2014.

NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors of the Company, all Directors, except for Mr. Qian Zhonghua, the non-executive Director, confirmed that they have complied with the required standards of dealings from the Listing Date up to the date of this announcement.

On February 4, 2015, the Company reported to the Stock Exchange that Mr. Qian Zhonghua ("**Mr. Qian**") did not follow the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Mr. Qian purchased 5,000 Shares at the price of HK$9.81 per share from the secondary market on December 30, 2014 (the "**Dealing**"). The Company was not aware of the Dealing until Mr. Qian informed the Company on January 20, 2015. Mr. Qian did not follow the required standard of dealings as set out in Chapter 5 of the GEM Listing Rules prior to the Dealing. The Company has adopted the following remedial measures to prevent occurrence of similar incidents in the future:

(1) the Company has re-circulated the required standard of dealings to each of the Directors and reminded each of them no less frequent than each quarter of a year to strictly adhere to the "Securities transactions by directors" requirements under Chapter 5 of the GEM Listing Rules and such required standard of dealings;

(2) the Company has engaged a compliance advisor and Hong Kong legal advisors to assist the Company and the Directors to comply with the applicable GEM Listing Rules;

(3) the Hong Kong legal advisors has provided a training on required standard of dealings to Mr. Qian on February 13, 2015;

(4) the Joint Company Secretaries have prepared standard forms for Directors to report their securities transaction and the relevant acknowledgment form issued by the Board;

(5) the compliance officer regularly checks with the Directors at the end of each month starting in February 2015 in respect to their shareholding interests in the Company and associated corporations; and

(6) the Hong Kong legal advisors has provided additional training to all Directors on March 25, 2015 to enhance the Directors' understanding of the applicable GEM Listing Rules.

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.

As at December 31, 2014, RSUs in respect of 31,371,494 underlying shares has been granted to 85 grantees (three of which are our Directors). Total RSUs in respect of 95,422 underlying shares granted to four grantees had been lapsed during the year ended December 31, 2014. As at December 31, 2014, there were 31,276,072 RSUs granted and outstanding. On January 21, 2015, RSUs in respect of 2,275,000 underlying shares had been granted to 455 grantees (three of which are our Directors). As at the date of this announcement, there were 33,551,072 RSUs granted and outstanding.

Share Option Scheme

The Company adopted a share option scheme on November 20, 2014 (the "**Share Option Scheme**")

As at December 31, 2014, no option was granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

REMUNERATION COMMITTEE

The remuneration committee of the Board (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 includes Mr. Wang Feng and Ms. Liao Mingxiang, our executive Directors, Mr. Ma Ji and Mr. Chen Tong, 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 appropriated policy and structures for all aspect 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 are fair and reasonable during the year ended December 31, 2014.

NOMINATION COMMITTEE

The nomination committee of the Board (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 included Mr. Qian Zhonghua, our non-executive Director, Mr. Ma Ji, Mr. Chen Tong and Mr. Zhang Xiangdong, 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 of the Board (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. Chen Tong and Mr. Zhang Xiangdong, 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 risk management system, 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, 2014 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, 2014 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive loss, consolidated statement of changes in equity/(deficit) and the related notes thereto for the year ended December 31, 2014 as set out in the Group's annual results announcement for the year have been agreed by the Group's auditor, PricewaterhouseCoopers, with the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2014. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the annual results announcement.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Thursday, June 11, 2015. 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 9, 2015 to Thursday, June 11, 2015 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 branch 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 8, 2015.

RETIREMENT AND RE-ELECTION OF DIRECTORS

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.

Each of Mr. Mao Zhihai, Mr. Qian Zhonghua and Mr. Chen Tong will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on June 11, 2015 pursuant to article 16.18 of our articles of association. Each of Mr. Mao Zhihai and Mr. Qian Zhonghua, being eligible, will offer themselves for re-election, while Mr. Chen Tong will not offer himself for re-election as he would like to devote more time to his other business commitment.

Mr. Chen Tong confirms that he does not have any disagreement with the Board and there is nothing to be brought to the attention of the shareholders of the Company in relation to his proposed retirement.

PROPOSED APPOINTMENT OF DIRECTORS

At the forthcoming annual general meeting of the Company, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed election of Mr. Mei Song as an executive Director, Mr. Zhao Jun as an executive Director, Mr. Wang Xiaodong as an independent non-executive Director, and Ms. Zhao Yifang as an independent non-executive Director, all for a term commencing from the date of the AGM which approves their appointments and ending at the conclusion of the 2017 annual general meeting of the Company to be held in 2018. The biographical details of the aforesaid proposed Directors are set out below:

Proposed executive Directors

Mr. MEI Song

Mr. MEI Song, age 34, is a vice president of the Group. Mr. Mei is primarily responsible for game development and operation of the Group. 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*. Mr. Mei has over eight years of experience in the Internet and online game industry. Prior to joining our Group, Mr. Mei worked at Beijing Kingsoft Software Co., Ltd. ("**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 degree in computer software and theory in April 2006 from Harbin University of Science and Technology.

As at the date of this announcement, Mr. Mei is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 Shares subject to vesting.

Save as disclosed above, Mr. Mei does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and other members of the Group or other major appointments and professional qualifications.

Save as disclosed above, Mr. Mei does not have any relationship with other Directors, senior management, substantial or controlling shareholders of the Company and he has no interests in the Shares which are required to be disclosed pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**").

