LINEKONG
蓝港互动

Linekong Interactive Group Co., Ltd.
藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8267)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2015

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

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

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

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

SUMMARY

- Our revenue for the year ended December 31, 2015 amounted to approximately RMB540.8 million (2014: approximately RMB678.7 million), representing a decrease of approximately 20.3% as compared to that of the year ended December 31, 2014.

- Our gross profit for the year ended December 31, 2015 amounted to approximately RMB217.0 million, representing a decrease of approximately 34.5% from approximately RMB331.3. million recorded in the year ended December 31, 2014.

- The unaudited adjusted non-IFRSs net profit for the year ended December 31, 2015 amounted to approximately RMB9.1 million (2014: approximately RMB164.8 million), representing a decrease of approximately 94.5% as compared with the year ended December 31, 2014.

- Loss attributable to owners of the Company under IFRSs for the year ended December 31, 2015 amounted to approximately RMB51.9 million (2014: loss of approximately RMB154.6 million).

- Loss per share under IFRSs for the year ended December 31, 2015 amounted to approximately RMB0.15.

ANNUAL RESULTS

The board (the "**Board**") of Directors of the Company announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2015 together with the comparative figures for the year ended December 31, 2014 as follows:

CONSOLIDATED BALANCE SHEET

As of December 31, 2015

		As of December 31,	
		2015	2014
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**14,468**	11,367
Intangible assets		**29,343**	37,127
Investments in associates		**180,183**	–
Available-for-sale financial assets		**44,370**	–
Financial assets at fair value through profit or loss		**41,409**	–
Deferred income tax assets — net	*4*	**7,490**	5,358
Prepayments and other receivables	*6*	**20,465**	5,110
		337,728	58,962
Current assets			
Trade receivables	*5*	**45,079**	62,829
Prepayments and other receivables	*6*	**89,675**	51,917
Financial assets at fair value through profit or loss		**19,543**	–
Cash and cash equivalents		**794,461**	1,086,532
		948,758	1,201,278
Total assets		**1,286,486**	1,260,240
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*7*	**59**	59
Share premium	*7*	**1,722,308**	1,726,828
Shares held for RSU Scheme	*7*	**(3)**	(6)
Reserves	*8*	**325,713**	206,182
Accumulated losses		**(977,657)**	(925,746)
		1,070,420	1,007,317
Non-controlling interests		**(1,907)**	(21)
Total equity		**1,068,513**	1,007,296

CONSOLIDATED BALANCE SHEET (Continued)
As of December 31, 2015

	Note	As of December 31, 2015 RMB'000	2014 RMB'000
Liabilities			
Non-current liabilities			
Deferred revenue	*11*	**3,267**	9,048
		3,267	9,048
Current liabilities			
Trade and other payables	*10*	**107,472**	151,466
Current income tax liabilities		**3,885**	3,769
Deferred revenue	*11*	**103,349**	88,661
		214,706	243,896
Total liabilities		**217,973**	252,944
Total equity and liabilities		**1,286,486**	1,260,240

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)
For the year ended December 31, 2015

		Year ended December 31,	
		2015	2014
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**540,828**	678,684
Cost of revenue	*13*	**(323,828)**	(347,359)
Gross profit		**217,000**	331,325
Selling and marketing expenses	*13*	**(180,060)**	(81,252)
Administrative expenses	*13*	**(83,224)**	(141,389)
Research and development expenses	*13*	**(120,562)**	(112,290)
Other gains — net	*14*	**104,018**	6,347
Operating (loss)/profit		**(62,828)**	2,741
Finance income — net	*15*	**16,373**	2,261
Fair value loss of preferred shares	*12*	**–**	(156,949)
Share of loss of associates		**(5,430)**	–
Loss before income tax		**(51,885)**	(151,947)
Income tax expense	*16*	**(1,912)**	(2,636)
Loss for the year		**(53,797)**	(154,583)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		**8,399**	–
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		**(1,534)**	–
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		**2,430**	–
Items that will not be reclassified to profit or loss:			
— Currency translation differences		**47,354**	(2,523)
Other comprehensive income/(loss) for the year, net of tax		**56,649**	(2,523)
Total comprehensive income/(loss) for the year		**2,852**	(157,106)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) (Continued)
For the year ended December 31, 2015

	Note	**Year ended December 31, 2015** *RMB'000*	2014 *RMB'000*
Loss attributable to:			
Owners of the Company		**(51,911)**	(154,582)
Non-controlling interests		**(1,886)**	(1)
Loss for the year		**(53,797)**	(154,583)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**4,738**	(157,105)
Non-controlling interests		**(1,886)**	(1)
Total comprehensive income/(loss) for the year		**2,852**	(157,106)
Loss per share (expressed in RMB per share)			
— Basic	*17(a)*	**(0.15)**	(2.56)
— Diluted	*17(b)*	**(0.15)**	(2.56)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

For the year ended December 31, 2015

		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 (deficit)/ equity *RMB'000*
Balance at January 1, 2014		18	–	–	86,909	(768,227)	(681,300)	(20)	(681,320)
Comprehensive loss									
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 owners of the Company recognised directly in equity									
Issuance of shares held for RSU Scheme	9	6	–	–	–	–	6	–	6
Deemed contribution from shareholders for the shares issued for RSU Scheme	9	–	–	(6)	6	–	–	–	–
RSU Scheme: — Value of employee services	9	–	–	–	118,853	–	118,853	–	118,853
Conversion of preferred shares to ordinary shares	7	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	7	12	541,524	–	–	–	541,536	–	541,536
Appropriation to statutory reserves		–	–	–	2,937	(2,937)	–	–	–
Total contributions by and distributions to owners of the Company for the year		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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT) (Continued)

For the year ended December 31, 2015

		Attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at January 1, 2015		59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(51,911)	(51,911)	(1,886)	(53,797)
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax		–	–	–	8,399	–	8,399	–	8,399
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		–	–	–	(1,534)	–	(1,534)	–	(1,534)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	2,430	–	2,430	–	2,430
— Currency translation differences		–	–	–	47,354	–	47,354	–	47,354
Total comprehensive income/ (loss) for the year		–	–	–	56,649	(51,911)	4,738	(1,886)	2,852
Total contributions by and distributions to owners of the Company recognised directly in equity		–	–	–	–	–	–	–	–
Employee share option and RSU Scheme:									
— Value of employee services	9	–	–	–	62,882	–	62,882	–	62,882
— Vesting of shares		–	(3)	3	–	–	–	–	–
Repurchase of shares		–	(4,517)	–	–	–	(4,517)	–	(4,517)
Total contributions by and distributions to owners of the Company for the year		–	(4,520)	3	62,882	–	58,365	–	58,365
Balance at December 31, 2015		59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Linekong Interactive Group Co., Ltd. (the "**Company**", formerly known as Linekong Interactive 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.

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**".

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. A series of contractual agreements were signed on April 22, 2008 (the "**Contractual Agreements**") among Linekong Entertainment, the Original Founders and Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**"), which is a wholly owned subsidiary of the Company. Pursuant to the Contractual Agreements, 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. Upon completion of the Reorganisation, the Company became the ultimate holding company of the Group.

The Company's shares have been listed on the Growth Enterprise Market (the "**GEM**") of the Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering ("**IPO**"). Upon the completion of the IPO on December 30, 2014, all of the Company's 153,264,523 outstanding convertible preferred shares ("**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 541,536,000 (Note 7).

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, 2015 and 2014, other than the restrictions from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated, and have been approved by the Company's Board of Directors on March 29, 2016.

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

2. BASIS OF PREPARATION

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.

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

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

2.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to the standards have been adopted by the Group for the first time for the financial year beginning on January 1, 2015:

Amendments from annual improvements 2012 to:

— IAS24	— "Related party disclosures"

Amendments from annual improvements 2013 to:

— IFRS 3	— "Business combinations"
— IFRS 13	— "Fair value measurement"

The adoption of above amendments does not have any significant financial effect on the Group's consolidated financial statements. Other than that, the remaining amendments which are effective for the first time for the financial year beginning on January 1, 2015 are not applicable to the Group.

(b) New amendments early adopted by the Group

Amendment to IAS 27 on equity method in separate financial statements allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is effective for annual period beginning on or after January 1, 2016, with earlier application permitted.

The Group has early adopted the application of amendment to IAS 27 and accounts for investment in associates using equity accounting whereas investments in subsidiaries are accounted for at cost since January 1, 2015.

(c) New standards and amendments not yet adopted

A number of new standards and amendments to standards have been issued but not effective for annual period beginning on January 1, 2015, which have not been early adopted in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 14	"Regulatory Deferral Accounts"	January 1, 2016
Amendment to IFRS 11	"Accounting for acquisitions of interests in joint operations"	January 1, 2016
Amendments to IAS 16 and IAS 38	"Clarification of acceptable methods of depreciation and amortisation"	January 1, 2016
Amendments to IAS 16 and IAS 41	"Agriculture: bearer plants"	January 1, 2016
Amendments to IFRS 10 and IAS 28	"Sale or contribution of assets between an investor and its associate or joint venture"	January 1, 2016
Amendments from annual improvements 2014 to:		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	"Investment entities: applying the consolidation exception"	January 1, 2016
Amendment to IAS 1	"Disclosure initiative"	January 1, 2016
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2018
IFRS 9	"Financial Instruments"	January 1, 2018
IFRS16	"Leases"	January 1, 2019

The Group is in the process of making an assessment of the impact of the above new standards and amendments to existing standards on the consolidated financial statements of the Group in their initial applications.

