LINEKONG
藍港互動

2014
Annual Report

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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This report, for which the directors (the "**Directors**") of Linekong Interactive Co., Ltd. (the "**Company**") 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 Linekong Interactive Co., Ltd.. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Feng *(Chairman and chief executive officer)*
Ms. Liao Mingxiang *(President)*
Mr. Mao Zhihai *(Chief financial officer and joint company secretary)*

Non-executive Director

Mr. Qian Zhonghua

Independent Non-executive Directors

Mr. Ma Ji
Mr. Chen Tong
Mr. Zhang Xiangdong

BOARD COMMITTEES

Audit Committee

Mr. Ma Ji *(Chairman)*
Mr. Chen Tong
Mr. Zhang Xiangdong

Remuneration Committee

Mr. Zhang Xiangdong *(Chairman)*
Mr. Wang Feng
Ms. Liao Mingxiang
Mr. Ma Ji
Mr. Chen Tong

Nomination Committee

Mr. Wang Feng *(Chairman)*
Mr. Qian Zhonghua
Mr. Ma Ji
Mr. Chen Tong
Mr. Zhang Xiangdong

JOINT COMPANY SECRETARIES

Mr. Mao Zhihai
Ms. Lam Wai Yee Sophie, *FCIS, FCS*

AUTHORISED REPRESENTATIVES

Ms. Liao Mingxiang
Mr. Mao Zhihai

COMPLIANCE OFFICER

Mr. Mao Zhihai

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

8/F, Qiming International Mansion
Wangjing North Road
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

Corporate Information

AUDITORS

PricewaterhouseCoopers
22/F, Prince's Building
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Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAWS

Peter Yuen & Associates
30/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

LEGAL ADVISORS AS TO PRC LAWS

Fangda Partners
21/F, China World Tower
No. 1, Jian Guo Men Wai Avenue
Chaoyang District
Beijing
China

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Offshore Incorporations (Cayman) Limited
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Cayman Islands

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKS

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

COMPLIANCE ADVISOR

REORIENT Financial Markets Limited
11/F, Far East Finance Centre
16 Harcourt Road
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Hong Kong

GEM STOCK CODE

8267

COMPANY WEBSITE

www.linekong.com

Chairman's Statement

On behalf of the Board of Linekong Interactive Co., Ltd. (the "**Company**" or "**we**"), I am pleased to report to our valued shareholders and investors the results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended December 31, 2014.

OVERVIEW

On December 30, 2014, the Company was successfully listed on the GEM of the Stock Exchange (the "**Listing**"), which was a significant milestone in its development history. On one hand, the Listing demonstrated the recognition from the capital market of the Group's achievement and development model in the mobile game market. On the other hand, the successful Listing laid a solid foundation for the Group's future development.

In 2014, the mobile game market of the People's Republic of China (the "**PRC**") still maintained a rapid growth. Benefited from the popularity of 4G communication technology provided by telecommunications operators and the significant upgrade of functions of mobile devices (in particular smart phones), midcore and hardcore mobile games (being the game types that the Group specialises in) were getting more popular among players.

We are one of the leading mobile game developers and publishers in the PRC, with strong ability in self-developed games and publishing licensed games. In 2014, we stood out from the intensely competitive Chinese mobile game market by maintaining a business model of combining "games developing" and "publishing", and recorded a steady and rapid growth which was in line with the market. In 2014, the Group recorded a total revenue of approximately RMB678.7 million, representing an increase of approximately 31.8% as compared to approximately RMB515.0 million in 2013. Among which, mobile games recorded a revenue of RMB597.9 million, which represented an increase of approximately 140.0% as compared to approximately RMB249.2 million in 2013, and accounted for approximately 88.1% to the total revenue of the Group in 2014. For the year ended December 31, 2014, the unaudited non-International Financial Reporting Standards ("**IFRSs**") adjusted profit attributable to equity holders of the Company amounted to approximately RMB164.8 million, representing an increase of approximately 95.4% as compared to approximately RMB84.3 million in 2013. In addition, the financial condition of the Group also improved steadily. As of December 31, 2014, cash and cash equivalents amounted to approximately RMB1,086.5 million in aggregate, which indicates a healthy development of the Group.

In 2014, the Group continuously expanded its player base through diversified mobile game portfolio and superior playing experience. As of December 31, 2014, there were approximately 54.0 million registered players of mobile games, representing an increase of approximately 39.6 million as compared to 14.4 million in 2013. There were approximately 4.7 million monthly active players ("**MAUs**") and 0.8 million daily active players ("**DAUs**"), representing an increase of approximately 1.3 million MAUs and 0.3 million DAUs as compared to 3.4 million MAUs and 0.5 million DAUs in 2013. It is worth noting that the Group's self-owned game platform 8864.com has attracted various players effectively. It gradually became an important platform for us to introduce our games to players and a source of income. As of December 31, 2014, there were a total of approximately 85.0 million registered players on 8864.com, representing an increase of approximately 14.4 million as compared to 70.6 million in 2013. 8864.com recorded a revenue of approximately RMB103.7 million, accounted for approximately 16.5% to the total revenue from virtual items of the Group in 2014.

Benefiting from our globalised development strategy, the Company has also achieved visible results in overseas markets. Currently, the Company has already established subsidiaries in Hong Kong and Seoul, which cover the markets of Hong Kong, Macau, Taiwan and South Korea. Due to the outstanding localised operating ability, a higher penetration was seen for the Group's mobile game products, resulting in a rapid revenue growth in various countries and regional markets. As such, related game products also received the recognition from local players and operators. As of December 31, 2014, the Group recorded a revenue of approximately RMB60.5 million in markets other than mainland China, representing an increase of approximately 76.9% as compared to approximately RMB34.2 million in 2013. Meanwhile, Sword of Heaven, a 3D massively multiplayer online role-playing game ("**MMORPG**") developed by the Group, was named the Best Game in 2014 by Korean Google Play.

FUTURE 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 (甄嬛傳) and The White Haired 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 (甄嬛傳) is a 3D collectible card game applying round system, which was adapted from The Legend of Zhen Huan (甄嬛傳), 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.

May I take this opportunity to thank the management and the entire staff for their hard work in the past year for the successful Listing and the continuous growth of the Company in the future. I also express my gratitude for the care and support from all shareholders of the Company and business partners of the Group thoughout these years.

Wang Feng
Chairman

March 25, 2015

Biographical details of the Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. Wang Feng, age 46, is the chairman of the Board, chief executive officer and an executive Director. He is also the chairman of the nomination committee of the Board (the "**Nomination Committee**") and a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Mr. Wang is the founder of the Group and is primarily responsible for formulating and implementing the overall strategy as well as products and business plans of the Group. He was appointed as a Director on 24 May 2007. Prior to joining the Group, Mr. Wang worked at Beijing Kingsoft Software Co., Ltd. ("**Beijing Kingsoft**"), a subsidiary of Kingsoft Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3888), in various senior positions successively as product manager, vice president in charge of anti-virus software department, and vice president in charge of digital entertainment business from March 1997 to December 2005, and served as senior vice president in charge of digital entertainment and sales and marketing from January 2006 to March 2007. Mr. Wang has over 16 years of experience in the Internet industry and was awarded several honours, including "Individual Award for Outstanding Contributions to 20 Years of Development in Zhongguancun" granted by Beijing municipal government in 2009, "New Elite in China Game Industry" in 2007 and "the Top-Ten Most Influential People in China Game Industry" granted by China Game Industry Annual Conference ("**GIAC**") in 2008, 2009 and 2011 by GIAC. Mr. Wang Feng also was awarded "Outstanding Entrepreneur" in both 2011 and 2013 by China Game Trade Annual Conference. Mr. Wang graduated from Peking University with a master of business administration degree in June 2005.

Ms. Liao Mingxiang, age 40, is our president and an executive Director. She is also a member of the Remuneration Committee. Ms. Liao serves as a Director of the Group since May 24, 2007. Ms. Liao is primarily responsible for overseeing the distribution of our online games and human resources, legal and business operations of the Group. Ms. Liao has over 14 years of experience in the Internet industry. Prior to joining the Group, Ms. Liao worked at Beijing Kingsoft from August 1999 to March 2007, as the deputy manager of the game operating department, mainly responsible for managing sales and marketing channels in the PRC, regional offices, regional promotional activities and game operations. Ms. Liao was awarded "the Top-Ten Most Influential People in China Game Industry" granted by GIAC in 2012. Ms. Liao received a bachelor's degree in marketing from Jiangxi Gannan Normal University in July 2005 and a master degree in project management from Changchun University of Technology in April 2014.

Mr. Mao Zhihai, age 39, is an executive Director, the chief financial officer, a joint company secretary and the compliance officer of the Company. Mr. Mao is primarily responsible for overseeing the management of finance and investment of the Group. He joined the Group as the chief financial officer on January 10, 2014 and was appointed as an executive Director on January 27, 2014. Mr. Mao has over 11 years of experience in accounting and corporate finance. Prior to joining the Group, Mr. Mao worked at Deloitte & Touche LLP, USA, in Washington DC from July 2003 to March 2006, and Deloitte & Touche Tohmatsu CPA, Ltd., Beijing Branch, as a senior auditor from August 2006 to December 2007. From January 2008 to October 2010, Mr. Mao served at China TransInfo Technology Corp., a company previously listed on Nasdaq Stock Market (NASDAQ: CTFO) before its privatisation in November 2012, as the Chief Financial Officer. From December 2010 to December 2013, Mr. Mao worked for two other investment companies and was mainly responsible for financial and investment related matters. From November 2010 to August 2014, he served as an independent director at China Shengda Packaging Group, Inc., a company listed on Nasdaq Stock Market (NASDAQ: CPGI). Mr. Mao is a U.S. certified public accountant, licensed in the State of Virginia since February 2006. Mr. Mao graduated from University of North Carolina at Chapel Hill with a master degree in accounting in May 2003.

