Annual Report 2014

V1.CN 第一视频 V1 GROUP LIMITED

V1 GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock code: 82

CONTENTS

Corporate Profile

V1 Group is one of the largest new media enterprises in China

which principally engage in the production and broadcasting of internet-video news, web TV and mobile video news, as well as online advertising. Besides, we also engage in lottery-related business and mobile games development and distribution business.

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Dr. Zhang Lijun *(Chairman)*
Ms. Wang Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu (alias Loke Hoi Lam)
Prof. Gong Zhankui
Mr. Wang Linan

AUDIT COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam) *(Chairman)*
Prof. Gong Zhankui
Mr. Wang Linan

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

Dr. Zhang Lijun
(Chairman of Nomination Committee)
Dr. Loke Yu (alias Loke Hoi Lam)
(Chairman of Remuneration Committee)
Ms. Wang Chun
Prof. Gong Zhankui
Mr. Wang Linan

CORPORATE GOVERNANCE COMMITTEE

Prof. Gong Zhankui *(Chairman)*
Dr. Zhang Lijun
Dr. Loke Yu (alias Loke Hoi Lam)
Mr. Wang Linan

COMPANY SECRETARY

Mr. Kwok Chi Keung, Andy

AUDITOR

BDO Limited

PRINCIPAL BANKERS

The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

PRINCIPAL PLACE OF BUSINESS

16-18/F, Tower 1
Recero International Centre
No 8, Wang Jing East Road
Chao Yang District
Beijing, PRC 100102

Room 3006, 30th Floor
Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

WEBSITES AND E-MAIL ADDRESSES

http://www.v1.cn, http://ir.v1group.com.hk
info@vodone.com.hk, ir@v1.cn

STOCK CODE

00082

CHAIRMAN'S STATEMENT

Going Through the "CRETACEOUS"

Chairman's Statement

Zhang Lijun
Chairman

With the greetings such as "Instant Success"(馬到功成) and "Instant Prosperity" (馬上發財) are still ringing in our ears, 2014 has passed and it is time to report to the Shareholders on our performance throughout the year.

With China's reform and opening up moved forward to a new episode in 2014, the development of Chinese market-oriented economy has achieved another milestone. Benefited from the huge market demand, a large number of companies in China have achieved rapid development. Since China houses the largest internet industry in the world, it presents an unprecedented opportunity. The whole China's internet industry has entered into the "Cretaceous Period" as set off by over 600 million netizens, encouraged by the capital market, fumed by the media and driven by the motion of profit-orientation. Amidst this background, a few internet enterprises just like giant dinosaurs emerged in China, which fulfilled the message that "Instant Prosperity", but the success are concentrated on a few enterprises only.

The ecosystem of the China's internet industry changed fundamentally in just one year, resulting in extremely intense competitions. Fortunately, while most of the internet companies had almost come a dead end, they figured out again that "Innovation" is the only way to overcome the challenges, develop and survive. Therefore, I published a forward looking article in July 2014 entitled "China's Internet Industry Entering into the Cretaceous Period" which has been widely circulated in the industry. In which I emphasized: "Although those giant dinosaurs ran wild over the Cretaceous Period, it was still the time for smaller dinosaurs to grow stronger. Most importantly, we must grow like a giant dinosaur as quickly as possible, and learn how they lived and developed. Last but not least, I would like to remind that even if you are not big dinosaurs, there are still opportunities to survive and live better! History has proved that giant dinosaurs were extinct overnight, and we are off-springs of smaller dinosaurs! "

To survive and to develop in the market upheaval, the Group adhered to its policy of "Refining the structure, Stabilising the growth"（調結構、穩增長）which had already been in place for nearly two years on the basis of its forward looking layout and positioning. It has insisted on its existing development policy in the Group's tele-media business, lottery-related business and mobile games business, while overcoming all difficulties to make achievements.

V1 Portal is the core of our tele-media business and is operated in the model of "User Generated Content (UGC) plus Professionally Generated Content (PGC)". The revenue of tele-media business increased by 166%. In respect of the fast-growing mobile internet platforms, the Group has developed an application named "V1 Circle"（V1圈）during 2014, and has started operating the largest UGC mini-video news platform in PRC, with programmes broadcast on the internet. On the other hand, the mobile games business of the Group had a good start. According to Analysys International, China Mobile Games and Entertainment Group Limited ("CMGE"), a subsidiary of the Company, ranked first in terms of gross billings among China's mobile game publishers for six straight quarters from July 2013 to December 2014, achieving a vigorous year-on-year growth of 261% and 11,598% in revenue and profit, respectively. Apart from this, the lottery-related business has been developing rapidly in recent years, too. Thanks to the efforts of the partners of V1, our lottery-sales-related revenue and profit in 2014 grew by 111% and 146% over the previous year, respectively.