(d) 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) came into operation during the current financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Segment reporting

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

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Development and operations of online games:		
— Sales of in-game virtual items	**508,565**	629,896
— License fee and technical support fee	**32,263**	48,788
	540,828	678,684

The Group offers its online games in different forms: client-based games, web-based games and mobile games. A breakdown of revenue derived from different forms of the Group's games for the years ended December 31, 2015 and 2014 is as follows:

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	**504,001**	597,897
— Web-based games	**11,905**	30,313
— Client-based games	**24,922**	50,474
	540,828	678,684

The chief operating decision maker of the Company considers that the Group's Game Business 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, 2015 and 2014.

Almost all the Group's non-current assets were located in the PRC as at December 31, 2015 and 2014. 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, 2015.

4. DEFERRED INCOME TAX

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

	As of December 31, 2015 *RMB'000*	2014 *RMB'000*
Deferred income tax assets:		
— To be recovered within 12 months	**9,269**	4,854
— To be recovered after 12 months	**472**	580
	9,741	5,434
Deferred income tax liabilities:		
— To be settled within 12 months	**(78)**	(76)
— To be settled after 12 months	**(2,173)**	–
	(2,251)	(76)
	7,490	5,358

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

	Year ended December 31, 2015 *RMB'000*	2014 *RMB'000*
Beginning of the year	**5,358**	3,443
Recognised in profit or loss	**3,344**	1,915
Charged to other comprehensive income	**(1,212)**	–
End of the year	**7,490**	5,358

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

Deferred income tax assets:

	Deferred revenue *RMB'000*	Accrued employee benefit expenses *RMB'000*	Tax losses *RMB'000*	Provision and others *RMB'000*	Total *RMB'000*
Year Ended December 31, 2014					
Beginning of the year	2,320	159	–	1,178	3,657
Credited/(Charged) to profit or loss	2,251	451	–	(925)	1,777
End of the year	4,571	610	–	253	5,434
Year Ended December 31, 2015					
Beginning of the year	**4,571**	**610**	**–**	**253**	**5,434**
Credited/(Charged) to profit or loss	**1,008**	**(610)**	**3,791**	**118**	**4,307**
End of the year	**5,579**	**–**	**3,791**	**371**	**9,741**

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB82,693,000 as of December 31, 2015 (2014: RMB73,796,000) as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2016 to 2020.

Deferred income tax liabilities:

	Trademarks and licenses *RMB'000*	Fair value changes of financial assets at fair value through profit or loss *RMB'000*	Fair value changes of available-for-sale financial assets *RMB'000*	Total *RMB'000*
Year ended December 31, 2014				
Beginning of the year	(214)	–	–	(214)
Credited to profit or loss	138	–	–	138
End of the year	(76)	–	–	(76)
Year ended December 31, 2015				
Beginning of the year	**(76)**	**–**	**–**	**(76)**
Charged to profit or loss	**(2)**	**(961)**	**–**	**(963)**
Charged to other comprehensive income	**–**	**–**	**(1,212)**	**(1,212)**
End of the year	**(78)**	**(961)**	**(1,212)**	**(2,251)**

5. TRADE RECEIVABLES

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Trade receivables	**45,712**	63,909
Less: impairment provision	**(633)**	(1,080)
	45,079	62,829

(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,	
	2015	2014
	RMB'000	*RMB'000*
0–60 days	**32,435**	45,935
61–90 days	**6,321**	6,570
91–180 days	**3,413**	7,003
181 days–365 days	**2,852**	2,386
over 1 year	**691**	2,015
	45,712	63,909

(b) As at December 31, 2015 and 2014, trade receivables of past due but not impaired were RMB19,553,000 and RMB26,541,000, 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,	
	2015	2014
	RMB'000	*RMB'000*
Outstanding after due dates:		
0–60 days	**13,266**	16,218
61–90 days	**1,391**	3,030
91–180 days	**3,333**	4,236
181 days–365 days	**1,234**	1,953
over 1 year	**329**	1,104
	19,553	26,541

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

	Year Ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**(1,080)**	(1,103)
Provision for impairment	**(1,899)**	(160)
Receivables written off during the year as uncollectible	**2,346**	183
At end of the year	**(633)**	(1,080)

The provision for impaired trade receivables have been included in "administrative expenses" in the consolidated statement of comprehensive income/(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,	
	2015	2014
	RMB'000	*RMB'000*
RMB	**26,788**	41,109
USD	**17,486**	22,177
Others	**1,438**	623
	45,712	63,909

6. PREPAYMENTS AND OTHER RECEIVABLES

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Current		
Prepaid service charges to Game Distribution Channels	**29,525**	22,724
Prepayment to game developers	**30,685**	11,220
Staff advance *(Note (a))*	**608**	1,264
Loans to employees *(Note (b))*	**1,266**	1,200
— Loans to key management	**188**	–
— Loans to other employees	**1,078**	1,200
Prepaid rental, advertising cost and others	**12,973**	10,839
Rental and other deposits	**3,038**	3,927
Interests receivable	**7,925**	–
Others	**3,655**	743
	89,675	51,917
Non-current		
Prepaid service charges to Game Distribution Channels	**56**	–
Prepayment to game developers	**–**	39
Loans to employees *(Note (b))*	**3,750**	–
— Loans to key management	**2,067**	–
— Loans to other employees	**1,683**	–
Rental and other deposits	**3,466**	2,472
Loans to a third party *(Note (c))*	**10,723**	–
Others	**2,470**	2,599
	20,465	5,110

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

	Year Ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**–**	(6,932)
Provision for impairment	**(500)**	–
Other receivables written off during the year as uncollectible	**500**	6,932
At end of the year	**–**	–

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

Note:

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

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

(c) On May 25, 2015, Linekong Entertainment, as the lender, entered into a loan agreement with the borrower, Jiangsu Strawbear Pictures Co. Ltd. Pursuant to the agreement, Linekong Entertainment granted an unsecured loan to the borrower in the principal amount of RMB10,000,000 with interest rate of 12% per annum. Maturity period of the loan is no longer than two years from May 25, 2015.

7. 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
Authorised:					
As of January 1, 2014		47,161	47	2,839	3
Reclassification and re-designation on issuance of Series C Preferred Shares	*(a)*	(623)	(1)	623	1
Share split	*(b)*	1,814,991	–	135,009	–
Reclassification and re-designation on issuance of Series D Preferred Shares	*(c)*	(14,794)	–	14,794	–
Cancellation and re-authorisation	*(e)*	153,265	4	(153,265)	(4)
As of December 31, 2014		2,000,000	50	–	–
Authorised:					
As of January 1, 2015 and December 31, 2015		**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, 2014		2,511	3	18	–	–
Share split	*(b)*	97,933	–	–	–	–
Issuance of shares held for RSU Scheme	*9(a)*	42,162	1	6	–	–
Shares transferred to RSU Scheme	*9(a)*	–	–	–	–	(6)
Issuance of new shares upon IPO	*(d)*	73,968	2	12	541,524	–
Conversion of Preferred Shares into ordinary shares	*(e)*	153,265	4	23	1,185,304	–
As of December 31, 2014		369,839	10	59	1,726,828	(6)

	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, 2015		**369,839**	**10**	**59**	**1,726,828**	**(6)**
Vesting of shares held for RSU Scheme	*9(a)*	**–**	**–**	**–**	**(3)**	**3**
Repurchase of shares	*(f)*	**(970)**	**–**	**–**	**(4,517)**	**–**
As of December 31, 2015		**368,869**	**10**	**59**	**1,722,308**	**(3)**

(a) On January 15, 2014, the Company entered into a share purchase agreement with Starwish Global Limited, Profitable Century International Limited, Orchid Asia V, L.P., Orchid Asia V Co-Investment Limited, SAIF IV Hong Kong (China Investments) Limited, Famous Sino Ltd. and Eager Info Investments Limited and pursuant to which, the Company issued 622,637 shares of convertible series C Preferred Shares at a price of USD48.1822 per share to these investors with total proceeds of USD30,000,000 (equivalent to approximately RMB183,786,000).

(b) 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 authorised 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.

(c) On May 8, 2014, the Company entered into a share purchase agreement with Baidu Holdings Limited and pursuant to which, the Company issued 14,793,523 shares of series D Preferred Shares at a price of USD1.3519 per share to Baidu Holdings Limited with total consideration of USD20,000,000 (equivalent to approximately RMB123,120,000).

(d) On December 30, 2014, the Company completed its IPO on the GEM Board 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.