NON-EXECUTIVE DIRECTOR

Mr. Qian Zhonghua, age 50, joined the Board as a non-executive Director on January 27, 2014. He is also a member of the Nomination Committee. Mr. Qian has over 20 years of management and investment experience and also has extensive experience in the Internet industry, including the fields of vertical portals, e-commerce, online games, cross-platform applications, convergence of telecommunications, cable and Internet networks and digital publishing. Mr. Qian is currently a managing director of Fosun Equity Investment Management Ltd ("**Fosun**"). Prior to joining Fosun, Mr. Qian served as the chief executive officer of Ourgame.com from May 2000 to January 2003. Mr. Qian also served as the president for Yanhuangxinxing Group from January 2003 to January 2004 where he was primarily engaged in managing its online game and telecommunication value-added services. From June 2004 to March 2006, Mr. Qian worked at Shanda Interactive Entertainment Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: SNDA) before its privatisation in February 2012, as the general manager of its Beijing Branch and mainly focused on the entertainment product management. Mr. Qian was also the member of the Evaluation Committee of Senior Economic (Accounting) Professionals of the Press and Publication Administration from November 2009 to October 2011. Mr. Qian obtained his bachelor's degree in engineering from Tsinghua University in July 1986 and graduated from Guanghua School of Management of Peking University with a master degree of business administration in June 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ma Ji, age 37, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the audit committee of the Board (the "**Audit Committee**"), a member of the Remuneration Committee and the Nomination Committee. Mr. Ma has over 13 years of experience in accounting and corporate finance. From July 2000 to June 2011, Mr. Ma worked at Deloitte Touche Tohmatsu CPA Ltd., and served as a senior manager before he left. He then served as a vice president at Vancl Corporation from June 2011 to August 2013. Since August 2013 to October 2014, he served as the chief financial officer at Autonavi Holdings Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: AMAP) before it was delisted as a result of a recent acquisition in July 2014 by Alibaba Group Holding Limited, a company listed on the New York Stock Exchange (NYSE: BABA). Mr. Ma is a U.S. certified public accountant, licensed in the state of New Hampshire. Mr. Ma is also a member of the Chinese Institute of Certified Public Accountants. Mr. Ma obtained a bachelor's degree of economics from Peking University in July 2000.

Mr. Chen Tong, age 48, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. He has over 16 years of experience in the Internet industry and currently serves as a vice president in Beijing Xiaomi Technology Co., Ltd., in charge of operation and investment since October 23, 2014. Mr. Chen also served various senior positions at Sina Corporation, a company listed on Nasdaq Stock Market (NASDAQ: SINA), since March 1998, including acting as the content director from June 1999 to June 2000, serving as the executive deputy general manager of Sina's China operations from June 2000 to May 2002 and serving as the chief editor and a vice president since May 2002 and assuming the position as the chief editor and executive vice president since February 2007. Since February 2010, Mr. Chen serves as an independent non-executive director of Beijing Enlight Media Co., Ltd., a company listed on the Shenzhen Stock Exchange (Stock Code: 300251). Mr. Chen is also an independent non-executive director at TAL Education Group, a company listed on Nasdaq Stock Market (NASDAQ: XRS) since June 2011 and also a member of its audit committee, nomination and corporate governance committee. Mr. Chen obtained a bachelor of science degree in electronic engineering from Beijing University of Technology in September 1990 and graduated from Beijing Institute of Technology with a master of arts degree in communication and Renmin University of China with a master of arts degree in journalism in March 1998 and June 2004, respectively. Mr. Chen also obtained a master's degree of business administration from China-Europe International Business School in May 2009.

Mr. Zhang Xiangdong, age 37, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Remuneration Committee of the Board, a member of the Audit Committee and the Nomination Committee. Mr. Zhang has over 14 years of experience in the Internet industry. In July 2003, Mr. Zhang founded Sungy Mobile Limited, a company listed on Nasdaq Stock Market (Nasdaq: GOMO), and served as a director and its president since 2003 until October 2014, when Mr. Zhang resigned his positions as a director and president to pursue his entrepreneurial endeavours. Mr. Zhang obtained a bachelor's degree in information management from Peking University in July 1999.

SENIOR MANAGEMENT

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.

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 AsiaInfo 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.

Biographical details of the Directors and Senior Management

Mr. Chen Min, age 36, is our co-chief technology officer. Mr. Chen is primarily responsible for research and development of several of our important games as well as safety management of our source code, assessment of our engineers, technical training and new technology promotion. Mr. Chen joined the Group on March 1, 2008 as a software engineer during which period Mr. Chen led and oversaw the work of all engineers and the game development and project teams and was promoted as our co-chief technology officer on February 2013. Mr. Chen has over nine years of experience in the Internet and online game industry. Prior to joining the Group, he worked as a software engineer at Beijing Branch of Chengdu Kingsoft Digital Entertainment Co., Ltd., responsible for developing graphics, image functions and 3D game engines from July 2004 to February 2008. Mr. Chen received a bachelor's degree in medicine in June 2002 and a master's degree in software engineering in June 2004 from Wuhan University.

Mr. Feng Haili, age 35, is our vice president of the Group. Mr. Feng is primarily responsible for our game licensing business. Mr. Feng joined the Group on May 10, 2007 as the head of our sales and distribution department and was mainly responsible for marketing, promotion and business cooperation of our self-developed and licensed products. In May 2011, he started to serve as the vice president of our games licensing department and is primarily in charge of obtaining licenses and right of use, licensed game testing, products planning and game commercialisation. Mr. Feng has over 14 years of experience in the Internet and online game industry. Prior to joining the Group, Mr. Feng worked at Beijing Kingsoft Digital Entertainment Co., Ltd. ("**Kingsoft Digital**"), a subsidiary of Beijing Kingsoft as a regional manager responsible for the marketing and promotion of Kingsoft's games in Shandong Province, from November 2003 to May 2007. He also worked as a staff in information technology products department for Beijing Everest Electronic Commerce Network Service Co., Ltd, responsible for procurement from December 1999 to December 2001. Mr. Feng graduated in international business from Liaoning University in July 1999.

Ms. Qi Yunxiao, age 32, is vice president of the Group. Ms. Qi is primarily responsible for marketing and promotion of our online games. Ms. Qi joined the Group on April 10, 2007 as the head of our advertising department and procurement department, in charge of formulating our advertising strategies and implementing our advertising monitoring system. Ms. Qi was further promoted as our vice president in charge of our Company's marketing and promotion business in October 2012. Ms. Qi has over ten years of experience in the Internet industry. Prior to joining the Group, Ms. Qi worked at Kingsoft Digital from May 2003 to April 2007, as sales manager in charge of cooperation with distribution and payment channels. Ms. Qi received an associate degree in administration management from the Open University of China in July 2010.

Mr. Zhang Hongliang, age 31, is our co-chief technology officer. Mr. Zhang is primarily responsible for research and development of our game engine and server, as well as safety management of our source code, assessment of our engineers, technical training and new technology promotion. Mr. Zhang joined the Group on April 25, 2008 as a programming engineer, and was mainly responsible for designing and developing the server of our online game *Journey to the West*. Since June 2011, he started to serve as the technical director of our research and development department and is primarily in charge of the development and optimisation of our mobile game Sword of Heaven and was promoted as our co-chief technology officer in February 2013. Mr. Zhang has over eight years of experience in the Internet and online game industry. Prior to joining the Group, he worked at Tencent Technology (Shenzhen) Co., Ltd., a subsidiary of Tencent Holdings Ltd, a company listed on the Main Board of the Stock Exchange, (Stock Code: 700), from July 2006 to April 2008. Mr. Zhang received a bachelor's degree in software engineering from Sichuan University in July 2006.

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

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 online game industry remains highly competitive and the future growth of the Group is largely dependant on our ability to continuously develop, license, publish and upgrade games in a timely and effective manner. In the past few years, a significant portion of our revenue was derived from a small number of games. Our ability to anticipate and effectively respond to the changing interests of players on mobile games would therefore be one of the important elements for our future growth. We have published increasing number of games in recent years, allowing us to grow from a single game company to one with diversified games.

In 2015, the Group will synergise the self-developing and publishing business, vigorously promote the versatile entertainment ("**Great Entertainment**") strategy, and proactively proceed with the construction of intellectual property ("**IP**") ecological system. Meanwhile, we will strengthen the layout of our strategy on Great Entertainment and IP ecological system.

Meanwhile, the Group will exert more efforts in the launch of our more popular IP supported games including One Hundred Thousand Bad Jokes (十萬個冷笑話), The Legend of Zhen Huan (甄嬛傳) and The White Haired Witch (白髮魔女傳). In particular, the One Hundred Thousand Bad Jokes (十萬個冷笑話) was launched on all available platforms on March 18, 2015 and achieved remarkable results, with over 1,420,000 DAUs after 3 days of its launch. The One Hundred Thousand Bad Jokes (十萬個冷笑話) is a 3D RPG collectible turn-based strategic card game, 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 (甄嬛傳) is a 3D collectible turn-based strategic card game, which was adapted from The Legend of Zhen Huan (甄嬛傳), one of the most popular television shows in the PRC. The television shows have 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.

During this year, the Group will further explore, innovate and seek development and continue to increase investment in research and development to attract players with high quality games and satisfy players with diversified games, and retain appropriate players by conducting comprehensive market survey as well as responding promptly and accurately to changes in the industry. The games which will soon be commercialised ranging from I Am Playboy (穿越之大官人) themed by time leap, Rumble Jungle (星球崛起) themed by interstellar adventure to casual games. Such full-coverage will become another highlight of the Group's "Great Entertainment" strategy. Warrior Crash (彈珠全明星) is a casual game themed by the Three Kingdoms (三國演義), one of the four great classical novels of the PRC, and will become the Group's first casual game to be launched as a blockbuster in this year.

Due to the success of Excalibur (王者之劍), Sword of Heaven (蒼穹之劍) and Blade of God (神之刃), collectively "Three Swords of Lingkong", in the market in 2014, our products have attracted more attention from manufacturers of consoles for console games in the market. The Sword of Heaven (蒼穹之劍), a game for Sony Playstation 4 ("**PS4**") console, which will be published in 2015, will also become the first batch of products to be transformed from mobile game into PS4 console game. Meanwhile, we will also contact a number of mainstream television platforms and plan to launch the console version of Sword of Heroes (英雄之劍電視版).

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.

In terms of overseas markets, the Group plans to set up more subsidiaries in different countries and region in 2015 and strive to improve our operation capacity in high growth markets and expand the localisation capacity of our games to cater for different markets and cultures. At the same time, we will strengthen our local business layout, better our customer services to increase our market shares in targeted region, so as to gradually set up a comprehensive global research and development and distribution system, promoting extensive self-developed and licensed games in more countries and districts. We have established wholly-owned subsidiaries in South Korea and Hong Kong, with business coverage also extending to Macao and Taiwan. Last year, we successfully published the Sword of Heaven and achieved commendable results in South Korea. This year, we plan to publish more games in South Korea, Hong Kong, Macao and Taiwan.

We will increase our spending on the promotion and marketing of the Group's own platform 8864.com. We will also continue to build a large and active player community on 8864.com and adopt various measures to encourage interactions among our players in the community.

Management Discussion and Analysis

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 closed 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.
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.

Management Discussion and Analysis

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 annual report 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 annual report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

LIQUIDITY AND FINANCIAL RESOURCES

In 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 annual report, 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 annual report.

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.

Corporate Governance Report

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company has complied with the Code from December 30, 2014 (the "**Listing Date**") up to the date of this annual report, except for the deviation from code provision A.2.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. From the Listing Date up to the date of this annual report, 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.