Nevertheless, V1 had not yet turned around as a whole in 2014, mainly because of the relatively high marketing expenses for the Group's new businesses, and the corresponding revenue has not yet been derived. However, we remain confident in our current business development policy and the product operation. Amidst the current competition landscapes, the Group still has its distinct advantages in the market.

In 2014, we are adhering not only to the policy of "Refining the structure, Stabilising the growth" at the micro level, but we also studied and explored the "new normality" of the China's internet industry at the macro level and determine whether this oligopoly is the "new normality". Finally, we realize that the only thing unchanged in the world is "Change". We firmly believe that we will play an important role in the promising future of the China's internet industry.

Finally, I would like to thank deeply the Shareholders for their consistent support, and I am confident that their firm support to us will certainly bring a profitable return!

DIRECTORS' REPORT


V1.CN
第一视频
www.v1.cn

Directors' Report

The directors of the Company (the "Directors") herein present their report together with the corporate governance report, share option schemes, management discussion and analysis, and the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group is principally engaged in tele-media business, lottery-related business and mobile games business in the PRC. The principal activities and other particulars of certain operational subsidiaries are set out in note 20 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 64 to 157.

The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2014.

SEGMENT INFORMATION

The segment information of the Group for the year ended 31 December 2014 is set out in note 6 to the financial statements.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 158. This summary is for information only and does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 30 and 39 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws (the "Bye-laws") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2014.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 and page 66 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2014, the Company's reserves available for distribution were approximately HK$786,732,000 (2013: HK$941,221,000. The Company's share premium account in the amount of HK$1,488,282,000 (2013: HK$1,457,197,000) may be distributed in the form of fully paid bonus shares.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the respective percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

(a)	Percentage of purchases attributable to:	
	• the largest supplier	10.32%
	• the five largest suppliers	21.25%
(b)	Percentage of sales attributable to:	
	• the largest customer	13.78%
	• the five largest customers	43.20%

The largest customer of the Group for the year was VODone Datamedia Technology Co., Ltd. ("TMD1"). TMD1, a sino-foreign joint-venture company. The Company indirectly owns 24.99% interest in TMD1 and 24.01% interest of TMD1 is indirectly held by Dr. Zhang Lijun, an executive Director, a substantial shareholder and the chairman of the Company (the "Chairman"). Through contractual arrangements as disclosed in the Company's circular dated 18 August 2006, the Group provides tele-media support services to TMD1. Save as disclosed and as far as the Directors are aware, none of the Directors, their close associates, or shareholders (which to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

CHAIRMAN AND DIRECTORS

The Chairman and the Directors during the year and up to the date of this report have been:

EXECUTIVE DIRECTORS:

Zhang Lijun *(Chairman)*
Wang Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Loke Yu (alias Loke Hoi Lam)
Wang Zhichen (passed away on 8 October 2014)
Gong Zhankui (appointed on 28 November 2014)
Wang Linan

In accordance with the Bye-laws, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Dr. Zhang Lijun and Dr. Loke Yu (alias Loke Hoi Lam) will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

In accordance with the Bye-laws, any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of a filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to their number) and shall then be eligible for re-election at that meeting. Prof. Gong Zhankui, who was appointed as a Director on 28 November 2014, will hold office until the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Board considers them to be independent.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

EXECUTIVE DIRECTORS

Chairman

Dr. Zhang Lijun, aged 51, holds a Doctoral degree in Economics. He is an executive Director, the Chairman of the Board and the chairman of the nomination committee of the Company (the "Nomination Committee"). He is the chairman of the board of directors of CMGE, which is a subsidiary of the Company and listed on the Nasdaq Global Market in the United States. Dr. Zhang holds the position as director for other members of the Group. He joined the Group in 2006. Dr. Zhang is also China's representative of the Asia-Pacific Economic Cooperation ("APEC") Business Advisory Council, chairman of China APEC Development Council, vice chairman of the China Internet Association, council member of the Association for Relations Across the Taiwan Straits (ARATS), vice chairman of China Social Workers Association, vice president of China WTO Research Institute, honorary president of the Council of Beijing Association of Online Media, standing member of China Copyright Council, professor of Nankai University, honorary professor of the University of Sydney, Australia, and an experienced expert in China's internet media.