(e) Upon completion of the IPO, all of the Company's authorised 153,264,523 Preferred Shares with par value of USD0.000025 each were cancelled and 153,264,523 ordinary shares with par value of USD0.000025 each were authorised. 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 derecognised and transferred to share capital and share premium.

(f) The Company's Board of Directors approved a share repurchase plan on July 7, 2015 which authorised the management to repurchase the Company's ordinary shares with a total value of HKD10,000,000. The Company repurchased 970,000 shares from the open market for an aggregate consideration of HKD5,540,000 (equivalent to RMB4,517,000) through the period from July to December 2015, and the consideration paid was treated as a deduction against the shareholder's equity. These repurchased shares were cancelled as of December 31, 2015.

8. RESERVES

	Capital reserve *RMB'000*	Currency translation differences *RMB'000*	Statutory surplus reserve fund *RMB'000*	Share-based compensation reserve *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
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 *(Note 9(a))*	–	–	–	–	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
Balance at January 1, 2015	**(7,831)**	**26,503**	**9,557**	**177,947**	**6**	**206,182**
Changes in fair value of available-for-sale financial assets, net of tax	**–**	**–**	**–**	**–**	**8,399**	**8,399**
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	**–**	**–**	**–**	**–**	**(1,534)**	**(1,534)**
Share of other comprehensive income of investments accounted for using the equity method, net of tax	**–**	**–**	**–**	**–**	**2,430**	**2,430**
Employee share option and RSU scheme:						
— Value of employee services *(Note 9)*	**–**	**–**	**–**	**62,882**	**–**	**62,882**
Currency translation differences	**–**	**47,354**	**–**	**–**	**–**	**47,354**
Balance at December 31, 2015	**(7,831)**	**73,857**	**9,557**	**240,829**	**9,301**	**325,713**

Note:

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

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

9. SHARE-BASED PAYMENTS

(a) RSUs

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

(i) Grant of the RSUs

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

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

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

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

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

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

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

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

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

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

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

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

Movements in the number of RSUs outstanding:

	Number of RSUs Year ended December 31, **2015**	 2014
Beginning of the year	**31,276,072**	–
Granted	**2,295,000**	31,371,494
Lapsed	**(2,098,992)**	(95,422)
Vested	**(19,412,664)**	–
End of the year	**12,059,416**	31,276,072

On June 11, 2015, Mr. Mao Zhihai resigned from his role as the Company's director and chief financial officer, accordingly unvested RSUs of 1,405,386 that was previously granted to Mr. Mao Zhihai lapsed and corresponding share-based compensation expenses of RMB4,131,000 recorded in previous periods were reversed in the second quarter of 2015.

As of December 31, 2015, 19,412,664 RSUs have been vested unconditionally. As of December 31, 2014, no RSUs had been vested.

(ii) *Shares held for RSU Scheme*

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company entered into a trust deed (the "**Trust Deed**") with The Core Trust Company Limited (the "**RSU Trustee**") and Premier Selection Limited (the "**RSU Nominee**") to assist with the administration of the RSU Scheme. On March 21, 2014, the Company issued 42,161,541 ordinary shares to the RSU Nominee at a par value of USD0.000025 each, totalling RMB6,488 funded by 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. As a result of the vesting of 19,412,664 RSUs during the year ended December 31, 2015 (see Note (a) above), costs of these vested RSUs totally approximately RMB2,983 was transferred out from treasury shares upon vesting of these RSUs.

(iii) *Fair value of RSUs*

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

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

	March 21, 2014
Discount rate used to determine the underlying share value of the Company	20%
Risk-free interest rate	0.08%
Volatility	52.97%

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

(b) Share options

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

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

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

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

(iii) the nominal value of the shares.

(i) Grant of share options

On August 12, 2015, 1,849,912 share options were granted under the Pre-IPO Share Option Scheme with exercise price of HKD8.10 per share option. The vesting period of the share options granted is 4 years: and the vesting schedule is 25% on the date ending 10 months from the grant date and 12.5% each on every six months from 10 months from the grant date.

On October 9, 2015, 6,010,000 share options were granted under the Pre-IPO Share Option Scheme with exercise price of HKD7.18 per share option. The vesting period of the share options granted is 4 years: and the vesting schedule is 25% on the date ending 12 months from the grant date and 12.5% each on every six months from 12 months from the grant date.

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

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

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

	Average Exercise Price	**Number of share options Year ended December 31, 2015**
Beginning of the year		–
Granted	HKD7.40	7,859,912
Lapsed	HKD7.18	(150,000)
Vested		–
End of the year	HKD7.40	7,709,912

As of December 31, 2015, all share options granted will expire in 2025. The share options outstanding as of December 31, 2015 include 1,849,912 share options and 5,860,000 share options with the exercise price of HKD8.10 and HKD7.18 per share option, respectively.

(ii) Fair value of share options

Based on the market price of the underlying ordinary share of HKD8.10 and HKD7.18 on the grant date of the share options, the Company has used Binomial option-pricing model to determine the fair value of the share options as of the grant date. The fair value of the share options granted on August 12, 2015 and October 9, 2015 was assessed to be HKD8,220,000 (approximately equivalent to RMB6,706,000) and HKD20,442,000 (approximately equivalent to RMB16,748,000), respectively.

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

	August 12, 2015	**October 9, 2015**
Risk-free interest rate	1.69%	1.62%
Volatility	49.3%	49.7%
Dividend yield	–	–

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

(c) RSUs of a subsidiary

Pursuant to a resolution passed by the Board of Directors of the Company on December 17, 2015, the Company granted 168,000,000 restricted share units of Creative Ace Limited, a subsidiary of the Company, to certain employees of the Group with the objective to stimulate and promote the development of the business in US. These RSUs granted are subject to vesting schedule, service and performance conditions. The fair value of the RSUs granted on December 17, 2015 was assessed to be RMB3,030,300. As of December 31, 2015, no RSUs were vested. The financial impact of these RSUs is not material to the Group's consolidated financial statements for the year ended December 31, 2015.

(d) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU and option grantees that will stay within the Group at the end of vesting periods (the "**Expected Retention Rate**") in order to determine the amount of share-based compensation expenses to be recorded in the consolidated statements of comprehensive income/(loss). As of December 31, 2015, the Expected Retention Rate of employees was assessed to be 90% (December 31, 2014: 95%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2014: 100%).

10. TRADE AND OTHER PAYABLES

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Trade payables *(Note (i))*	**53,262**	66,069
Other taxes payables	**3,475**	9,693
Salary and staff welfare payables	**27,683**	36,275
Accrued expenses and liabilities	**20,031**	32,796
Advance received from licence fees	**1,097**	2,790
Advance received from sales of prepaid game cards	**1,022**	3,391
Advance from payment vendors	**902**	452
	107,472	151,466

Note:

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

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
0–180 days	**45,394**	60,140
181–365 days	**2,475**	2,688
1–2 years	**2,667**	2,395
2–3 years	**1,935**	458
over 3 years	**791**	388
	53,262	66,069

11. DEFERRED REVENUE

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Current		
— License fee and technical support fee	**6,734**	12,584
— Sales of in-game virtual items *(Note (i))*	**94,882**	75,980
— Government subsidies	**1,733**	97
	103,349	88,661
Non-current		
— License fee and technical support fee	**2,827**	6,689
— Sales of in-game virtual items *(Note (i))*	**384**	2,220
— Government subsidies	**56**	139
	3,267	9,048

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, 2015 and 2014. 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 recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB8,086,000 as of December 31, 2015 (2014: RMB7,883,000).

12. CONVERTIBLE PREFERRED SHARES

Before the Company's IPO, the Company respectively issued Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series D Preferred Shares, to investors in April 2008, May 2008, January 2014 and May 2014, which were designated as financial liability at the fair value through profit or loss by the Company.

Upon completion of the Company's IPO on December 30, 2014, all of 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 preferential rights entitled to the holders of the Preferred Shares lapsed and such holders thereafter hold rights pari passu to all other ordinary shareholders.