BOARD OF DIRECTORS

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

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

Composition

The composition of the Board from the Listing Date to December 31, 2014 is set out as follows:

Executive Directors
Mr. Wang Feng *(Chairman and chief executive officer)*
Ms. Liao Mingxiang *(President)*
Mr. Mao Zhihai *(Chief financial officer and joint company secretary)*

Non-executive Director
Mr. Qian Zhonghua

Independent non-executive Directors
Mr. Ma Ji
Mr. Chen Tong
Mr. Zhang Xiangdong

Biographical details of the Directors are set out in "**Biographical Details of the Directors and Senior Management**" on pages 6 to 8 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

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

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company on August 22, 2014 and we have issued letters of appointment to our non-executive Director and each of our independent non-executive Directors. The service contracts with our executive Directors and the letter of appointment with each of our non-executive Directors are for an initial term of three years commencing from August 22, 2014. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years commencing from April 24, 2014. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

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

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. 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 commitments.

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 annual general meeting which approves their appointments and ending at the conclusion of the 2017 annual general meeting of the Company to be held in 2018.

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 annual report.

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 have provided additional training to all Directors on March 25, 2015 to enhance the Directors' understanding of the applicable GEM Listing Rules.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Every Director keeps abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Directors are aware of the requirement under the code provision A.6.5 of the Code regarding continuous professional development. During the year ended December 31, 2014, all the Directors had attended the training session regarding director's duty which was conducted by the Hong Kong legal advisors to the Company of the Listing.

Below is a summary of the training the Directors had received during the year ended December 31, 2014:

Name of Directors	Type of trainings
Mr. Wang Feng	A & B
Ms. Liao Mingxiang	A & B
Mr. Mao Zhihai	A & B
Mr. Qian Zhonghua	A & B
Mr. Ma Ji	A & B
Mr. Chen Tong	A & B
Mr. Zhang Xiangdong	A & B

A: attended director's training
B: reading training materials relating to corporate governance practices, relevant legal and regulatory requirements, and director's duties and responsibilities etc.

BOARD COMMITTEE

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

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

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

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

Remuneration Committee

The Remuneration Committee was established on April 24, 2014. The chairman of the Remuneration Committee is Mr. Zhang Xiangdong, our independent non-executive Director, and other members 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 aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended December 31, 2014.

Nomination Committee

The Nomination Committee was established on April 24, 2014. The chairman of the Nomination Committee is Mr. Wang Feng, our chairman, executive Director and chief executive officer, and other members 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 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.

ATTENDANCE RECORDS OF MEETINGS

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

The Company was listed on December 30, 2014. There was no board meeting held from the Listing Date to December 31, 2014. There was neither Audit Committee, Nomination Committee nor Remuneration Committee meeting held from the Listing Date to December 31, 2014.

The forthcoming annual general meeting to be held on June 11, 2015 will be the first general meeting of the Company since the Listing Date.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended December 31, 2014 is set out below:

Remuneration band	Number of persons
HKD4,000,001 to HKD4,500,000	1
HKD7,500,001 to HKD8,000,000	1
HKD8,000,001 to HKD8,500,000	1
HKD9,500,001 to HKD10,000,000	1
HKD19,000,001 to HKD19,500,000	1
HKD25,500,001 to HKD26,000,000	1

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in note 23 to the consolidated financial statements in this annual report.

JOINT COMPANY SECRETARIES

The Joint Company Secretaries of the Company are Mr. Mao Zhihai and Ms. Lam Wai Yee Sophie. Ms. Lam Wai Yee Sophie is a vice president of SW Corporate Services Group Limited engaged by the Company as its company secretary to act jointly with Mr. Mao Zhihai. The Company's primary contact person at the Company is Mr. Mao Zhihai. Both Mr. Mao Zhihai and Ms. Lam Wai Yee Sophie have informed the Company that their trainings covering corporate governance and accounting matters satisfy the requirements under Rule 5.15 of the GEM Listing Rules during the year of 2014. The Company considers that the training of the joint company secretaries is in compliance with the requirements under Rule 5.15 of the GEM Listing Rules during the year of 2014.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

INDEPENDENT AUDITORS' REMUNERATION

PricewaterhouseCoopers is appointed as the external auditor of the Company. The fees in respect of audit services provided by PricewaterhouseCoopers to the Group for the year ended December 31, 2014 amounted approximately RMB10.6 million, of which RMB8.3 million represents audit fee paid in relation to the audit for the Listing.

Fees paid to PricewaterhouseCoopers for non-audit services provided to the Group in the year was RMB1.4 million. The non-audit services conducted include consultancy on tax issues and professional service on internal control of the Company.

INTERNAL CONTROL

The Board has the overall responsibility for the Group's system of internal controls and assessment and management of risks. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

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

The Board will continue to identify, evaluate and manage the significant risks faced by the Group, and to enhance the internal control system of the Group with the assistance of the IC Department on an ongoing basis.

For the year ended December 31, 2014 and up to the date of this report, the Audit Committee reviewed and considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The findings of the Audit Committee have been reported to the Board.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

On November 20, 2014, the Company adopted the 5th amended and restated memorandum and articles of association which became effective on the Listing Date. Save as disclosed above, there had been no significant changes in the constitutional documents of the Company during the year ended December 31, 2014.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

(i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued printed form and are available on the GEM website "www.hkgem.com" and the Company's website at "www.linekong.com";

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

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

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

SHAREHOLDERS' RIGHTS

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

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

PRINCIPAL ACTIVITIES

The Group is a mobile game developer and publisher in the PRC. The principal activities and other particulars of the Company's subsidiaries are set out in note 9 to the financial statement. There were no significant changes in the nature of the Group's principal activities since the Listing Date.

RESULTS AND DIVIDENDS

The Group's results for the year ended December 31, 2014 are set out in the consolidated statement of comprehensive loss on page 45 of this annual report. The Board did not recommend the payment of a final dividend for the year ended December 31, 2014.

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.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the Company's share capital are set out in note 16 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out on page 112 in this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 17 to the financial statements. At December 31, 2014, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$1,389.6 million. This includes the Company's share premium in the amount of approximately HK$2,189.0 million at December 31, 2014, which may be distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

For the sales of in-game virtual items, the Group concluded that the Group takes the primary responsibilities in rendering services to paying players, and therefore, the paying players are the Group's customers. In 2014, no single paying player contributed more than 1% of the Group's revenue.

For the revenue generated from license fee and technical fee, the Group's five largest third-party licensees accounts from approximately 4.8% of the Group's total revenue from the year and the single largest third-party licensee included therein accounted to approximately 2.4%.

Purchases from the Group's five largest suppliers accounted for approximately 45.3% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 12.0%.

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

DIRECTORS

The Directors from the Listing Date up to the date of this report were as follows:

Executive directors	
Mr. Wang Feng *(Chairman and chief executive officer)*	(appointed on May 24, 2007)
Ms. Liao Mingxiang *(President)*	(appointed on May 24, 2007)
Mr. Mao Zhihai *(Chief financial officer and joint company secretary)*	(appointed on January 27, 2014)
Non-executive director	
Mr. Qian Zhonghua	(appointed on January 27, 2014)
Independent non-executive directors	
Mr. Ma Ji	(appointed on April 24, 2014)
Mr. Chen Tong	(appointed on April 24, 2014)
Mr. Zhang Xiangdong	(appointed on April 24, 2014)

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 8 of this annual report.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals of the Group are set out in notes 23 to the financial statements.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

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

MANAGEMENT CONTRACTS

As at December 31, 2014, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

INTERESTS OF THE COMPLIANCE ADVISOR

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

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

As at December 31, 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Mr. Wang Feng *(Note 1)*	Interest of controlled corporation Beneficial owner	66,576,160 8,432,308	20.28%
Ms. Liao Mingxiang *(Note 2)*	Interest of controlled corporation Beneficial owner	12,168,720 2,810,769	4.05%
Mr. Mao Zhihai *(Note 3)*	Beneficial owner	2,810,769	0.76%
Mr. Qian Zhonghua	Beneficial owner	5,000	0.01%

Notes:

(1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng is interested in 8,432,308 RSUs granted to him under the RSU Scheme entitling him to receive 8,432,308 Shares subject to vesting. On January 21, 2015, Mr. Wang Feng was granted 1,000 RSUs under the RSU Scheme entitling him to receive 1,000 shares subject to vesting.

(2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 Shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 Shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang is interested in 2,810,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,810,769 Shares subject to vesting. On January 21, 2015, Ms. Liao Mingxiang was granted 1,000 RSUs entitling her to receive 1,000 shares subject to vesting.

(3) Mr. Mao Zhihai is interested in 2,810,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,810,769 Shares subject to vesting. On January 21, 2015, Mr. Mao Zhihai was granted 1,000 RSUs granted to him under the RSU scheme entitling him to receive 1,000 shares subject to vesting.

Save as disclosed above, as at December 31, 2014, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as at December 31, 2014, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

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

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

So far as is known to the Directors or chief executives of the Company, as at December 31, 2014, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long and short positions in the Shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company
Wangfeng Management Limited *(Note 1)*	Beneficial owner	66,576,160	18.00%
Zhu Li *(Note 2)*	Interest of spouse	75,008,468	20.28%
China Momentum Fund, L.P.	Interest of controlled corporation	52,318,760	14.15%
Fosun China Momentum Fund GP, Ltd.	Interest of controlled corporation	52,318,760	14.15%
Fosun Financial Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun International Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun International Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun Momentum Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Guo Guangchang	Interest of controlled corporation	52,318,760	14.15%
Starwish Global Limited *(Note 3)*	Beneficial owner	52,318,760	14.15%
The Core Trust Company Limited *(Note 4)*	Trustee of a trust	42,161,541	11.40%
Premier Selection Limited *(Note 4)*	Nominee for another person	42,161,541	11.40%
Ho Chi Sing	Interest of controlled corporation	37,185,440(L) 7,766,440(S)	10.05% 2.10%

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company
IDG-Accel China Growth Fund Associates, L.P. (note 5,6)	Interest of controlled corporation	34,515,520(L) 7,209,020(S)	9.33% 1.95%
IDG-Accel China Growth Fund GP Associates Ltd. (note 5,6)	Interest of controlled corporation	34,515,520(L) 7,209,020(S)	9.33% 1.95%
IDG-Accel China Growth Fund L.P. (note 5,6)	Beneficial owner	28,658,800(L) 5,985,800(S)	7.75% 1.62%
Zhou Quan	Interest of controlled corporation	34,515,520(L) 7,209,020(S)	9.33% 1.95%
Fubon Financial Holding Co., Ltd. (Note 7)	Interest of controlled corporation	23,739,000	6.42%
Fubon Life Insurance Co., Ltd. (Note 7)	Beneficial owner	23,739,000	6.42%

Notes:

1. Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng is interested in 8,432,308 RSUs granted to him under the RSU Scheme entitling him to receive 8,432,308 Shares subject to vesting. On January 21, 2015, Mr. Wang Feng was granted 1,000 RSUs under the RSU scheme entitling him to receive 1,000 shares subject to vesting.

2. Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in the Shares which are interested by Mr. Wang Feng under the SFO.

3. Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P..Fosun China Momentum Fund GP, Ltd. is in turn wholly owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). Fosun International Limited is 79.60% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. Mr. Guo Guangchang owns approximately 58% in the issued share capital of Fosun International Holdings Ltd.

4. The Core Trust Company Limited, being the RSU Trustee, directly holds the entire issued share capital of the RSU Nominee, Premier Selection Limited, which holds 42,161,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participant s pursuant to the RSU Scheme. The 42,161,541 underlying Shares in respect of the RSUs held by the RSU Nominee includes a total of 11,243,077 underlying Shares in respect of (i) the 8,432,308 RSUs granted to Mr. Wang Feng (see note (3) above) and (ii) the 2,810,769 RSUs granted to Ms. Liao Mingxiang (see note (5) above).

5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and, IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Zhou Quan and Mr. Ho Chi Sing; and (ii) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Ho Chi Sing.

6. On December 30, 2014, IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., pursuant to the stock borrowing agreement entered into on December 22, 2014, lent an aggregate of 11,095,000 Shares to the stabilising manager, Citigroup Global Markets Asia Limited, which were used to cover the over-allocations in the international offering of the Company's shares. On January 9, 2015, the stabilising manager returned all the borrowed shares to the above respective funds. On the same date, the above funds disposal an aggregate of 10,375,000 shares at the average price of HK$9.80.

7. Fubon Life Insurance Co., Ltd. Is 100% owned by Fubon Financial Holding Co., Ltd..

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.

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 annual report, there were 33,551,072 RSUs granted and outstanding.

The key terms of the RSU Scheme are as follow.

(a) Purposes of the RSU Scheme

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

(b) Participants in the RSU Scheme

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

(c) Term of the RSU Scheme

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

(d) Maximum number of Shares pursuant to RSUs

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

(e) Appointment of the RSU Trustee

Our Company has appointed a trustee (the "**RSU Trustee**") to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any of the shareholder of the Company or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustee by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration of the RSU Scheme. All the Shares underlying the RSUs granted and to be granted under the RSU Scheme were allotted and issued to Premier Selection Limited, which, as at the date of this annual report, holds (as the nominee) 42,161,541 Shares underlying the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme.

(f) Exercise of RSUs

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

(i) direct and procure the RSU Trustee to, within a reasonable time, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any of the shareholder of the Company, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

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

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 annual report, 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. The key terms of the Share Option Scheme are as follow:

(a) Purpose

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

(b) Who may participate

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

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

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

(d) Maximum entitlement of each individual

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

(e) Acceptance of an offer of options

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(f) Exercise price

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

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

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

(iii) the nominal value of the Shares.

(g) Duration of Share Option Scheme

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

Directors' Report

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 annual report.

CONTRACTUAL ARRANGEMENTS

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

As a result of the foregoing, we, through our wholly-owned subsidiary, Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**"), entered into the contractual arrangements (the "**Contractual Arrangements**") with Linekong Entertainment and Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhang Yuyu (Mr. Wang, Ms. Liao and Mr. Zhang, collectively referred to as the "**Registered Shareholders**") on January 16, 2014 (and subsequently amended on November 24, 2014) to assert management control over the operations of our Principal Business conducted through Linekong Entertainment, and to enjoy all economic benefits of Linekong Entertainment, and in consideration of which, Beijing Linekong Online shall provide, among others, technology consulting and service to Linekong Entertainment. The Contractual Arrangements constitute non-exempt continuing connected transactions under Chapter 21 of the GEM Listing Rules.

The Contractual Arrangements currently in effect comprise of four agreements, namely (i) the Amended and Restated Exclusive Technology Consulting and Service Agreement, (ii) the Amended and Restated Exclusive Call Option Agreement, (iii) the Amended and Restated Equity Pledge Agreement and (iv) the Loan Agreement, which were entered into between or amongst Beijing Linekong Online, Linekong Entertainment and the Registered Shareholders (as the case may be), and the irrevocable powers of attorney executed by each Registered Shareholder pursuant to which each of the Registered Shareholders has appointed an authorised director of any direct or indirect shareholder of Beijing Linekong Online or his/her successor who is a PRC citizen as his/her proxy to exercise all of their respective shareholders' rights in Linekong Entertainment.

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

As at December 31, 2014, there was no transaction conducted under the Contractual Arrangements.

RELATED PARTY TRANSACTIONS

There were no connected transactions and continuing connected transactions between the Group and its connected person (as defined under the GEM Listing Rules) which are subject to reporting, announcement and independent shareholders' approval requirement under the GEM Listing Rules from the Listing Date and up to December 31, 2014.

The related party transactions in relation to key management personnel compensation as disclosed in Note 31(c) to the consolidated financial statements in this annual report are fully exempt connected transactions pursuant to Rule 20.93 of the GEM Listing Rules.

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 annual report, 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.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting the underwriting fees, capitalised professional service fees and related expenses) amounted to approximately RMB541.5 million. As at December 31, 2014, all of the proceeds were deposited in the bank, which will be used for the suggested purposes as set out in the section headed "Statements of Business Objectives and Use of Proceeds" of the Prospectus.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 22 to 28 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

INDEPENDENT AUDITOR

The financial statements of the Company for the year ended December 31, 2014 were audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

ON BEHALF OF THE BOARD
Wang Feng
Chairman

March 25, 2015

pwc

羅兵咸永道

To the shareholders of Linekong Interactive Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Linekong Interactive Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 42 to 111, which comprise the consolidated and company balance sheets as of December 31, 2014, and the consolidated statement of comprehensive loss, the consolidated statement of changes in equity/(deficit) and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as of December 31, 2014, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 25, 2015

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

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Consolidated Balance Sheet

		As of December 31,	
		2014	2013
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**11,367**	9,786
Intangible assets	7	**37,127**	6,699
Investments in joint ventures	10	**—**	—
Deferred income tax assets	11	**5,358**	3,443
Prepayments and other receivables	13	**5,110**	81
		58,962	20,009
Current assets			
Trade receivables	12	**62,829**	43,779
Prepayments and other receivables	13	**51,917**	36,097
Short-term bank deposits	14	**—**	35,198
Cash and cash equivalents	15	**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	16	**59**	18
Share premium	16	**1,726,828**	—
Share capital for RSU Scheme	16	**(6)**	—
Reserves	17	**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

	Note	As of December 31, 2014 RMB'000	2013 RMB'000
Liabilities			
Non-current liabilities			
Convertible preferred shares	21	—	719,831
Deferred revenue	20	9,048	19,428
		9,048	739,259
Current liabilities			
Trade and other payables	19	151,466	99,795
Current income tax liabilities		3,769	11,062
Deferred revenue	20	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

The consolidated financial statements on pages 42 to 111 were approved for issue by the Board of Directors on March 25, 2015 and were signed on its behalf.

Wang Feng	**Mao Zhihai**
Director	*Director*

The notes on pages 49 to 111 are integral parts of these consolidated financial statements.

Balance Sheet of the Company

	Note	As of December 31, 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**284,623**	160,802
Current assets			
Prepayment and other receivables	13	**1,312**	18
Cash and cash equivalents	15	**829,737**	1,523
		831,049	1,541
Total assets		**1,115,672**	162,343
EQUITY/(DEFICIT) AND LIABILITIES			
Equity/(Deficit) attributable to owners of the Company			
Share capital	16	**59**	18
Share premium	16	**1,726,828**	—
Share capital for RSU Scheme	16	**(6)**	—
Reserves	17	**184,345**	67,999
Accumulated losses		**(814,999)**	(625,613)
Total equity/(deficit)		**1,096,227**	(557,596)
Liabilities			
Non-current liabilities			
Convertible preferred shares	21	**—**	719,831
Current liabilities			
Other payables	19	**19,445**	108
Total liabilities		**19,445**	719,939
Total equity/(deficit) and liabilities		**1,115,672**	162,343
Net current assets		**811,604**	1,433
Total assets less current liabilities		**1,096,227**	162,235

The consolidated financial statements on pages 42 to 111 were approved for issue by the Board of Directors on March 25, 2015 and were signed on its behalf.

Wang Feng	**Mao Zhihai**
Director	*Director*

The notes on pages 49 to 111 are integral parts of these consolidated financial statements.

Consolidated Statement of Comprehensive Loss

	Note	2014 RMB'000	2013 RMB'000
		Year ended December 31,	
Revenue	5	**678,684**	514,997
Cost of revenue	22	**(347,359)**	(244,390)
Gross profit		**331,325**	270,607
Selling and marketing expenses	22	**(81,252)**	(85,402)
Administrative expenses	22	**(141,389)**	(68,941)
Research and development expenses	22	**(112,290)**	(58,467)
Other gains – net	24	**6,347**	5,341
Operating profit		**2,741**	63,138
Finance income – net	25	**2,261**	1,141
Fair value loss of preferred shares	21	**(156,949)**	(446,208)
Loss before income tax		**(151,947)**	(381,929)
Income tax expense	26	**(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)
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	27(a)	**(2.56)**	N/A
— Diluted	27(b)	**(2.56)**	N/A
Dividends	28	**—**	—

The notes on pages 49 to 111 are integral parts of these consolidated financial statements.

Consolidated Statement of Changes in Equity/(Deficit)

		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	18	—	—	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)

		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	18	6	—	—	—	—	6	—	6
Deemed contribution from shareholders for the shares issued for RSU Scheme	18	—	—	(6)	6	—	—	—	—
RSU Scheme:									
— Value of employee services	18	—	—	—	118,853	—	118,853	—	118,853
Conversion of preferred shares to ordinary shares	16	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	16	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

The notes on pages 49 to 111 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended December 31,	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	29	**115,473**	110,697
Income tax paid		**(11,844)**	(2,696)
Net cash generated from operating activities		**103,629**	108,001
Cash flows from investing activities			
Purchase of property, plant and equipment		**(8,962)**	(5,351)
Purchase of intangible assets		**(10,908)**	(2,722)
Disposal of property, plant and equipment		**61**	47
Payment for short-term investments		**(337,000)**	—
Proceeds from matured short-term investments		**337,000**	—
Return on short-term investment received		**1,890**	—
Increase in short-term bank deposits		**—**	(38,198)
Decrease in short-term bank deposits		**35,198**	9,000
Disposal or liquidation of subsidiaries		**—**	(1)
Net cash generated/(used in) investing activities		**17,279**	(37,225)
Cash flows from financing activities			
Proceeds from issuance of convertible preference shares	21	**306,906**	—
Subscription received on par value of ordinary shares		**15**	—
Contribution received on par value of the share held for RSU Scheme		**6**	—
Proceeds from issuance of ordinary shares relating to IPO	16	**572,059**	—
Payment of issuance costs of ordinary shares relating to IPO	16	**(24,436)**	—
Consideration paid to non-controlling shareholders	30	**—**	(2,000)
Dividends paid to the non-controlling interests		**—**	(4,202)
Payments for issuance costs of convertible preferred shares		**(300)**	—
Net cash generated from/(used in) financing activities		**854,250**	(6,202)
Net increase in cash and cash equivalents		**975,158**	64,574
Cash and cash equivalents at beginning of year		**111,777**	47,226
Exchange loss on cash and cash equivalents		**(403)**	(23)
Cash and cash equivalents at end of the year		**1,086,532**	111,777

The notes on pages 49 to 111 are integral parts of these consolidated financial statements.

1. GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

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 Growth Enterprise Market (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 16).

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated, and have been approved for issue by the Company's Board of Directors on March 25, 2015.

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.

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION *(Continued)*

1.2 History and reorganisation of the Group *(Continued)*

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. Further details of the Contractual Arrangements are set out in Note 2.2(a)(i) below.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

2.1.1 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 Applicable to share-based payment transactions for which the grant date is on or after July 1, 2014	"Share-based payment"

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"
— IAS37	— "Provisions, contingent liabilities and contingent assets"
— IAS39	— "Financial instruments: Recognition and measurement"
Applicable to business combinations where the acquisition date is on or after July 1, 2014	

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

(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"	
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

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

(b) New standards and interpretations not yet adopted *(Continued)*

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.

2.2 Consolidation

(a) Subsidiaries

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

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

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

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

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

(i) Subsidiaries arising from Reorganisation

The wholly-owned subsidiary, Beijing Linekong Online, has entered into the Contractual Arrangements with Linekong Entertainment and its equity holders, which enable Beijing Linekong Online and the Group to:

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

The Group does not have any equity interest in Linekong Entertainment. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Linekong Entertainment and has the ability to affect those returns through its power over Linekong Entertainment and is considered to control Linekong Entertainment. Consequently, the Company regards Linekong Entertainment as an indirect subsidiary under IFRSs. The Group has consolidated the financial position and results of Linekong Entertainment in the consolidated financial statements of the Group during the years end December 31, 2014 and 2013 (Refer to Note 1.3 for details of the related presentation basis).

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

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

2.2 Consolidation *(Continued)*

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

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

(c) Disposal of subsidiaries

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

2.3 Separate financial statements

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

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

2.4 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profit or loss and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

2.7 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.8 Intangible assets

(a) Computer software

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

(b) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the game product so that it will be available for use; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred. During the years ended December 31, 2014 and 2013, there were no development costs meeting these criteria and capitalized as intangible assets.

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

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

2.8 Intangible assets *(Continued)*

(c) Trademarks and licences

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

Amortization is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 31 months and 3 to7 years, respectively.

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

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

All the financial assets of the Group are classified as loans and receivables at each of the reporting dates.

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

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

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

2.10 Financial assets *(Continued)*

2.10.3 Impairment of financial assets

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

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

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

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

2.11 Offsetting financial instruments

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

2.12 Trade and other receivables

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

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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

2.13 Cash and cash equivalents

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

2.14 Term deposits

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

2.15 Share capital

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

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

2.16 Trade and other payables

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

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

2.17 Convertible preferred shares

Convertible preferred shares ("**Preferred Shares**") can be converted into ordinary shares of the Company at any time at the option of the holders. Additionally, the Preferred Shares shall automatically be converted into ordinary shares upon occurrence of an initial public offering of the Company or upon approval by majority of the holders of 3 of the 4 classes Preferred Shares each voting as a separate class.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of comprehensive loss.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the profit or loss.

The Preferred Shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

All convertible preference shares of the Company had been converted into ordinary shares of the Company upon its IPO on December 30, 2014 (see Note 21).

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

2.18 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

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

2.19 Employee benefits

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

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

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

(b) Share-based payment transactions among group entities

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

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

2.21 Revenue recognition

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

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

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

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

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

Principal Agent Consideration

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

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

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

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

2.21 Revenue recognition *(Continued)*

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

Recognition of revenue generated from sales of in game virtual items

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

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

- Consumable items represent in-game items that can be consumed by a specific player action or expire over a pre-determined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. The common characteristics of the consumable items include (a) items will be no longer displayed on the player's game account after a specified period of time ranging from several days to several months or after a player consumes the items through performing in-game actions, and (b) once the items are consumed or expired, the Group does not have further obligations in connection with such items. Revenues in relation to consumable items are recognized (as a release from deferred revenue) over the period that they are expiring or after they are consumed, as the Group's obligations in connection with such items have been fully rendered to the players after their consumption or expiration.

- Permanent ownership items represent in-game items that are accessible by the Paying Players as long as they play the game. The Group will provide continuous online game services in connection with these permanent ownership items until they are no longer used by the Paying Players. Revenues in relation to the permanent ownership items are recognized over their estimated lives. The Group considers player behaviour patterns in estimating the lives of permanent ownership items ("**Player Relationship Period**"), which is the average period between the first date the Paying Players charge their accounts and the last date these Paying Payers would play the game, and it represents the Group's best estimate for the lives of the in-game permanent ownership items purchased by the Paying Players.

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

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

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

2.21 Revenue recognition *(Continued)*

(b) Revenue generated from licensing and technical support fees

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

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

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

2.22 Interest income

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

2.23 Government grants

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

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

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

2.24 Operating leases

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

2.25 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss would have been approximately 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 HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognized assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB877,000 lower/higher for the year ended December 31, 2014 (2013: RMB1,346,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. The Group does not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

Other than interest-bearing cash and cash equivalents and short-term deposits, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

(b) Credit risk

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

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

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

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

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

(c) Concentration risk

There are no customers whose revenues individually represent greater than 10% of the total revenues of the Group for the years ended December 31, 2014 and 2013.

Revenues generated from sales of in-game virtual items through Game Distribution Channels representing over 10% of the total revenues of the Group for the years ended December 31, 2014 and 2013 are as follows:

	Year ended December 31,	
	2014	2013
Game Distribution Channel A	**7%**	18%
Game Distribution Channel B	**21%**	13%
	28%	31%

The trade receivables from Game Distribution Channels represented over 10% of trade receivables balances of the Group as of December 31, 2014 and 2013 were as follows:

	As of December 31,	
	2014	2013
Game Distribution Channel A	**2%**	12%
Game Distribution Channel B	**20%**	34%
	22%	46%

There were not any other Game Distribution Channels from which the revenue generated representing over 10% of the total revenue of the Group for the year ended December 31, 2014 except Game Distribution Channel B.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk

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

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

Group

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Total *RMB'000*
At December 31, 2013				
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	37,119	—	—	37,119
At December 31, 2014				
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	**98,865**	**—**	**—**	**98,865**

Company

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Total *RMB'000*
At December 31, 2013				
Other payables	108	—	—	108
At December 31, 2014				
Other payables	**19,445**	**—**	**—**	**19,445**

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

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

3.3 Fair value estimation

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

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

The following table presents the Group's and Company's liabilities that are measured at fair value as at December 31, 2014 and 2013:

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
At December 31, 2013				
Liabilities				
Convertible preferred shares	—	—	719,831	719,831
At December 31, 2014				
Liabilities				
Convertible preferred shares	—	—	—	—

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents the changes in level 3 financial liability instruments for each of the years ended December 31, 2014 and 2013:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Opening balance	**719,831**	288,975
Issuance of Preferred Shares	**306,906**	—
Fair value change	**156,949**	446,208
Exchange losses/(gains)	**1,641**	(15,352)
Conversion into ordinary shares	**(1,185,327)**	—
Closing balance	**—**	719,831

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Estimates of sales discounts

Pre-paid game cards selling discounts

As described in Note 2.21(a), the Group sells pre-paid game cards to third party pre-paid cards distributors on a wholesale basis, typically at a discount of 10% off the face value of the cards, and requires the distributors to make full payments in cash of the discounted purchase prices before delivering the cards. Although the Group is determined to be the principal in the arrangement in the delivery of game experience to the Paying Players, the Group gives certain latitude to its primary third-party pre-paid game cards distributors to set the selling price of the pre-paid game cards to their sub-distributors or the Paying Players. The sub-distributors also have limited discretion to determine the final price paid by the Paying Players. Due to multilayers of distributor network involved and wide range of selling price offered to the Paying Players by third-party pre-paid game cards distributors, the discounts eventually offered to the Paying Players by the distributors cannot be captured directly by the Group. The Group makes estimate of the discounts offered to the Paying Players to be the maximum discount that it offered to distributors, as such the Group records revenue related to sales of pre-paid cards based on the amount received from its primary third-party pre-paid card distributors, which equals to the amount of face value of the pre-paid game cards minus the maximum discount that the Group offered to distributors.

Discounts offered by Game Distribution Channels

As described in Note 2.21, the Group distributed its online games through its own distribution platform as well as Game Distribution Channels. Some of these Game Distribution Channels offered volume discounts occasionally to Paying Players during the years ended December 31, 2014 and 2013. Since the Group's system cannot capture the actual amounts paid by the Paying Players when volume discounts are offered by Game Distribution Channels, the Group estimates such discounts offered by those Game Distribution Channels and deducted them from revenue. Such estimates are based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to revaluation on a quarterly basis.

(b) Estimates of the Player Relationship Period

As described in Note 2.21, the Group recognizes revenue from permanent ownership virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual or quarterly basis. Any adjustments arising from changes in the Player Relationship Period as a result of updated information will be accounted for prospectively as a change in accounting estimate.

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Recognition of share-based compensation expenses of RSUs

The fair values of RSUs granted as mentioned in Note 18(c) are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognizes an expense for those RSUs expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of RSUs and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

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

Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expenses recognized by the Group in respect of the services rendered for the year ended December 31, 2014 were RMB118,853,000 which would have been RMB5,626,000 lower/RMB6,325,000 higher should the discount rate used in discount cash flow analysis was higher/lower by 100 basis points from management's estimates.

(d) Current and deferred income taxes

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

4.2 Critical judgments in applying the Group's accounting policies

(a) Revenue deferred of certain games

As mentioned in Note 2.21, in the case the Group does not possess relevant data and information to differentiate revenues attributable to permanent ownership and consumable virtual items of a specific game, revenues from both permanent ownership and consumable virtual items are deferred and recognized ratably over the expected Player Relationship Period of the specific game.

5. REVENUE AND SEGMENT INFORMATION

	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.