Dr. Zhang previously held the following positions: assistant to the general manager and deputy general manager of International Industrial Company of the China Minmetals Corporation, which was a company under the Ministry of Foreign Trade and Economic Cooperation, the People's Republic of China, and the deputy manager of the General Trade Department of the China Minmetals Corporation, chairman and party secretary of Sino-Interest Worldwide Economic Group under the National Development and Reform Commission and Economic Restructuring Office of the State Council, and chairman of Sino-Sky Telecom, etc. He is the spouse of Ms. Wang Chun.

Ms. Wang Chun, aged 50, holds a Master degree in World Economics and is an executive Director and the chief operating officer of the Company. Ms. Wang has been the chief operating officer of the Company since 2005. Ms. Wang is also the vice president of the Council of Beijing Association of Online Media, member of the Central Women's Work Committee of the Central Committee of China Zhi Gong Party, and an experienced expert in internet trade.

In 1996, Ms. Wang spent a long time in the United States and Canada for the business of Sino-Canada International Investment (Group) Company Limited, for which she served as a director and deputy general manager as well as the chief representative of its Beijing office. In 1998, Ms. Wang returned to China and set up China Huatian Net Supermarket, the first cyber supermarket in China and originator of China's B2B and B2C e-business. She later joined Sino-Sky Telecom and was responsible for the management of one of the largest telecommunication value-added business service platforms in China. She was appointed the chief operating officer of Sino-Sky Telecom later. She is the spouse of Dr. Zhang Lijun.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Loke Yu

Dr. Loke Yu (alias Loke Hoi Lam), aged 65, was appointed as an independent non-executive Director in May 2005. He is also the chairman of the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") of the Company. He has over 40 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. Dr. Loke is a fellow member of The Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Hong Kong Institute of Chartered Secretaries. Currently, he is also the company secretary of Minth Group Limited and serves as an independent non-executive director of Chiho-Tiande Group Limited, China Fire Safety Enterprise Group Limited, China Household Holdings Limited, Matrix Holdings Limited, SCUD Group Limited, Sino Distillery Group Limited, Tianhe Chemicals Group Limited, Tianjin Development Holdings Limited, Winfair Investment Company Limited, Wing Tai Investment Holdings Limited (formerly known as Wing Lee Holdings Limited) and Zhong An Real Estate Limited, companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Prof. Gong Zhankui

Prof. Gong Zhankui, aged 66, was appointed as an independent non-executive Director in November 2014. He is also the chairman of the corporate governance committee (the "Corporate Governance Committee") of the Company. Prof. Gong holds a Master degree of Economics from Wuhan University and a Doctoral degree of Economics from Nankai University. He is now a professor of Nankai University. Prof. Gong served as the executive vice-president of the Research Institute of China APEC, director of APEC Study Center of Nankai University, professor of Jilin University, vice-president of Institute of Asia-Pacific Studies, council member of China Society of World Economics and China National Committee for Pacific Economic Cooperation, World Economy Expert conferred by Tianjin Municipality, correspondence expert reviewer of National Social Science Projects, expert reviewer of China Scholarship Council and China International Trade Achievements, editorial board member of Asia-Pacific Economic Review, Journal of Contemporary Asia-Pacific Studies and Nankai Journal.

Mr. Wang Linan

Mr. Wang Linan, aged 66, was appointed as an independent non-executive Director in August 2007. Mr. Wang graduated from the Faculty of Economic Management of the Party School of the Central Committee of the Communist Party of China. Prior to retirement, he was also the general secretary of the China Scientific Films and Videos Association, which was a civil service employment. Mr. Wang has more than 19 years of experiences in promotion of science in China. He had worked as deputy division secretary in the China Association for Science and Technology General Office, deputy director of the Department of Science Popularisation City Division of China Association for Science and Technology, and the vice general secretary of the China Scientific Popularisation Writers Association.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(Continued)*

SENIOR MANAGEMENT

Ms. Wang Xiang, aged 40, is the general manager of finance of the Company. She also undertakes and performs the role of the chief financial officer of the Company with the financial controller of the Company, Mr. Kwok Chi Keung, Andy. Ms. Wang is a Certified Public Accountant in the People's Republic of China. Before joining the Group, she served a foreign mobile technology company for more than 5 years as a finance in-charge where she accumulated extensive corporate finance and management knowledge in telecommunication and value added service industry. Besides, having taken part in several major audits in her role as an external auditor, she has accumulated invaluable experiences which have made her an all-rounded accountant. Ms. Wang holds a Bachelor degree in Business Management of Beijing Normal University. She joined the Group in 2006.