Movement of the Preferred Shares for the year ended December 31, 2014 is set out as below:

	Year ended December 31, *RMB'000*
At January 1, 2014	719,831
Issuance of Series C Preferred Shares and Series D Preferred Shares *(Note 7(a),(c))*	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

13. 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,	
	2015	2014
	RMB'000	*RMB'000*
Service charges by Game Distribution Channels	**196,763**	237,396
Content fee to game developers	**71,285**	47,953
Bandwidth and server custody fees	**13,242**	10,806
Payment handling costs	**955**	2,002
Employee benefit expenses (excluding share-based compensation expenses)	**131,483**	97,961
Share-based compensation expenses	**62,882**	118,853
Depreciation of property, plant and equipment	**7,139**	7,118
Amortisation and impairment of intangible assets	**14,956**	4,120
Other receivables write-off	**–**	406
Trade receivables write-off	**–**	1,221
Impairment charges on trade and other receivables	**2,399**	160
Business tax and related surcharges *(Note (a))*	**1,109**	14,875
Promotion and advertising expenses	**156,608**	59,651
Traveling and entertainment expenses	**5,147**	7,205
Office rental expenses	**14,466**	8,848
Other professional service fees	**9,277**	6,413
Game development outsourcing costs	**7,233**	1,504
Utilities and office expenses	**1,888**	1,414
Auditors' remuneration		
— Audit services	**5,530**	2,405
Listing-related expenses	**–**	43,578
Others	**5,312**	8,401
Total	**707,674**	682,290

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 except for which is subject to Value-added Tax (**"VAT"**) as stated below
VAT	6%	Revenue from sales of in-game virtual items, licensing and technical support generated by Tianjin Baba Liusi Network Technology Co., Ltd. ("**Tianjin 8864**"), Linekong Entertainment and Shouyoutong (Beijing) Technology Co., Ltd. ("**Shouyoutong**") is subject to VAT since June 1, 2014, January 1, 2015, and January 1, 2015, respectively. 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

14. OTHER GAINS — NET

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Government subsidies *(Note (a))*	**7,739**	3,819
Foreign exchange gains, net	**529**	433
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	**67,196**	–
Gain on disposal of available-for-sale financial assets	**1,753**	–
Realised fair value gains on derivatives	**14,540**	–
Loss on disposals of property, plant and equipment	**(48)**	(7)
Loss on disposals of intangible assets	**(1,863)**	–
Return on short-term investments *(Note (b))*	**821**	1,890
Dilution gains arising from deemed disposal of investments	**12,725**	–
Others	**626**	212
	104,018	6,347

Notes:

(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 principal protected wealth management products issued by commercial banks in the PRC.

15. FINANCE INCOME- NET

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Finance income		
Interest income on bank deposits	**10,648**	2,580
Interest income on loans to a related party	**953**	–
Interest income on loans to a third party	**723**	–
Finance costs		
Issuance costs of Preferred Shares	**–**	(300)
Foreign exchange gains/(losses), net	**4,049**	(19)
Finance income — net	**16,373**	2,261

16. INCOME TAX EXPENSE

The income tax expense of the Group for each of the years ended December 31, 2015 and 2014 is analysed as follows:

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Current income tax	**5,256**	4,551
Deferred income tax	**(3,344)**	(1,915)
Income tax expense	**1,912**	2,636

(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, 2015 and 2014 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, 2015 and 2014, 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 they continue to be qualified as software enterprises during such periods. 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 periods that preferential tax rate aforementioned is applicable to Linekong Entertainment were ended in 2015. In July 2015, Linekong Entertainment filed its application for "High and New Technology Enterprise" ("**HNTE**") qualification to the related government authorities in order to enjoy a preferential tax rate. This application was approved in November 2015. Linekong Entertainment obtained the HNTE Certificate and was accredited as a HNTE under the relevant PRC laws, regulations and rules. Accordingly, Linekong Entertainment is entitled to a preferential income tax rate at 15% for three years starting from 2015, provided that it continues to be qualified as a HNTE during such periods.

The applicable schedules of preferential income tax rate for Linekong Entertainment, Shouyoutong and Tianjin 8864 are as follows:

	2015	2014
Linekong Entertainment	**15%**	50% reduction
Shouyoutong	**50% reduction**	50% reduction
Tianjin 8864	**50% reduction**	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 tax assessable profits for that year ("**Super Deduction**"). Linekong Entertainment have claimed such Super Deduction in ascertaining its tax assessable profits for the years ended December 31, 2015 and 2014.

(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, 2015, 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, 2015 and December 31, 2014, 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)/profit before income tax of consolidated entities in the respective jurisdictions as follows:

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Loss before income tax	**(51,885)**	(151,947)
Tax calculated at statutory income tax rates applicable to (loss)/profit before income tax of the consolidated entities in their respective jurisdictions *(Note (i))*	**(29,138)**	9,176
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	**(5,145)**	(44,658)
Super Deduction for research and development expenses	**(1,909)**	–
Expenses not deductible for tax purposes:		
— Share-based compensation	**15,721**	29,713
— Others	**17,137**	1,260
Different applicable tax rate between current year and the year when the deferred tax assets are realised	**–**	(5,434)
Unrecognised temporary differences *(Note (ii))*	**10,856**	5,089
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	**3,045**	4,800
Adjustment to deferred income tax arising in prior years	**(8,655)**	2,690
Income tax expense	**1,912**	2,636

Notes:

(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 realisation of deductible temporary differences and unused tax losses for each Group entity as of December 31, 2015 and 2014. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.

17. LOSS PER SHARE

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 year ended December 31, 2015 and 2014 to reflect the proportional changes in the number of ordinary shares outstanding as a result of the share split described in Note 7(b).

(a) Basic

Basic loss per share for the year ended December 31, 2015 is calculated by dividing the loss of the Group attributable to the owners of the Company of the year by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Loss attributable to owners of the Company	**(51,911)**	(154,582)
Weighted average number of ordinary shares in issue (thousand shares)	**341,706**	60,500
Basic loss per share (expressed in RMB per share)	**(0.15)**	(2.56)

(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, 2015, the Company had two categories of potential ordinary shares, RSUs and share options granted to employee. 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. RSUs that were issuable contingently upon the occurrence of the listing as described in Note 9(a) were not considered as dilutive potential ordinary shares. As the Group incurred loss for the years ended December 31, 2015 and 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 years ended December 31, 2015 and 2014 are the same as basic loss per share of the years.

18. DIVIDENDS

No dividends have been paid or declared by the Company during each of the years ended December 31, 2015 and 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

Review

Year 2015 was a year of challenges for the Group. We put forward the group development strategy of exquisite games, entertaining content and market internationalization. We carried out multi-tactile explorations and practices for this purpose. In this year, we have not only expended innovation and R&D of contents and types for mobile games with independent IP as a carrier, completed the business pan-entertainment layout, and established a US subsidiary to further expand the overseas market. In this year, we have successfully commercialized the highly popular Intellectual Property (IP) supported mobile games consecutively, such as ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), ***The Legend of ZhenHuan*** (甄嬛傳), ***Warrior Crash*** (亂彈三國志), etc., and completed the innovation and trial production of animation-themed and movie-themed mobile games. In this year, we've established Linekong Pictures and officially initiated the multi-development strategy integrating movies and games.

As of December 31, 2015, we had successfully commercialised 21 games, including 13 self-developed games and 8 licensed games.

We implemented the "Comic-game" interaction by successfully commercialized ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), a massive 3D role-playing and turn-based card game on March 18, 2015. It was launched online on all platforms and created the outstanding achievement of over 1 million daily active users ("**DAUs**") on the day of commercialization. From a comic to animation, then stage performance, big movie and mobile game, ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話) has, just within four years, become the most influential and famous original animation IP in China. It entered TOP15 on the Grand List of Apple Most Popular Games within 24 hours after its putting into online operation on March 18 and ranked the 8^{th} place on the List of iPhone Free Games, the 9^{th} place on the List of iPhone Most Popular Games, the 2^{nd} place on the List of iPad Free Games and the 14^{th} place on the List of iPad Most Popular Games within three days after its official commercialization. From the success of "Three Swords of Linekong" to the burst of ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), the Company's capabilities have been proven not only in its outstanding selection of IPs, but also in the exploration of the products from mythical heroes-themed games to animation-themed games.

Following the release of ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), the Group commercialized ***The Legend of ZhenHuan*** (甄嬛傳) online on all platforms on October 10, 2015. ***The Legend of ZhenHuan*** (甄嬛傳) is a 3D-MMO card game for mobiles based on the novel of the same title with the same voiceover as the original TV serial which vividly presents the turns and twists in Zhen Huan's journey of fierce vying to rise through the imperial hierarchy. The mobile game ranked the 1^{st} place in the top paid apps for iOS devices within 24 hours upon its official commercialization and ranked among top 20 in the most popular apps for iOS devices within one week.

Among the 8 successfully commercialized mobile games, ***Excalibur*** (王者戰魂) (formerly known as ***Excalibur*** (王者之劍), ***Sword of Heaven*** (蒼穹之劍) and ***Blade of God*** (神之刃) together are named as the "Three Swords of Linekong". Not only have the "Three Swords of Linekong" been successfully commercialized for over 21 to 33 months, but it is also worth noting that these three midcore and hardcore mobile games are still contributing stable and remarkable monthly gross billings, which highlighted the advantage of long-life-cycle products. The successful commercialization of the "Three Swords of Linekong" has enabled the Group to grow with courage in the mobile games sector and given it more determination and confidence to continue the long-life-cycle product strategy of a variety of high-quality midcore and hardcore mobile games.