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment RMB'000	Server and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2013					
Cost	4,822	19,982	1,220	3,455	29,479
Accumulated depreciation	(3,906)	(12,018)	(365)	(1,518)	(17,807)
Net book amount	916	7,964	855	1,937	11,672
Year ended December 31, 2013					
Opening net book amount	916	7,964	855	1,937	11,672
Additions	1,062	2,936	—	445	4,443
Depreciation	(635)	(4,287)	(242)	(1,146)	(6,310)
Disposal	(6)	(13)	—	—	(19)
Closing net book amount	1,337	6,600	613	1,236	9,786
At December 31, 2013					
Cost	5,126	21,351	1,220	3,433	31,130
Accumulated depreciation	(3,789)	(14,751)	(607)	(2,197)	(21,344)
Net book amount	1,337	6,600	613	1,236	9,786
Year ended December 31, 2014					
Opening net book amount	**1,337**	**6,600**	**613**	**1,236**	**9,786**
Additions	**2,795**	**1,902**	**2,434**	**1,636**	**8,767**
Depreciation	**(979)**	**(4,271)**	**(468)**	**(1,400)**	**(7,118)**
Disposals	**(30)**	**(38)**	**—**	**—**	**(68)**
Closing net book amount	**3,123**	**4,193**	**2,579**	**1,472**	**11,367**
At December 31, 2014					
Cost	**7,434**	**22,556**	**3,654**	**5,069**	**38,713**
Accumulated depreciation	**(4,311)**	**(18,363)**	**(1,075)**	**(3,597)**	**(27,346)**
Net book amount	**3,123**	**4,193**	**2,579**	**1,472**	**11,367**

6. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive loss:

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Cost of revenue	**4,782**	4,560
Administration expenses	**927**	529
Selling and marketing expenses	**323**	291
Research and development expenses	**1,086**	930
	7,118	6,310

7. INTANGIBLE ASSETS

	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
At January 1, 2013			
Cost	8,676	1,793	10,469
Accumulated amortization	(3,717)	(700)	(4,417)
Accumulated impairment	(2,130)	—	(2,130)
Net book amount	2,829	1,093	3,922
Year ended December 31, 2013			
Opening net book amount	2,829	1,093	3,922
Additions	3,980	342	4,322
Amortization	(1,178)	(367)	(1,545)
Closing net book amount	5,631	1,068	6,699
At December 31, 2013			
Cost	8,656	2,130	10,786
Accumulated amortization	(3,025)	(1,062)	(4,087)
Net book amount	5,631	1,068	6,699
Year ended December 31, 2014			
Opening net book amount	**5,631**	**1,068**	**6,699**
Additions	**33,941**	**607**	**34,548**
Amortization	**(3,499)**	**(621)**	**(4,120)**
Closing net book amount	**36,073**	**1,054**	**37,127**
At December 31, 2014			
Cost	**42,240**	**2,737**	**44,977**
Accumulated amortization	**(6,167)**	**(1,683)**	**(7,850)**
Net book amount	**36,073**	**1,054**	**37,127**

7. INTANGIBLE ASSETS *(Continued)*

Amortization charges were expensed in the following categories in the consolidated statements of comprehensive loss:

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Cost of revenue	**840**	1,002
Administration expenses	**83**	39
Selling and marketing expenses	**33**	26
Research and development expenses	**3,164**	478
	4,120	1,545

8. FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31, 2014 RMB'000	2013 RMB'000
Group		
Assets as per balance sheet		
Loans and receivables		
— Trade receivables	**62,829**	43,779
— Other receivables (excluding prepayments)	**12,205**	10,038
— Short-term bank deposits	**—**	35,198
— Cash and cash equivalents	**1,086,532**	111,777
	1,161,566	200,792
Liabilities as per balance sheet		
Financial liabilities at fair value through profit or loss		
— Convertible preferred shares	**—**	719,831
Financial liabilities at amortized cost		
— Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	**98,865**	37,119
	98,865	756,950

8. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	As of December 31, 2014 RMB'000	2013 RMB'000
Company		
Assets as per balance sheet		
Loans and receivables		
— Other receivables (excluding prepayments)	**1,312**	18
— Cash and cash equivalents	**829,737**	1,523
	831,049	1,541
Liabilities as per balance sheet		
Financial liabilities at fair value through profit or loss		
— Convertible preferred shares	**—**	719,831
Financial liabilities at amortized cost		
— Other payables	**19,445**	108
	19,445	719,939

9. INVESTMENTS IN SUBSIDIARIES — COMPANY

	As of December 31, 2014 RMB'000	2013 RMB'000
Investments in subsidiaries:		
— Investments in subsidiaries *(Note (i))*	**103,227**	102,855
— Deemed investments arising from share-based compensation *(Note (ii))*	**171,407**	52,913
— Amount due from a subsidiary *(Note (iii))*	**9,989**	5,034
	284,623	160,802

9. INVESTMENTS IN SUBSIDIARIES — COMPANY *(Continued)*

The following is a list of the principal subsidiaries (including structured entities) as of December 31, 2014:

Company Name	Kind of legal entity	Place and date of incorporation/establishment	Issued and paid-in capital/ registered capital	Equity Interest Held	Principal activities and place of operation
(a) Directly held by the Company :					
Linekong Online (Beijing) Internet Technology Co., Ltd	Limited liability company	PRC/April 14, 2008	USD16,870,000	100%	Technology consulting and services/PRC
Linekong Holdings Limited	Limited liability company	BVI/January 8, 2014	USD1	100%	Investment holdings/BVI
(b) Indirectly held by the Company:					
Linekong Asia Co., Limited	Limited liability company	Hong Kong/March 27, 2014	HKD10,000	100%	Investment holdings/ Hong Kong
Linekong Korea Co., Ltd.	Limited liability company	South Korea /April 16, 2014	KER100,000,000	100%	Game operation and game research and development/ South Korea
Linekong Interactive Entertainment (Hong Kong) Co., Limited	Limited liability company	Hong Kong/April 27, 2012	HKD10,000	100%	Game operation/Hong Kong
(c) Controlled by the Company pursuant to the Contractual Agreements:					
Linekong Entertainment Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB10,000,000	100%	Game operation and game research and development/ PRC
Duobianxing (Beijing) Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB30,000	100%	Game research and development/PRC
Beijing Sanqiren Technology Co.,Ltd.	Limited liability company	PRC/December 7, 2007	RMB100,000	100%	Game research and development/PRC
Linekong Xingyun (Beijing) Technology Co., Ltd.	Limited liability company	PRC/January 16, 2008	RMB100,000	100%	Game research and development/PRC
Zhuhai Linekong Online Technology Co., Ltd.	Limited liability company	PRC/October 30, 2008	RMB10,000,000	97%	Game research and development/PRC
Shouyoutong (Beijing) Technology Co., Ltd. ("**Shouyoutong**", previously known as Beijing Huoying Shidai Network Technology Co., Ltd.)	Limited liability company	PRC/August 26, 2011	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Technology Co., Ltd.	Limited liability company	PRC/June 13, 2012	RMB1,000,000	100%	Game research and development/PRC
Tianjin Baba Liusi Network Technology Co., Ltd. ("**Tianjin 8864**")	Limited liability company	PRC/December 26, 2012	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Information Technology Co., Limited	Limited liability company	PRC/May 20, 2014	RMB2,000,000	100%	Game research and development/PRC
Beijing Lanhujing Technology Co., Limited	Limited liability company	PRC/May 29, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Quweizhijian Network Technology Co., Limited	Limited liability company	PRC/July 25,2014	RMB10,000,000	100%	Game research and development/PRC

Note:

(i) The Company's investment cost in subsidiaries is USD16,870,001.

(ii) The amount represents share-based compensation expenses arising from the grant of shares and RSUs of the Company to employees of the subsidiaries (Note 18) in exchange for their services provided to certain subsidiaries of the Group, which were deemed to be investment made by the Company to these subsidiaries.

(iii) The balance is unsecured, interest-free and its repayment is neither planned nor likely to occur in the foreseeable future.

10. INVESTMENTS IN JOINT VENTURES

	Year ended December 31, 2014 RMB'000	2013 RMB'000
At beginning of the year		
Cost	**2,000**	2,000
Accumulated share of profit	**154**	154
Impairment	**(2,154)**	(2,154)
Net book amount	**—**	—
Year ended December 31		
Opening net book amount	**—**	—
Share of profit	**—**	—
Provision of impairment	**—**	—
Closing net book amount	**—**	—
At end of the year		
Cost	**—**	2,000
accumulated share of profit	**—**	154
Impairment	**—**	(2,154)
Net book amount	**—**	—

Name	Principal activities/country of incorporation	% Interest held as of December 31, 2014	2013	Nature of the relationship	Measurement method
Chengdu Juli Network Technology Co. Ltd. ("**Chengdu Juli**")	Game development and operation/ PRC	**—**	20%	*Note(i)*	Equity
Linekong Sibite (Beijing) Technology Co., Ltd. ("**Linekong Sibite**")	Development and provision of technology service/ PRC	**—**	30%	*Note(ii)*	Equity

10. INVESTMENTS IN JOINT VENTURES *(Continued)*

Note:

(i) On September 30, 2010, Linekong Entertainment invested RMB2,000,000 to obtain 20% equity interest in Chengdu Juli, which provided game development services to Linekong Entertainment. Linekong Entertainment and other shareholders of Chengdu Juli entered into an arrangement, whereby decisions on significant activities of the operation of Chengdu Juli requires unanimous consent between Linekong Entertainment and another joint venturer which holds 65% equity interest in Chengdu Juli. The directors of the Company consider that the Group has joint control of Chengdu Juli and its investment in Chengdu Juli is accounted for as a joint venture of the Group accordingly.

Chengdu Juli is a private company and there is no quoted market price available for its shares.

In 2012, the business of Chengdu Juli continued declining, the directors of the Company considered impairment indicators existed for the investment. Based on the Group's assessment on the recoverable amounts of the investment, an impairment provision of RMB2,154,000 was fully provided for the carrying amount of the Group's investment in Chengdu Juli as of December 31, 2012.

On April 24, 2014, Linekong Entertainment disposed 20% equity interest in Chengdu Juli to another joint venturer at nil consideration.

(ii) Linekong Sibite was a subsidiary of the Group and provided game development service to Linekong Entertainment. On November 8, 2012, Linekong Entertainment disposed 48% equity interest in Linekong Sibite to individual investors which resulted in a gain of approximately RMB5,645,000. As a result, the Group's equity interest in Linekong Sibite was reduced to 30%. In addition, the Group entered into an arrangement, whereby decisions on significant activities of the operation of Linekong Sibite requires unanimous consent of all shareholders. The directors of the Company consider that the Group has joint control of Linekong Sibite, and its investment in Linekong Sibite is accounted for as a joint venture of the Group accordingly.

Linekong Sibite is a private company and there is no quoted market price available for its shares.

As of December 31, 2013, the carrying amount of the investment in Linekong Sibite was nil, and no further loss was recognized for the year ended December 31, 2013.

On November 15, 2014, Linekong Sibite was dissolved.

11. 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

11. DEFERRED INCOME TAX *(Continued)*

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

Deferred income tax assets:

	Deferred revenue *RMB'000*	Accrued employee benefit expenses *RMB'000*	Provision for impairment of other receivables and intangible assets *RMB'000*	Others *RMB'000*	Total *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)**

12. TRADE RECEIVABLES

	As of December 31, 2014 RMB'000	As of December 31, 2013 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 RMB'000	As of December 31, 2013 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 RMB'000	As of December 31, 2013 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

12. TRADE RECEIVABLES *(Continued)*

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

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

13. 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 *(Note 31)*	**—**	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.