Mr. Kwok Chi Keung, Andy, aged 47, is the financial controller and company secretary of the Company (the "Company Secretary"). He also undertakes and performs the role of the chief financial officer of the Company with the general manager of finance of the Company, Ms. Wang Xiang. He holds a Bachelor degree of Science in Economics and is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of the Association of Chartered Certified Accountants. He has over 22 years experience in accounting, auditing and financial management. Before he joined the Company in 2008, he was the financial controller of two companies listed on the main board of the Stock Exchange.

CHANGES IN INFORMATION WITH REGARDS TO DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the biographical details of the Directors during the course of the Director's term of office since the publication of Company's 2014 Interim Report are set out as follows:

Under the amendment to the service agreement with Dr. Zhang Lijun, an executive Director, with effect from 1 February 2015, the director's fee and remuneration of Dr. Zhang Lijun has been increased to HK$7,900,802 per annum as recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

Under the amendment to the service agreement with Ms. Wang Chun, an executive Director, with effect from 1 February 2015, the director's fee and remuneration of Ms. Wang Chun has been increased to HK$3,950,414 per annum as recommended by the Remuneration Committee and determined by the Board with reference to her duties and responsibilities with the Company and the market rate for the position.

Under the amendment to the service agreement with Dr. Loke Yu (alias Loke Hoi Lam), an independent non-executive Director, with effect from 1 February 2015, the director's fee of Dr. Loke Yu (alias Loke Hoi Lam) has been increased to HK$210,691 per annum as recommended by the Remuneration Committee and determined by the Board with reference to his duties and responsibilities with the Company and the market rate for the position.

CHANGES IN INFORMATION WITH REGARDS TO DIRECTORS *(Continued)*

Under the amendment to the respective service agreement with Prof. Gong Zhankui and Mr. Wang Linan, independent non-executive Directors, with effect from 1 February 2015, the director's fee of each of Prof. Gong Zhankui and Mr. Wang Linan has been increased to HK$158,028 per annum as recommended by the Remuneration Committee and determined by the Board by reference to their duties and responsibilities with the Company and the market rate for the position.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered into any service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION

As at 31 December 2014, the Directors and their associates had the following interests in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

(A) LONG POSITION IN THE ORDINARY SHARES AND UNDERLYING SHARES OF THE COMPANY:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital	Number of underlying shares in respect of share options granted	% of total issued share capital
Zhang Lijun	Beneficial owner/ Interest of spouse	371,214,113 (Note 1)	11.26%	7,200,000 (Note 2)	0.22%
Wang Chun	Beneficial owner/ Interest of spouse	371,214,113 (Note 3)	11.26%	7,200,000 (Note 4)	0.22%
Loke Yu (alias Loke Hoi Lam)	Beneficial owner	–	–	800,000	0.02%
Wang Linan	Beneficial owner	1,400,000	0.04%	300,000	0.01%

Note 1: Of these 371,214,113 shares, 355,264,113 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 15,950,000 shares through the interest of his spouse, Ms. Wang Chun.

Note 2: Of these 7,200,000 share options, 3,600,000 share options are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining 3,600,000 share options through the interest of his spouse, Ms. Wang Chun.

Note 3: Of these 371,214,113 shares, 15,950,000 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 355,264,113 shares through the interest of her spouse, Dr. Zhang Lijun.