In 2015, the trend of "Pan-Entertainment" has become more evident and the Group has gradually instilled entertainment contents. During this period, the Group has invested RMB23 million in Yongle and USD5 million to SMI. The Group will conduct authorized bilateral cooperation with Yongle and SMI in term of major IP licensing projects in games, movies, TV dramas and stage performances, and will cooperate in respect of marketing and brand-building activities by utilizing marketing resources of both parties. Meanwhile, the Group cooperated with Mr. Wu Qilong, a famous artist, in establishing Beijing Feng & Long Culture Limited. The IP masterpiece of "Platform-Movie-Game Integration" — ***The Legend of Shushan*** (蜀山戰紀之劍俠傳奇) (***The Wars of Shushan*** (蜀山戰紀)), which was forged by both parties and satellite TVs, has achieved enormous success, and the mobile game of the same title as been successfully commercialized on January 27, 2016.

The Wars of Shushan (蜀山戰紀), a self-developed 3D-MMORPG mobile game (authorised legal copy of TV Series with the same name supervised by Mr. Wu Qilong) featured by Cultivating Immortality by Experiencing Inexorable Dooms (修仙渡劫), Flying on Sword (御劍飛行), Fight with Magic Weapons (法寶斗法) and Good Versus Evil (正邪對抗), with the same voiceover as the original TV serial, has reproduced the classical scenarios perfectly and allowed players to experience the amusing mythical realm. As of February 29, ***The Wars of Shushan*** (蜀山戰紀) has been ranking TOP10 on the Grand List of iOS Most Popular Games for 24 consecutive days, and has ever ranked TOP5 of the List.

During the period, the Group has completed an investment of approximately RMB7.6 million in TaoShouYou, a third-party mobile game trading platform. Taoshouyou primarily focuses on the trading of game accounts. The cooperation of both parties will enhance the synergy between mobile games development and online trading platform.

During this period, the Group has completed an investment in MicroFunPlus Co., Ltd. ("**MicroFunPlus**"), a developer focusing on exquisite casual mobile games and also the developer of ***Jelly Blast*** (糖果萌萌消). As of December 31, 2015, the game has achieved the 5 million daily active users ("**DAUs**") and has been ranking top 60 on the Grand List of iOS Most Popular Games for six consecutive months. ***Jelly Blast*** (糖果萌萌消) is a casual puzzle game. This cooperation will further foster the diversity of the Group's products, which enables the synergized development of different types of games under the same IP and in turn allows us to satisfy as well as attract a larger player base.

Meanwhile, the Group has completed the financing of approximately USD26.3 million in Fuze Entertainment Co., Ltd. ("**Fuze**") and held approximately 31.9% of its equity interest. Fuze is a digital technology company specialized in the research, development and design of consumer electronic products as well as interactive entertainment content services. Fuze will establish a three-in-one home interactive entertainment ecosystem that integrates "hi-end hardware + interactive entertainment contents + Internet services" through collaborating with well-known domestic and international game products and integrating a gaming operating model tailored to the Chinese market based on console gaming platforms.

Linekong Pictures has been registered during this period, Mr. Ren Zhaonian and Mr. Yan Yusong has assumed CEO and President (please refer to *Biographical Details of the Directors and Senior Management*). The Group will officially initiate the multi-development strategy integrating movies and games.

In order to coordinate with the market internationalization development strategy during this period, the Group has successfully published the ***Blade of God*** (神之刃) and ***Sword of Heroes*** (英雄之劍) in South Korea; the Group has also established a wholly-owned subsidiary in San Francisco, the U.S., and formed a US local R&D and publishing team to collaborate with the team in China for further expansion of the R&D and publishing of the Group's international products throughout the US and worldwide. Such moves are to speed up the market internationalization as well as to seize on expertised product categories while elaborating new sectors in the market segments. In the meantime, these also represent the direction of our diversified products which maximizes our agility and sharpens our tactile towards product categories to manage risks in the market elaboration.

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks. There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future. 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.

As far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or noncompliance with the applicable laws and regulations by the Group.

At the meantime, the Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in the Group's managed hotels. Such initiatives include recycling of used papers, energy saving measures and water saving practices.

Prospect

Year 2016, we put forward the development strategy of "community-based products, entertaining business and marketing internationalization". R&D has always been the core competitiveness of the Group, and the Group will continue to invest more resources in its R&D department to bring-in and nurture high caliber talents domestically and overseas. Besides, the Group persists in placing the enhancement of R&D capability as the top priority among all of its development strategies in order to maintain its leading level in the industry and solidify its leading position in the domestic and international mobile game market.

At the same time, the Group will focus on the expertized products categories as its core competitiveness and the operating model with independent IP as a carrier, unearthing the storyline from the IP and blending with deep-rooted IP culture with popular elements that will be all-around the kernels of the game design, which eventually becomes part of the games in order to ensure and enhance the quality of self-developed products. The Group has commercialized the IP masterpiece of "Platform-Movie-Game Integration" — ***The Legend of Shushan*** (蜀山戰紀之劍俠傳奇) on all platforms on January 27, which has achieved remarkable success. The Group will also plan to commercialize popular IP supported games, represented by ***The Legend of MiYue*** (芈月傳), ***Monster Hunt*** (捉妖記) and ***B.E.E.*** (雛蜂) consecutively.

Looking forward, the Group will further exploit the value of possessing community-based IPs by forging series of community-based products with diversified types and elements for each IP. We aim to achieve multiple utilization and value superposition of IPs through maximization of movie-game interaction and comic-game interaction. Besides, the Company will optimize the categories of game products and expand player base to promote the corporate brand. In the future, we intend to consecutively commercialize series products as well as auxiliary products for ***Excalibur II*** (王者戰魂II), ***Sword of Heaven II*** (新蒼穹之劍), ***The Legend of MiYue*** (芈月傳), ***Monster Hunt*** (捉妖記), etc.

This year, the Group will cooperate with various entertainment resources in succession. Following the establishment of the joint venture with the Beijing Strawbear Technology Co. Ltd. , a company controlled by Mr. Wu Qilong, a famous artist, for the mutual R&D of ***The Wars of Shushan*** (蜀山戰紀), the Group will approach other top entertainment companies and stars for the access of their top quality IPs to develop games that the Group has expertise in. More cooperation issues will be further disclosed when appropriate.

In 2015, the Group made an investment in Fuze, a game hardware developer. Its subsidiary, Shenzhen Fuze Technology Co., Ltd. ("**Fuze Technology**") will launch ***Fuse 1*** (戰斧), its self-developed product for home video game console during the year. Fuze Technology will start by virtue of console gaming hardware, grow leveraging on content to build a new e-commerce and online entertainment platform based on TV, and introduce the excellent TV games of the world to China. Through integrating point accumulation, cloud service, member service, social media and videos, it aims to combine the players' benefits with member service modes. In the future, Fuze Technology will focus on platform-based console games while the Group will specialize in content-based mobile games. Through this complementary effect, the entertainment and game will have a perfect marriage. Recently, Fuze Technology will arrange to hold a press conference for the game console product — ***Fuse 1*** (戰斧) of Fuze Technology. We will announce more information in the near future.

As a wholly-owned subsidiary to the Group, Linekong Pictures is a new-generation interactive entertainment media company aiming to forge the full entertainment industry chain by integrating content and brand in the three fields of movies, comics and games. Linekong Pictures launches movie and comic projects by the IPs of Group's self-developed games and infiltrates inversely with the gaming business by the IPs of the Group's self-developed movies and comics, thus reaching a virtuous cycle.

In the coming three years, Linekong Pictures will invest funds to produce two or three movies independently every year, and will also invest many domestic and international famous movie projects. In its strategic deployment, Linekong Pictures plans to establish the "Youth Training Camp" for movie talents and attaches great importance to cultivating domestic young filmmakers; in the Internet-based movie filed, Linekong Pictures will devote itself to producing excellent internet movies, TV series and comic products.

Linekong Pictures will gradually interact with the Linekong's gaming business to complete the integration of contents and brand, achieve bilateral synergy on the cross-platform of IP between films and games, and gradually accomplish business infiltration into pan-entertainment by thorough cooperation with the entertainment industry. Looking forward, Linekong's gaming business will synergize with Linekong Pictures to become a pan-entertainment company with films and games as its focus.

Meanwhile, the Group will deeply promote the internationalization process and develop community-based games with international standard by leveraging domestically self-developed maturestaged kernel system and the design and production by the international team to broaden our competitive advantages on games and help the Group transform from a game brand to an entertainment brand. Subsequent to the establishment of subsidiaries in Hong Kong and South Korea, the Group has established a subsidiary in the US. The prospective overseas subsidiaries will continue to publish high-quality games, whilst gradually engaging in the overseas R&D of international gaming products. The R&D team of the subsidiary in the US will have 4-5 products in the pipeline this year, which include a fashion social game targeting trendy female, ***Raids of Glory***, a RTS instant strategy game developed by Nitro Games, a company in Finland. Meanwhile, our US team will negotiate with several internationally-renowned entertainment companies and IP service providers. The Group will make further disclosure for more information regarding the cooperation in due time. In the future, the Group will also establish a subsidiary of Linekong US in Taiwan in order to enhance the strength of R&D of game product internationalization.

The DNA of the Group remains to be R&D which is our core competitiveness. We have community-based product, entertaining business and marketing internationalization as our overall strategies, which will promote the long-term sustainable development of the Group.