14. SHORT-TERM BANK DEPOSITS

	As of December 31, 2014 RMB'000	As of December 31, 2013 RMB'000
Short-term bank deposits	—	35,198

Short-term bank deposits are RMB-denominated one year deposits with interest rate of 3% per annum in PRC financial institutions.

15. CASH AND CASH EQUIVALENTS

	As of December 31, 2014 RMB'000	As of December 31, 2013 RMB'000
Group		
Cash at bank and in hand	1,086,532	111,777
Company		
Cash at bank and in hand	829,737	1,523

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2014 RMB'000	As of December 31, 2013 RMB'000
Group		
RMB	247,848	109,416
USD	278,791	2,361
HKD	557,643	—
Others	2,250	—
	1,086,532	111,777
Company		
USD	277,336	1,523
HKD	552,401	—
	829,737	1,523

16. 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	21	(623)	(1)	623	1
Share split	(a)	1,814,991	—	135,009	—
Reclassification and re-designation on issuance of Series D Preferred Shares	21	(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	18(d)	42,162	1	6	—	—
Shares transferred to RSU Scheme	18(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)**

16. SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

(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's authorised 153,264,523 Preferred Shares with par value of USD0.000025 each have been cancelled and 153,264,523 ordinary shares with 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.

17. 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 30)		*(Note(i))*	*(Note 18)*	*(Note 18 (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**

17. RESERVES *(Continued)*

	Capital reserve RMB'000	Currency translation differences RMB'000	Share-based compensation reserve RMB'000	Other Reserves RMB'000 (Note 18(d))	Total RMB'000
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 appropriation needs not to be made.

18. 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 recognized 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.

18. SHARE-BASED PAYMENTS *(Continued)*

(c) RSUs *(Continued)*

(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%

18. SHARE-BASED PAYMENTS *(Continued)*

(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%.

19. 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 *(Note 31)*	**—**	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

19. TRADE AND OTHER PAYABLES *(Continued)*

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.

20. 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, as described in Note 2.21. 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.

21. 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 Note16(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 Note16(a)) with 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 Note16(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 key terms of the Preferred Shares are summarised as follows:

(a) Dividends rights

Each holder of the Preferred Shares shall be entitled to receive noncumulative dividends in preference to any dividend on the ordinary shares at the rate of 6% of the original issue price of the Preferred Shares per annum, when and as declared by the Board of Directors.

Except for exempted distributions (e.g. a dividend payable solely in ordinary shares for which an adjustment to the conversion price is made pursuant to the Articles of Association of the Company, or the repurchase of ordinary shares at cost from terminated employees, officers or consultants pursuant to contractual arrangements with the Company, or any exercise, conversion or exchange of ordinary share equivalents), no dividends or other distributions shall be made or declared, whether in cash, in property, in any other shares of the Company or otherwise, with respect to any other class or series of shares of the Company, unless and until dividends in like amount have been paid in full on the Preferred Shares.

In the event the Company shall declare a distribution other than in cash (except for a distribution described specifically in the Articles of Association), the holders of Preferred Shares shall be entitled to a proportionate share of any such distribution in the manner as above.

21. CONVERTIBLE PREFERRED SHARES *(Continued)*

(b) Voting rights

Each holder of the Preferred Shares shall have a right to that number of votes equal to the number of ordinary shares issuable as if the Preferred Shares have been converted into ordinary shares.

(c) Conversion feature

Preferred Shares shall automatically be converted into ordinary shares at the then effective conversion price upon closing of a Qualified Public Offering, or approval of at least three of the four following groups: (i) holders of at least 50% of Series A Preferred Shares, (ii) holders of at least 50% of Series B Preferred Shares, (iii) holders of at least 50% of Series C Preferred Shares, and (iv) holders of at least 50% of Series D Preferred Shares, each voting as a separate class.

Qualified Public Offering means an underwritten public offering of the ordinary shares of the Company on the Stock Exchange of Hong Kong Limited, the New York Stock Exchange, the NASDAQ or other reputable exchange with gross proceeds to the Company in excess of USD50,000,000, provided that (i) if the public offering is completed in 2014, the market capitalization of the Company shall be no lower than 115% of RMB1.5 billion (or its foreign currency equivalent), (ii) if the public offering is completed in 2015, the market capitalization of the Company shall be no lower than 118% of RMB1.5 billion, and (iii) if the public offering is completed after 2015, the market capitalization of the Company shall be of such amount as agreed among the Founders and the holders of at least a majority of the Preferred Shares.

Upon the completion of the IPO on December 30, 2014, all the Preferred Shares were automatically converted into ordinary shares on an one-to-one basis.

(d) Redemption feature

In the event that no Qualified Public Offering shall have occurred on or before the third anniversary of January 28, 2014, the holders of a majority then outstanding Series C Preferred Shares or Series D Preferred Shares, in a separate class respectively, may give a written notice by hand or letter mail or courier service to the Company at its principal executive offices at any time or from time to time requesting redemption of all of the then outstanding Series C Preferred Shares or Series D Preferred Shares. The redemption price is equal to the applicable Series C Preferred Shares or Series D Preferred Shares issue price of plus 9% simple interest per annum (not compounded basis), plus any declared but unpaid dividends thereon, proportionally adjusted for share subdivisions, share dividends, reorganisations, reclassifications, consolidations or mergers.

In circumstances where both the Series C Preferred Shares and Series D Preferred Shares are redeemable, and the Company's legally available funds are inadequate to pay the full redemption price of Series C Preferred Shares and redemption price of Series D Preferred Shares, then all such assets shall be distributed ratably among the holders of Series D Preferred Shares requested to be redeemed in proportion to the redemption amount each such holder is otherwise entitled to receive. After redemption in full of the Series D Preferred Shares requested to be redeemed, if the remaining assets legally available for distribution to the holders of Series C Preferred Shares are inadequate to pay the full redemption price of Series C Preferred Shares, then all such assets shall be distributed ratably among the holders of Series C Preferred Shares requested to be redeemed in proportion to the redemption amount each such holder is otherwise entitled to receive. The Series D Preferred Shares and the Series C Preferred Shares that have not been fully redeemed shall remain outstanding and entitled to all of the rights and preferences provided herein. At any time thereafter, when assets of the Company are legally available for redemption, such assets will be used to redeem the balance of, or such portion thereof for which assets are available, on the basis and in accordance with the sequence set forth above.

Series A and Series B Preferred Shares are not entitled to such redemption right mentioned above.

21. CONVERTIBLE PREFERRED SHARES *(Continued)*

(e) Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, distributions shall be made in the following manner (after satisfaction of all creditors' claims and claims that may be preferred by law):

(i) The holders of Series D Preferred Shares shall be entitled to receive for each Series D Preferred Share, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, ordinary shares or any other class or series of shares by reason of their ownership of such shares, the amount equals to 100% of the Series D Preferred Shares issue price (as adjusted for share splits, share dividends, combinations, capital reorganisations and similar events with respect to such shares), plus all declared but unpaid dividends on the Series D Preferred Shares (collectively, the "**Series D Preference Amount**"). If upon the occurrence of a liquidation, dissolution or winding up of the Company the assets and funds thus distributed among the holders of Series D Preferred Shares is insufficient to permit the payment to such holders of the full Series D Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of Series D Preferred Shares in proportion to the Series D Preference Amount each such holder is otherwise entitled to receive.

(ii) After setting aside or paying in full the Series D Preference Amount due, the holders of Series C Preferred Shares shall be entitled to receive for each Series C Preferred Share, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series A Preferred Shares, Series B Preferred Shares, ordinary shares or any other class or series of shares by reason of their ownership of such shares, the amount equals to 100% of the Series C Preferred Shares issue price (as adjusted for share splits, share dividends, combinations, capital reorganisations and similar events with respect to such shares), plus all declared but unpaid dividends on the Series C Preferred Shares (collectively, the "**Series C Preference Amount**"). If upon the occurrence of a liquidation, dissolution or winding up of the Company the assets and funds thus distributed among the holders of Series C Preferred Shares is insufficient to permit the payment to such holders of the full Series C Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of Series C Preferred Shares in proportion to the Series C Preference Amount each such holder is otherwise entitled to receive.

(iii) After setting aside or paying in full the Series D Preference Amount and the Series C Preference Amount due, the holders of Series B Preferred Shares shall be entitled to receive for each Series B Preferred Share, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of Series A Preferred Shares and ordinary shares by reason of their ownership of such shares, the amount equals to 100% of the Series B Preferred Shares issue price (as adjusted for share splits, share dividends, combinations, capital reorganisations and similar events with respect to such shares), plus all declared but unpaid dividends on the Series B Preferred Shares (collectively, the "**Series B Preference Amount**"). If upon the occurrence of a liquidation, dissolution or winding up of the Company the assets and funds thus distributed among the holders of Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of Series B Preferred Shares in proportion to the Series B Preference Amount each such holder is otherwise entitled to receive.

21. CONVERTIBLE PREFERRED SHARES *(Continued)*

(e) Liquidation preferences *(Continued)*

(iv) After setting aside or paying in full the Series D Preference Amount, Series C Preference Amount and the Series B Preference Amount due, the holders of Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of ordinary shares by reason of their ownership of such shares, the amount equals to 100% of the Series A Preferred Shares issue price (as adjusted for share splits, share dividends, combinations, capital reorganisations and similar events with respect to such shares), plus all declared but unpaid dividends on the Series A Preferred Shares (collectively, the "**Series A Preference Amount**"). If upon the occurrence of a liquidation, dissolution or winding up of the Company the assets and funds thus distributed among the holders of Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of Series A Preferred Shares in proportion to the Series A Preference Amount each such holder is otherwise entitled to receive.

(v) After setting aside or paying in full the Series D Preference Amount, Series C Preference Amount, the Series B Preference Amount and the Series A Preference Amount due, the remaining assets of the Company available for distribution, if any, shall be distributed to the holders of the ordinary shares for such ordinary shares (excluding any Preferred Shares or any ordinary shares converted from Preferred Shares) on a pro rata basis.

(vi) In the event of (a) a sale, conveyance or disposition of all or substantially all of the assets of the Company and other companies within the Group, taken as a whole, (b) an exclusive licensing of substantially all of the intellectual property of the Company and other companies within the Group to any third party, or (c) a consolidation or merger of the Company or any other company within the Group with or into any other company or companies in which the existing members or shareholders of the Company or any other companies within the Group immediately prior to such consolidation or merger do not retain a majority of the voting power in the surviving company (other than in a restructuring or reorganisation transaction approved by (W) holders of at least 50% of Series A Preferred Shares, (X) holders of at least 50% of Series B Preferred Shares, (Y) holders of at least 50% of Series C Preferred Shares and (Z) holders of at least 50% of Series D Preferred Shares, each voting as a separate class, and other than any such merger or consolidation compelled by any PRC governmental or regulatory agency or authority), the Company shall, to the extent legally entitled to do so, pay the amount received on such sale, disposition, license or consolidation in either the same form of consideration received by the Company or in cash, as the Company may determine, whether such payment is in the form of a dividend or other legally permissible form (the "**Compulsory Payment**"). The Compulsory Payment will be distributed in the same preference and method as described in (i), (ii), (iii), (iv) and (v) above.