If elected, Mr. Mei will enter into a director's service agreement with the Company as an executive Director for a term commencing from the date of the annual general meeting which approves his appointment and ending at the conclusion of the 2017 annual general meeting to be held in 2018, which may be terminated by either the Company or Mr. Mei by giving 3 month's written notice or otherwise in accordance with the terms of the director's service agreement. Mr. Mei's remuneration will be determined with reference to his roles and responsibilities with the Group and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to Mr. Mei's appointment that need to be brought to the attention of the shareholders of the Company and there is no other information that should be disclosed pursuant to paragraphs 17.50(2) (h) to (v) of the GEM Listing Rules.

Mr. ZHAO Jun

Mr. ZHAO Jun, age 35, is a vice president of the Group. Mr. Zhao is primarily responsible for game development and operation of the Group. 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* and was promoted to the position of project manager in June 2009 and subsequently to project director in October 2010. Mr. Zhao is also responsible for overseeing the management and licensing of the overseas versions (including Taiwan, Vietnamese and Indonesian versions) of our *Journey to the West*. Since January 2012, Mr. Zhao served as the producer of our *Sword of Heaven*. Mr. Zhao has over eight years of experience in the Internet industry. Prior to joining the Group, Mr. Zhao worked as a software engineer for Asialnfo 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 degree in electromagnetic fields and microwave technology from Beijing University of Posts and Telecommunications in July 2002 and April 2005, respectively.

As at the date of this announcement, Mr. Zhao is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 Shares subject to vesting.

Save as disclosed above, Mr. Zhao does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and other members of the Group or other major appointments and professional qualifications.

Save as disclosed above, Mr. Zhao does not have any relationship with other Directors, senior management, substantial or controlling shareholders of the Company and he has no interests in the Shares which are required to be disclosed pursuant to Part XV of the SFO.

If elected, Mr. Zhao will enter into a director's service agreement with the Company as an executive Director for a term commencing from the date of the annual general meeting which approves his appointment and ending at the conclusion of the 2017 annual general meeting to be held in 2018, which may be terminated by either the Company or Mr. Zhao by giving 3 month's written notice or otherwise in accordance with the terms of the director's service agreement. Mr. Zhao's remuneration will be determined with reference to his roles and responsibilities with the Group and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to Mr. Zhao's appointment that need to be brought to the attention of the shareholders of the Company and there is no other information that should be disclosed pursuant to paragraphs 17.50(2) (h) to (v) of the GEM Listing Rules.

Proposed independent non-executive Directors

Mr. WANG Xiaodong

Mr. WANG Xiaodong, aged 47, 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 DewMobile 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 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 Standford Junior University in September 2002.

Save as disclosed above, Mr. Wang does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and other members of the Group or other major appointments and professional qualifications.

Mr. Wang does not have any relationship with other Directors, senior management, substantial or controlling shareholders of the Company and he has no interests in the Shares which are required to be disclosed pursuant to Part XV of the SFO.

If elected, Mr. Wang will enter into a letter of appointment with the Company as an independent non-executive Director for a term commencing from the date of the annual general meeting which approves his appointment and ending at the conclusion of the 2017 annual general meeting to be held in 2018, which may be terminated by either the Company or Mr. Wang by giving 3 month's written notice or otherwise in accordance with the terms of the director's service agreement. Mr. Wang's remuneration will be determined with reference to his roles and responsibilities with the Group and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to Mr. Wang's appointment that need to be brought to the attention of the shareholders of the Company and there is no other information that should be disclosed pursuant to paragraphs 17.50(2) (h) to (v) of the GEM Listing Rules.

Ms. ZHAO Yifang

Ms. ZHAO Yifang, aged 56, 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.

Save as disclosed above, Ms. Zhao does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other position with the Company and other members of the Group or other major appointments and professional qualifications.

Ms. Zhao does not have any relationship with other Directors, senior management, substantial or controlling shareholders of the Company and she has no interests in the shares of the Company which are required to be disclosed pursuant to Part XV of the SFO.

If elected, Ms. Zhao will enter into a letter of appointment with the Company as an independent non-executive Director for a term commencing from the date of the annual general meeting which approves her appointment and ending at the conclusion of the 2017 annual general meeting to be held in 2018, which may be terminated by either the Company or Ms. Zhao by giving 3 month's written notice or otherwise in accordance with the terms of the director's service agreement. Ms. Zhao's remuneration will be determined with reference to her roles and responsibilities with the Group and the prevailing market conditions.

Save as disclosed above, there are no other matters relating to Ms. Zhao's appointment that need to be brought to the attention of the shareholders of the Company and there is no other information that should be disclosed pursuant to paragraphs 17.50(2) (h) to (v) of the GEM Listing Rules.

CHANGE IN THE COMPOSITION OF BOARD COMMITTEES

Upon the retirement of Mr. Chen Tong as Director at the forthcoming annual general meeting of the Company, Mr. Chen will cease to be a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. At the same time, Mr. Qian Zhonghua will be appointed as a member of the Audit Committee.

Subject to all proposed Directors being successfully elected at the forthcoming annual general meeting of the Company, the following new members will be added to the Board committees:

(1) Mr. Wang Xiaodong and Ms. Zhao Yifang will be appointed as the members of the Audit Committee.

(2) Mr. Zhao Jun, Mr. Wang Xiaodong and Ms. Zhao Yifang will be appointed as the members of the Remuneration Committee.

(3) Ms. Liao Mingxiang, Mr. Mei Song, Mr. Wang Xiaodong and Ms. Zhao Yifang will be appointed as the members of the Nomination Committee.

Other committee members and the chairman of the respective Board committees shall remain unchanged.

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

Beijing, PRC, March 25, 2015

As at the date of this announcement, the executive Directors are Mr. WANG Feng, Ms. LIAO Mingxiang and Mr. MAO Zhihai; the non-executive Director is Mr. QIAN Zhonghua; and the independent non-executive Directors are Mr. MA Ji, Mr. CHEN Tong and Mr. ZHANG Xiangdong.