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, 2014 and 2015, respectively:

	For the year ended December 31,			
	2015		2014	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Mobile games	**504,001**	**93.2**	597,897	88.1
Webgames	**11,905**	**2.2**	30,313	4.5
Client-based games	**24,922**	**4.6**	50,474	7.4
Total	**540,828**	**100.0**	678,684	100.0

	For the year ended December 31,			
	2015		2014	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Self-developed games	**244,565**	**45.2**	441,420	65.0
Licensed games	**296,263**	**54.8**	237,264	35.0
Total	**540,828**	**100.0**	678,684	100.0

	For the year ended December 31,			
	2015		2014	
	RMB'000	***approximate %***	*RMB'000*	*approximate %*
Sale of in-game virtual items	**508,565**	**94.0**	629,896	92.8
License fee and technical support fee	**32,263**	**6.0**	48,788	7.2
Total	**540,828**	**100.0**	678,684	100.0

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, 2015, our games were published in 47 countries and regions outside Mainland China. In 2015, the Group set up one subsidiary in San Francisco, US, and has started to R&D and was planning to publish more games in North America. Revenue generated from overseas market maintained approximately RMB59.5 million for the year ended December 31, 2015, representing a slight decrease of approximately 1.7% compared to approximately RMB60.5 million for the year ended December 31, 2014.

Our players

The total registered players of our games increased from approximately 174.4 million as at December 31, 2014 to over 201.6 million as at December 31, 2015. As of December 31, 2015, the monthly average user (MAU) reached approximately 3,319,000 users and the daily average users (DAU) reached approximately 612,000 users with average revenue per paying users (ARPPU) of approximately RMB202 per month.

Comparison of business objectives with actual business progress

The following is a comparison of the Group's business plan as set out in the Group's prospectus dated December 9, 2014 (the "**Prospectus**") with actual business progress for the year ended December 31, 2015.

Business objectives	**Business plans**	**Progress up to December 31, 2015**
Development of new games, on-going optimisation and update of existing games and purchase of intellectual properties for popular entertainment franchises	• Commercialize ***The White Haired Witch*** (白髮魔女傳) and ***Excalibur II*** (王者戰魂II)	1) We didn't commercialize ***The White Haired Witch*** (白髮魔女傳) and ***Excalibur II*** (王者戰魂II), we commercialized ***The Legend of Zhenhuan*** (甄嬛傳), and ***Warrior Crash*** (亂彈三國志).
	• Commercialize at least another three self-developed games	2) We plan to commercialize ***Excalibur II*** (王者戰魂II) in 2016 and started Close Beta Test in January 2016
	• Enter into additional license agreements for the rights to adapt popular entertainment franchises into online games	3) We had the IP rights of ***The Legend of Miyue*** (羋月傳), and ***B.E.E.*** (雛蜂), and will commercialize these mobile games in 2016
Licence and publishing of high-quality games from third-party developers	• Commercialize at least four licensed games	1) We didn't commercialize four licensed games
	• Enter into additional agreements for the exclusive rights to publish third-party developed games	2) We signed agreement for the exclusive right to publish a mobile game ***Daybreak*** (黎明之光)

Business objectives	Business plans	Progress up to December 31, 2015
Enhance and promote our own distribution platform, 8864.com	• Increase spending on promotion of 8864.com	1) We changed our business strategy which is into focusing on R&D of mobile games, we spent more resources on R&D
	• Improve infrastructure such as upgrading servers and increasing bandwidth	2) We did improve infrastructure and upgrading servers and bandwidth for publishing new mobile games
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 3.0 • Enter into license agreements to acquire more foundational development tools from third parties	1) We completed development of our software tools package 5.0
Expand our business in overseas markets	• Initiate the process for establishing a presence in the U.S. based on and subject to our market research result	1) We established the U.S. subsidiary in San Francisco and the R&D team of U.S. will commercialize at least three products in the pipeline in 2016, ***Raids of Glory***, ***Fashion*** and an IP RTS game.
	• Increase spending on promotional activities in Southeast Asia	2) We commercialized ***The Legend of Zhenhuan*** (甄嬛傳) in Taiwan and had good achievement with many promotional activities

FINANCIAL REVIEW

The following table is a summary of our consolidated statement of loss for the years ended December 31, 2014 and 2015, together with changes (expressed in approximate percentages) from 2014 to 2015:

	For the year ended December 31,				
	2015		2014		Change
		approximate		*approximate*	*approximate*
	RMB'000	***%***	*RMB'000*	*%*	*%*
Revenue	**540,828**	**100**	678,684	100.0	(20.3)
Cost of revenue	**(323,828)**	**(59.9)**	(347,359)	(51.2)	(6.8)
Gross profit	**217,000**	**40.1**	331,325	48.8	(34.5)
Selling and marketing expenses	**(180,060)**	**(33.3)**	(81,252)	(12.0)	121.6
Administrative expenses	**(83,224)**	**(15.4)**	(141,389)	(20.8)	(41.1)
Research and development expenses	**(120,562)**	**(22.3)**	(112,290)	(16.5)	7.4
Other gains — net	**104,018**	**19.2**	6,347	0.9	1,538.9
Operating (loss)/profit	**(62,828)**	**(11.6)**	2,741	0.4	(2,392.2)
Finance income — net	**16,373**	**3.0**	2,261	0.3	624.1
Fair value loss of preferred shares	**–**	**–**	(156,949)	(23.1)	(100.0)
Share of loss of associates	**(5,430)**	**(1.0)**	–	–	100.0
Loss before income tax	**(51,885)**	**(9.6)**	(151,947)	(22.4)	(65.9)
Income tax expense	**(1,912)**	**(0.4)**	(2,636)	(0.4)	(27.5)
Loss for the year	**(53,797)**	**(9.9)**	(154,583)	(22.8)	(65.2)
Non-IFRS Measure:					
Adjusted net profit (unaudited)	**9,085**	**1.7**	164,797	24.3	(94.5)
Dividends	**–**	**–**	–	–	–

Revenue

The Group's revenue decreased by approximately 20.3% from approximately RMB678.7 million for the year ended December 31, 2014 to approximately RMB540.8 million for the year ended December 31, 2015. The decrease was primarily due to the adjustment of strategies made by the Group in 2015 to exert more time and resources for R&D of mobile games to improve their qualities. Such strategic adjustment for the year has caused adjustments to the release time of certain self-developed or licensed mobile games of the Group, and in turn affected the revenue generation throughout the year.

Cost of revenue

The Group's cost of revenue for the year ended December 31, 2015 was approximately RMB323.8 million, representing a decrease of approximately 6.8% from approximately RMB347.4 million for the year ended December 31, 2014. The Group's cost of revenue, excluding share-based compensation expenses amounting to approximately RMB5.3 million for the year ended December 31, 2015, was approximately RMB318.5 million, representing a decrease of approximately 6.5% from approximately RMB340.7 million for the year ended December 31, 2014. The decrease in the Group's costs of revenue was mainly due to the overall drop in the total revenue, which caused a reduction in the commission charges by distribution channels of the year.

Gross profit and gross profit margin

The Group's gross profit for the year ended December 31, 2015 was approximately RMB217.0 million, representing a decrease of approximately 34.5% from approximately RMB331.3 million for the year ended December 31, 2014. The Group's gross profit, excluding share-based compensation expenses for the year ended December 31, 2015 was approximately RMB222.3 million, representing a decrease of approximately 34.2% from approximately RMB338.0 million for the year ended December 31, 2014. The decrease in gross profit of the Group was mainly due to: on one hand, the adjustment of strategies made by the Group in 2015 to exert more time and resources for R&D of mobile games to improve their qualities. Such strategic adjustment has caused adjustments to the release time of certain self-developed or licensed mobile games of the Group, and in turn affected the revenue generated for the year; on the other hand, the increase in content fee paid to game developers brought about by revenue from licensed games contributing more to the overall revenue, and the consolidated effect of these factors enabled the overall gross profit to decline.

The Group's gross profit margin for the year ended December 31, 2015 was approximately 40.1%, representing a decrease of approximately 8.7 percentage points compared to approximately 48.8% for the year ended December 31, 2014. The Group's gross profit margin, excluding share-based compensation expenses for the year ended December 31, 2015 was approximately 41.1%, representing a decrease of approximately 8.7 percentage points compared to approximately 49.8% for the year ended December 31, 2014. The decrease in the Group's gross profit margin was due to increased content fees charged by game developers which was primarily the content fee paid to the developer of ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), a licensed game which was commercialised in March 2015; and increased amortisation charge relating to use of intellectual property for mainly both the ***Legend of Zhenhuan*** (甄嬛傳) and ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話).

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended December 31, 2015 were approximately RMB180.1 million, representing an increase of approximately 121.6% from approximately RMB81.3 million for the year ended December 31, 2014. The Group's selling and marketing expenses, excluding share-based compensation expenses for the year ended December 31, 2015 were approximately RMB175.6 million, representing an increase of approximately 132.9% from approximately RMB75.4 million for the year ended December 31, 2014. The increase in the Group's selling and marketing expenses was primarily due to the increase in promotion and advertising expenses incurred in 2015 relating to the release of two new games, ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話) and the ***Legend of Zhenhuan*** (甄嬛傳).