(vii) Notwithstanding the above (i) to (vi), each holder of Preferred Shares may choose not to receive the foregoing applicable preference amount, and, instead, receive distribution of the remaining assets of the Company ratably with holders of ordinary shares on an as-converted basis.

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.

21. CONVERTIBLE PREFERRED SHARES *(Continued)*

(e) Liquidation preferences *(Continued)*

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 used to estimate the fair value of the Preferred Shares are 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**

22. 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) *(Note 23)*	**97,961**	93,379
Share-based compensation expenses	**118,853**	36,908
Depreciation of property, plant and equipment *(Note 6)*	**7,118**	6,310
Amortization and impairment of intangible assets *(Note 7)*	**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 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

23. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expenses

	Year ended December 31, 2014 RMB'000	2013 RMB'000
Wages, salaries and bonuses	**84,109**	82,093
Pension costs - defined contribution plans	**6,450**	5,160
Other social security costs, housing benefits and other employee benefits	**7,402**	6,126
Share-based compensation expenses	**118,853**	36,908
	216,814	130,287

Employees of the group companies in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments. The Group contributes funds which are calculated on fixed percentage of 20% of the employees' salary (subject to a floor and cap) as set by local municipal governments to the scheme locally to fund the retirement benefits of the employees.

(b) Directors' emoluments

The remuneration of each director for the year ended December 31, 2013 is set out as below:

Name of director	Wages, salaries and bonuses *RMB'000*	Pension costs-defined contribution plans *RMB'000*	Other social security costs, housing benefits and other employee benefits *RMB'000*	Share-based compensation expenses *RMB'000*	Total *RMB'000*
Mr. Wang Feng *(i)*	5,192	37	46	28,802	34,077
Ms. Liao Mingxiang *(ii)*	4,080	37	46	8,106	12,269
Mr. Zhang Yuyu *(iii)*	4,029	33	42	—	4,104
	13,301	107	134	36,908	50,450

23. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS *(Continued)*

(b) Directors' emoluments *(Continued)*

The remuneration of each director for the year ended December 31, 2014 is set out as below:

Name of director	Wages, salaries and bonuses *RMB'000*	Pension costs-defined contribution plans *RMB'000*	Other social security costs, housing benefits and other employee benefits *RMB'000*	Share-based compensation expenses *RMB'000*	Total *RMB'000*
Mr. Wang Feng	2,247	40	50	34,782	37,119
Ms. Liao Mingxiang	1,644	40	50	11,594	13,328
Mr. Mao Zhihai *(iv)*	1,720	40	50	4,996	6,806
Mr. Qian Zhonghua *(v)*	—	—	—	—	—
Mr. Ma Ji *(vi)*	190	—	—	—	190
Mr. Chen Tong *(vi)*	190	—	—	—	190
Mr. Zhang Xiangdong *(vi)*	190	—	—	—	190
	6,181	120	150	51,372	57,823

(i) Mr. Wang Feng was appointed as the Company's director on May 24, 2007, who is also the chief executive officer ("**CEO**") of the Group.

(ii) Ms. Liao Mingxiang was appointed as the Company's director on May 24, 2007.

(iii) Mr. Zhang Yuyu was appointed as the Company's director on May 7, 2008, and resigned from the Company on November 26, 2013.

(iv) Mr. Mao Zhihai was appointed as the Company's director on January 27, 2014.

(v) Mr. Qian Zhonghua was appointed on January 27, 2014 as the non-executive director of the Company.

(vi) Mr. Ma Ji, Mr. Chen Tong and Mr. Zhang Xiangdong were appointed on April 24, 2014, as the independent non-executive directors of the Company.

23. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS *(Continued)*

(c) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2014 and 2013 include 2 and 3 directors whose emoluments are reflected in the analysis presented above, respectively. The aggregate amounts of emoluments for the remaining 3 and 2 individuals for each of the years ended December 31, 2014 and 2013 are set out below:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**8,568**	13,018
Pension costs-defined contribution plans	**119**	73
Other social security costs, housing benefits and other employee benefits	**151**	92
Share-based compensation expenses	**34,414**	—
	43,252	13,183

The emoluments payable to these individuals for the years ended December 31, 2014 and 2013 fell within the following bands:

	Year ended December 31,	
	2014	2013
Emoluments band		
HKD6,500,001 to HKD7,000,000	**—**	1
HKD9,500,001 to HKD10,000,000	**1**	1
HKD19,000,001 to HKD19,500,000	**1**	—
HKD25,500,001 to HKD26,000,000	**1**	—
	3	2

For the years ended December 31, 2014 and 2013, neither directors nor the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

24. OTHER GAINS - NET

	Year ended December 31, 2014 RMB'000	2013 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.

25. FINANCE INCOME — NET

	Year ended December 31, 2014 RMB'000	2013 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

26. 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
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.

26. INCOME TAX EXPENSE *(Continued)*

(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 exempt 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 realization 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 recognized due to insufficient future taxable profit being available at each of these entities.

27. 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 16(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.

28. DIVIDENDS

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

29. CASH GENERATED FROM OPERATIONS

	Note	Year ended December 31, 2014 RMB'000	2013 RMB'000
Loss before income tax		**(151,947)**	(381,929)
Adjustments for:			
— Other receivables write-off	22	**406**	1,365
— Trade receivables write-off	22	**1,221**	—
— Impairment charges on trade and other receivables	22	**160**	1,074
— Depreciation of property, plant and equipment	6	**7,118**	6,310
— Amortization and impairment of intangible assets	7	**4,120**	1,545
— Loss/(gain) on disposals of property, plant and equipment	24	**7**	(28)
— Share-based payments	23	**118,853**	36,908
— Gain on disposal of subsidiaries		**(6)**	—
— Gain on liquidation of subsidiaries	24	**—**	(1,458)
— Interest income from short-term investment		**(1,890)**	—
— Fair value change of Preferred Shares	21	**156,949**	446,208
— Issuance costs of Series C Preferred Shares	25	**300**	—
— Unrealized foreign exchange losses, net	25	**19**	23
		135,310	110,018
Changes in working capital:			
— Trade receivables		**(20,431)**	(33,271)
— Prepayments and other receivables		**(21,269)**	(8,446)
— Trade and other payables		**21,646**	20,270
— Deferred revenue		**217**	22,126
Cash generated from operations		**115,473**	110,697

Non-cash transactions

The principal non-cash transaction for the year ended December 31, 2014 was the conversion of Preferred Shares to ordinary shares (Note 16(c)).

30. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The effect of change in the ownership interest of the Company's subsidiaries on the equity attributable to owners of the Company during the years ended December 31, 2014 and 2013 is summarized as follows:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Carrying amount of non-controlling interest acquired	—	2,059
Less: consideration paid to non-controlling shareholders	—	—
Excess of consideration paid recognized within equity *(Note(i))*	—	2,059
	—	2,059

Note:

(i) In 2013, Linekong Entertainment acquired additional 20% equity interests of Shouyoutong from non-controlling shareholders at nil consideration, and consequently, Shouyoutong became a wholly-owned subsidiary of the Group.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties during the years ended December 31, 2014 and 2013. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Related party transactions

(i) Content fee paid to game developers which are joint ventures

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Linekong Sibite	—	1,121
Chengdu Juli	**58**	378
	58	1,499

31. SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties

(i) Amount due from joint ventures

	As of December 31, 2014 RMB'000	2013 RMB'000
Chengdu Juli	—	—
Linekong Sibite	—	9,462
	—	9,462
Less: provision for impairment of other receivables	—	(6,932)
	—	2,530

(ii) Amount due from the Founders

The amount due from the Founders as of December 31, 2014 and 2013 was unsecured and interest-free.

	As of December 31, 2014 RMB'000	2013 RMB'000
Wang Feng	—	2,663
Liao Mingxiang	—	3
	—	2,666

(iii) Amount due to joint ventures

	As of December 31, 2014 RMB'000	2013 RMB'000
Chengdu Juli	—	113
Linekong Sibite	—	2,030
	—	2,143

31. SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel compensations

The compensations paid or payable to key management personnel (including directors, CEO and other senior executives) for employee services are shown below:

	Year ended December 31,	
	2014	2013
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**16,551**	34,099
Pension costs-defined contribution plans	**357**	326
Other social security costs, housing benefits and other employee benefits	**452**	460
Share-based compensation expenses	**99,360**	36,908
	116,720	71,793

32. COMMITMENTS

The Group leases office premises under non-cancellable operating lease agreements. The lease terms are between 1 year to 3 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2014	2013
	RMB'000	*RMB'000*
Not later than 1 year	**9,921**	3,272
Later than 1 year and not later than 3 years	**13,620**	—
	23,541	3,272

33. EVENTS AFTER THE BALANCE SHEET DATE

(a) On January 9, 2015, the over-allotment option under the Company's IPO 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 IPO before exercise of any over-allotment option, to cover over-allocations under the IPO. The over-allotment shares were sold by the over-allotment option grantors at HKD9.80 per share, being the offer price per share under the IPO. 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 IPO 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 18(d).

(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, PRC and mainly engages 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 USD5,000,000, with interest accrued on the outstanding principal amount at the rate of 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, the Company entered into a subscription agreement with SMI Holdings Group Limited ("**SMI**"), a listed company in the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company has conditionally agreed to subscribe and SMI has conditionally agreed to issue 139,582,733 shares to the Company for a total consideration of USD5,000,000 (equivalent to approximately HKD38,804,000), equivalent to approximately HKD0.278 per subscription share. The subscription shares to be allotted and issued to the Company represent (i) approximately 1.37% of the existing issued share capital of SMI of 10,175,967,571 SMI's shares as at March 12, 2015; and (ii) approximately 1.35% of SMI's issued share capital of 10,315,550,304 SMI's shares as enlarged by the issue and allotment of the subscription shares.

(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 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.

SUMMARY OF FINANCIAL INFORMATION

	2014 ***RMB'000***	2013 *RMB'000*	2012 *RMB'000*
Total revenue	**678,684**	514,997	265,633
Loss before income tax	**(151,947)**	(381,929)	(122,213)
Loss for the year	**(154,583)**	(399,420)	(123,024)
Total comprehensive loss for the year	**(157,106)**	(384,113)	(122,111)
Total assets	**1,260,240**	246,860	120,853
Total liabilities	**252,944**	928,180	450,970
Total Equity and liabilities	**1,260,240**	246,860	120,853
Net current assets/(liabilities)	**957,382**	37,930	(50,433)
Total assets less current liabilities	**1,016,344**	57,939	(22,728)