Administrative expenses

The Group's administrative expenses for the year ended December 31, 2015 were approximately RMB83.2 million, representing a decrease of approximately 41.1% from approximately RMB141.4 million for the year ended December 31, 2014. The Group's administrative expenses, excluding share-based compensation expenses and Listing (defined hereinafter) related expenses for the year ended December 31, 2015 were approximately RMB57.3 million, representing an increase of approximately 50.9% from approximately RMB38.0 million for the year ended 31 December, 2014. The increase in the Group's administrative expenses was primarily due to the increase in number of administration staff and remuneration, as well as the increase in professional fees including compliance fees after the listing of the Company's shares on the Stock Exchange on December 30, 2014 (the "**Listing**").

Research and development expenses

The Group's research and development expenses for the year ended December 31, 2015 were approximately RMB120.6 million, representing an increase of approximately 7.4% from approximately RMB112.3 million for the year ended December 31, 2014. The Group's research and development expenses, excluding share-based compensation expenses for the year ended December 31, 2015 were approximately RMB93.4 million, representing an increase of approximately 41.7% from approximately RMB65.9 million for the year ended December 31, 2014. The increase in the Group's research and development expenses was primarily due to the significant increase in number of research and development staff and remuneration for the year arising from improvement in overall research and development capability following the Group's strategic decision and increase in the outsourcing of animation and art design activities for launch of games in later stage during the year.

Other gains — net

The Group's other gains for the year ended December 31, 2015 was approximately RMB104.0 million, compared to approximately RMB6.3 million for the year ended December 31, 2014. This significant increase in the Group's other gains was primarily due to realised and unrealised gains for the year arising from gains on fair value of shares of SMI and Yongle invested by the Group during the year, the diluted gains on the Group's interests in Fuze recognised upon the issuance of series B preferred shares by Fuze and the grant of specialised funds for technological development and innovation from the PRC local government.

Finance income — net

Our finance income increased significantly from approximately RMB 2.3 million for the year ended December 31, 2014 to approximately RMB 16.4 million for the year ended December 31, 2015, mainly attributable to the substantial raise in interest income during the year generated by sharp increase in cash balance after the Group's receiving public financing funds on December 30, 2014 and gains arise due to foreign exchange.

Fair value loss of preferred shares

Fair value loss of the preferred shares of the Company (the "**Preferred Shares**") decreased significantly to RMB0 for the year ended December 31, 2015 from approximately RMB156.9 million for the year ended December 31, 2014. The decrease in fair value loss of the Preferred Shares was mainly due to all Preferred Shares were automatically converted into ordinary shares upon the listing on December 30, 2014. It is expected that such cost would not recur in the forthcoming financial year.

Share of loss of associates

The Group's share of loss of associates for the year ended December 31, 2015 was approximately RMB5.4 million, which was due to a loss incurred by the investee, Fuze, in its product research and development stage.

Income tax expense

The Group's income tax expense for the year ended December 31, 2015 was approximately RMB1.9 million, representing a decrease of approximately 27.5% from approximately RMB2.6 million for the year ended December 31, 2014. The decrease in the Group's income tax expense was consistent with the reduction in the Group's profit.

Loss for the year

As a result of the foregoing, our loss attributable to equity holders of the Company decreased by approximately 65.2% from approximately RMB154.6 million for the year ended December 31, 2014 to approximately RMB53.8 million for the year ended December 31, 2015.

Non-IFRSs Measure — Adjusted net profit

To supplement our consolidated financial statements which are presented in accordance with International Financial Reporting Standards ("**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 respective 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,		
	2015	2014	Change
	RMB'000	*RMB'000*	*approximate %*
Loss for the year	**(53,797)**	(154,583)	(65.2)
Add:			
Share-based compensation expenses	**62,882**	118,853	(47.1)
Listing-related expenses	**–**	43,578	(100.0)
Fair value loss of Preferred Shares	**–**	156,949	(100.0)
Adjusted net profit (unaudited)	**9,085**	164,797	(94.5)

The Group's adjusted net profit for the year ended December 31, 2015 was approximately RMB9.1 million, representing a decrease of approximately 94.5% from approximately RMB164.8 million for the year ended December 31, 2014. The decrease in our adjusted net profit is generally in line with the reduction in our revenue, and also as a result of the increased amount of selling and marketing expenses, administrative expenses and research and development expenses. We have presented adjusted net profit for the year in this announcement as we believe that the adjusted net profit for the year is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of Listing-related expenses, share-based compensation expenses and fair value loss of the Preferred Shares, which were converted to ordinary shares on December 30, 2014. Accordingly, the Company envisages that it will not incur any further fair value change of the liability component of Preferred Shares or Listing-related expenses. However, adjusted net profit for the year should not be considered in isolation or construed as an alternative to net profit or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net profit for the year presented in this announcement may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

LIQUIDITY AND FINANCIAL RESOURCES

In 2015, 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, 2015, the Group's idle capital was invested in short-term wealth management products which are issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or speculative derivative instruments.

Cash and cash equivalents

As of December 31, 2015, we had cash and cash equivalents of approximately RMB794.5 million (December 31, 2014: approximately RMB1,086.5 million), which primarily consisted of cash at bank and other financial institution and cash in hand which were mainly denominated in RMB (as to approximately 22.7%), HKD (as to approximately 74.3%), USD (as to approximately 2.7%) and other currencies (as to approximately 0.3%).

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 HKD686.2 million. As at the date of this announcement, net proceeds from our Listing had hardly been utilised and they have been deposited into short-term demand deposits in a bank account maintained by the Group. In 2016, we will utilise the net proceeds from our Listing in accordance with the proposed use of proceeds as set out in the "Change in Use of Proceeds" announcement dated March 29, 2016.

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the year ended December 31, 2015, our total capital expenditure amounted to approximately RMB32.8 million (2014: approximately RMB43.3 million), including the purchase of furniture and office equipment of approximately RMB3.2 million (2014: approximately RMB2.8 million), server and other equipment of approximately RMB1.8 million (2014: approximately RMB1.9 million), motor vehicles of approximately RMB0.7 million (2014: approximately RMB2.4 million), leasehold improvements of approximately RMB4.7 million (2014: approximately RMB1.6 million), trademarks and licenses approximately RMB22.0 million (2014: approximately RMB33.9 million) and computer software of approximately RMB0.4 million (2014: approximately RMB0.6 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, 2015, we did not have any short-term or long-term bank borrowings.

As at December 31, 2015, the gearing ratio of the Group, calculated as total liabilities, excluding the Preferred Shares, divided by total assets, was approximately 16.9% (December 31, 2014: approximately 20.1%).

CHARGE ON GROUP ASSETS

As at December 31, 2015, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (December 31, 2014: Nil).

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2015, the Group had 676 employees (December 31, 2014: 568), 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, 2014 and December 31, 2015 respectively:

	As of December 31,			
	2015		2014	
Function	***Number of Employees***	***approximate % of total employees***	*Number of Employees*	*approximate % of total Employees*
Research and development	**420**	**62.1**	336	59.2
Game publishing	**170**	**25.2**	171	30.1
— Game licensing	**29**	**4.3**	30	5.3
— Customer service	**63**	**9.3**	67	11.8
— Sales and marketing	**78**	**11.6**	74	13.0
General and administrative	**86**	**12.7**	61	10.7
Total	**676**	**100**	568	100

The total remuneration of the employees of the Group was approximately RMB194.4 million for the year ended December 31, 2015 (2014: approximately RMB216.8 million).

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

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

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

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

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

In addition, the Company has adopted a restricted share unit scheme (the "**RSU Scheme**") on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based payments expenses in connection with the RSU Scheme and the Share Option Scheme for the year ended December 31, 2015 were approximately RMB62.9 million, representing a decrease of approximately 47.1% from approximately RMB118.9 million for the year ended December 31, 2014. The decrease was primarily due to the grant of 31,371,494 restricted share units (the "**RSUs**") by the Group on March 21, 2014, and there were very limited grant of the RSUs in 2015, reduction in the number of RSUs granted resulting in a significant decrease in expenses for this item during the year.

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

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company for the year ended December 31, 2015.

CONTINGENT LIABILITIES

As at December 31, 2015, the Group did not have any significant contingent liabilities (December 31, 2014: Nil).

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents 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 RMB28,991,000 lower/higher for the year ended December 31, 2015 (2014: RMB27,620,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Therefore, foreign exchange risk primarily arose from recognized assets in the Group's PRC subsidiaries whose base currency is RMB when receiving or to receive foreign currencies from overseas cooperated counterparties. 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 RMB712,000 lower/higher for the year ended December 31, 2015 (2014: approximately RMB877,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in U.S. dollars. The Group does not hedge against any fluctuation in foreign currency.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended December 31, 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company repurchased on-market (i) 140,000 shares on July 9, 2015 at the highest and lowest prices of HKD8.95 and HKD8.00 per share, respectively; and (ii) 61,000 shares on July10, 2015 at the highest and lowest prices of HKD8.74 and HKD8.68 per share, respectively (collectively referred to as the "**First Share Repurchase**"). The aggregate purchase price paid (before brokerage and expenses) for the First Share Repurchase was approximately HKD1,676,045, which was funded by internal resources of the Company and not from any of the proceeds raised from its Listing. The shares repurchased were cancelled on July 16, 2015, which represents approximately 0.05% of the then total number of issued shares. Details of the First Share Repurchase are set out in the announcement of the Company dated July 10, 2015.

On August 24, 2015, the Company repurchased on-market 100,000 shares at the highest and lowest prices of HKD5.99 and HKD5.94 per share, respectively (the "**Second Share Repurchase**"). The aggregate purchase price paid (before brokerage and expenses) for the Second Share Repurchase was approximately HKD598,160, which was funded by internal resources of the Company and not from any of the proceeds raised from its Listing. The shares repurchased were cancelled on August 27, 2015, which represents approximately 0.03% of the then total number of issued shares. Details of the Second Share Repurchase are set out in the announcement of the Company dated August 26, 2015.

The Company repurchased on-market (i) 40,000 shares on November 19, 2015 at the highest and lowest prices of HKD4.51 and HKD4.50 per share, respectively; (ii) 30,000 shares on November 20, 2015 at the highest and lowest prices of HKD5.19 and HKD5.07 per share, respectively; (iii) 122,500 shares on November 23, 2015 at the highest and lowest prices of HKD5.13 and HKD4.99 per share, respectively; (iv) 134,500 shares on November 24, 2015 at the highest and lowest prices of HKD4.97 and HKD4.78 per share, respectively; and (v) 42,000 shares on November 26, 2015 at the highest and lowest prices of HKD4.98 and HKD4.80 per share, respectively (the "**Third Share Repurchase**"). The aggregate purchase price paid (before brokerage and expenses) for the Third Share Repurchase was approximately HKD1,821,460, which was funded by internal resources of the Company and not from any of the proceeds raised from its Listing. The shares repurchased on November 19, 2015, November 20, 2015 and November 23, 2015 were cancelled on November 25, 2015, which represents approximately 0.05% of the then total number of issued shares. The shares repurchased on November 24 and November 26, 2015 were cancelled on December 1, 2015, which represents approximately 0.05% of the then total number of issued shares. Details of the Third Share Repurchase are set out in the announcement of the Company dated November 30, 2015.

On December 14, 2015, the Company repurchased on-market 300,000 shares at the highest and lowest prices of HKD4.82 and HKD4.63 per share, respectively (the "**Fourth Share Repurchase**"). The aggregate purchase price paid (before brokerage and expenses) for the Fourth Share Repurchase was approximately HKD1,432,365, which was funded by internal resources of the Company and not from any of the proceeds raised from its Listing. The shares repurchased were cancelled on December 17, 2015, which represents approximately 0.08% of the then total number of issued shares. Details of the Fourth Share Repurchase are set out in the announcement of the Company dated December 21, 2015.

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

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

EVENT AFTER THE REPORTING PERIOD

Change of Logo of the Company

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

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

CORPORATE GOVERNANCE PRACTICE

Introduction

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

Corporate Governance Practice

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

In the opinion of the Board, the Company has complied with the Code for the year ended December 31, 2015, 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. During the year ended December 31, 2015, 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 four executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

INTERESTS IN COMPETING BUSINESS

Prior to the completion of the disposal, Mr. Wang Feng held 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 did not hold any directorship, nor was he entitled to any special shareholder's rights (such as information right or management right) in Locojoy. There was no overlapping management between Locojoy and our Company. On September 21, 2015, Mr. Wang Feng completed the disposal of all his equity interests in Locojoy. As of December 31, 2015, Mr. Wang Feng did not hold any equity interests in Locojoy.

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

Save as aforementioned, none of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group during the year ended December 31, 2015.

NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the year ended December 31, 2015.

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.

On January 21, 2015, the Company granted 2,275,000 RSUs to employees, directors and a consultant of the Group pursuant to the RSU Scheme, among which, 1,000 RSUs, 1,000 RSUs and 1,000 RSUs were granted to Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Mao Zhihai, being our then executive Directors, respectively. The underlying shares involved by the grant of RSUs will be settled by existing shares held by the trustee of the RSU Scheme. For details, please refer to the announcement of the Company dated January 21, 2015.

On October 9, 2015, the Company granted 20,000 RSUs to one employee 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.

On December 31, 2015, RSUs in respect of 33,666,494 underlying shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 2,098,992 underlying shares granted to 93 grantees had been lapsed during the year ended December 31, 2015. On December 31, 2015, 19,412,664 RSUs have been vested unconditionally and there were 12,059,416 RSUs granted and outstanding.

Share Option Scheme

The Company conditionally approved the Share Option Scheme on November 20, 2014 which became effective on December 30, 2014, being the date of Listing. On August 12, 2015 and October 9, 2015, 1,849,912 and 6,010,000 share options were granted to certain employees under the Share Option Scheme with exercise price of HKD8.10 and HKD7.18, respectively. Based on the market price of the underlying ordinary share of HKD 8.10 and HKD 7.18 on the respective grant date of the share option, the Company has used Binomial option-pricing model to determine the fair value of the share option as of the grant date.

As of December 31, 2015, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of Grant	Exercise Period	Exercise price per share *HKD*	The weighted average closing price of the shares *HKD*	Share options granted as of January 1, 2015	Share options granted in the period	Share options granted as of December 31, 2015
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	8.10	8.028	–	1,849,192 *(Note (3))*	1,849,192
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	7.18	6.896	–	6,010,000 *(Note (4))*	6,010,000

Notes:

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

(2) For the year ended December 31, 2015, no shares options were exercised or cancelled, there were 150,000 share options lapsed.

(3) Such options may be exercised in accordance with the following vesting timetable:

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

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

(4) Such options may be exercised in accordance with the following vesting timetable:

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

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

(5) Please refer to the announcements of the Company dated August 12, 2015 and October 9, 2015 for details.

(6) For details of the accounting policy adopted for the share options and value of share options granted, please refer to note 9 to the consolidated financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee was established on April 24, 2014. The chairman of the Remuneration Committee is Mr. Zhang Xiangdong, our independent non-executive Director, and other members include Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Zhao Jun, our executive Directors, Mr. Ma Ji, Mr. Wang Xiaodong (appointed with effect from June 11, 2015), Ms. Zhao Yifang (appointed with effect from June 11, 2015) and Mr. Chen Tong (retired with effect from June 11, 2015), our independent non-executive Directors. The written terms of reference of the Remuneration Committee are posted on the GEM website and the Company's website.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended December 31, 2015.

NOMINATION COMMITTEE

The Nomination Committee was established on April 24, 2014. The chairman of the Nomination Committee is Mr. Wang Feng, our chairman, executive Director and chief executive officer, and other members include Ms. Liao Mingxiang (appointed with effect from June 11, 2015) and Mr. Mei Song (appointed with effect from June 11, 2015), our executive Directors, Mr. Qian Zhonghua, our non-executive Director, Mr. Ma Ji, Mr. Wang Xiaodong (appointed with effect from June 11, 2015), Mr. Zhang Xiangdong, Ms. Zhao Yifang (appointed with effect from June 11, 2015) and Mr. Chen Tong (retired with effect from June 11, 2015), our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the GEM website and on the Company's website.

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

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

AUDIT COMMITTEE

The Audit Committee was established on April 24, 2014. The chairman of the Audit Committee is Mr. Ma Ji, our independent non-executive Director, and other members included Mr. Qian Zhonghua (appointed with effect from June 11, 2015), our non-executive Director, Mr. Wang Xiaodong (appointed with effect from June 11, 2015), Mr. Zhang Xiangdong, Ms. Zhao Yifang (appointed with effect from June 11, 2015) and Mr. Chen Tong (retired with effect from June 11, 2015), our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM website and on the Company's website.

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

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

The Group's consolidated financial statements for the year ended December 31, 2015 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, 2015 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income/(loss), consolidated statement of changes in equity/(deficit) and the related notes thereto for the year ended December 31, 2015 as set out in the Group's annual results announcement for the year have been agreed by the Group's auditor, PricewaterhouseCoopers, with the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2015. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the annual results announcement.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, June 10, 2016. 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 7, 2016 to Friday, June 10, 2016, 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 6, 2016.

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

Beijing, PRC, March 29, 2016

As at the date of this announcement, the executive Directors are Mr. WANG Feng, Ms. LIAO Mingxiang, Mr. MEI Song and Mr. ZHAO Jun; the non-executive Director is Mr. QIAN Zhonghua; and the independent non-executive Directors are Mr. MA Ji, Mr. ZHANG Xiangdong, Mr. WANG Xiaodong and Ms. ZHAO Yifang.