Note 4: Of these 7,200,000 share options, 3,600,000 share options are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining 3,600,000 share options through the interest of her spouse, Dr. Zhang Lijun.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATION *(Continued)*

(B) LONG POSITION IN THE ORDINARY SHARES AND UNDERLYING SHARES OF CHINA MOBILE GAMES AND ENTERTAINMENT GROUP LIMITED, A NON-WHOLLY OWNED SUBSIDIARY OF THE COMPANY:

Name of director	Capacity	Number of ordinary shares held	% of total issued share capital	Number of underlying shares in respect of share options granted	% of total issued share capital	Number of underlying shares in respect of warrants granted	% of total issued share capital
Zhang Lijun	Beneficial owner/ Corporate interest/ Interest of spouse	10,274,274 (Note 1)	2.33%	4,695,694 (Note 2)	1.06%	1,911,000 (Note 3)	0.43%
Wang Chun	Beneficial owner/ Interest of spouse	10,274,274 (Note 4)	2.33%	4,695,694 (Note 5)	1.06%	1,911,000 (Note 6)	0.43%

Note 1: Of these 10,274,274 shares, 6,977,614 shares are held by Big Step Group Limited which is wholly owned by Dr. Zhang Lijun.

Note 2: Of these share options carrying the rights to subscribe for 4,695,694 shares, share options carrying the rights to subscribe for 3,175,947 shares are directly held by Dr. Zhang Lijun. Dr. Zhang is also deemed to be interested in the remaining share options carrying the rights to subscribe for 1,519,747 shares through the interest of his spouse, Ms. Wang Chun.

Note 3: Each of the warrants (in total 136,500 warrants) confers rights entitling holder thereof to subscribe for one American depositary share of CMGE ("ADS") (each ADS represents 14 Class A ordinary shares of CMGE) at the exercise price of US$20.23 per ADS.

Note 4: Ms. Wang Chun is deemed to be interested in these shares through the interest of her spouse, Dr. Zhang Lijun.

Note 5: Of these share options carrying the rights to subscribe for 4,695,694 shares, share options carrying the rights to subscribe for 1,519,747 shares are directly held by Ms. Wang Chun. Ms. Wang is also deemed to be interested in the remaining share options carrying the rights to subscribe for 3,175,947 shares through the interest of her spouse, Dr. Zhang Lijun.

Note 6: Ms. Wang Chun is also deemed to be interested in these warrants through the interest of her spouse, Dr. Zhang Lijun.

Save as disclosed herein, as at 31 December 2014, none of the Directors or the chief executive of the Company and their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Same as disclosed in the section above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 40 to the financial statements, no Director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, other than the Directors whose interests are disclosed above, the Company was not aware of any person who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO.

CONNECTED TRANSACTIONS

The Company entered into the following transactions, which constitute connected transactions for the Company under the Listing Rules, during the year ended 31 December 2014:

1. As disclosed in the announcement of the Company dated 27 January 2014, CMGE, a non-wholly owned subsidiary of the Company, entered into a warrant subscription agreement (the "First Warrant Agreement") with Dr. Zhang Lijun on 26 January 2014 in relation to the issuance by CMGE to Dr. Zhang Lijun a total of 136,500 unlisted warrants (the "2014/01 Warrant(s)"). Each 2014/01 Warrant confers rights entitling holder thereof to subscribe for one American depositary share of CMGE ("ADS"), each ADS represents 14 Class A ordinary shares of CMGE ("CMGE Shares"), at the exercise price of US$29.34 per ADS. Upon full exercise of the 2014/01 Warrants under the First Warrant Agreement, 136,500 ADSs (represent 1,911,000 new CMGE Shares) will be issued. Subject to the conditions as stipulated in the First Warrant Agreement, Dr. Zhang Lijun can exercise the subscriptions rights of the 2014/01 Warrants during the five-year period commencing from 26 January 2014.

   The Board recognised the importance of Dr. Zhang Lijun and the contributions he made in building up CMGE. The Board held the view that the issue of the 2014/01 Warrants to Dr. Zhang Lijun would align the Group's interest with that of Dr. Zhang Lijun for the further development of CMGE. In addition, issue of the 2014/01 Warrants may provide fresh funds to CMGE while no immediate dilution effect on the shareholding of the existing shareholders and ADS holders of CMGE will be involved. The funds raised upon cash exercise of the subscription rights attaching to the 2014/01 Warrants provide opportunities for CMGE to strengthen its capital base and financial position to better equip CMGE with the financial flexibility for development of the existing business or any other new business of CMGE.

CONNECTED TRANSACTIONS *(Continued)*

1. *(Continued)*

   Dr. Zhang Lijun is the Chairman, an executive Director and a substantial shareholder of the Company, and accordingly a connected person of the Company under the Listing Rules. Issuance of the 2014/01 Warrants under the First Warrant Agreement to Dr. Zhang Lijun therefore constitutes a connected transaction for the Company.

2. As disclosed in the announcement of the Company dated 1 April 2014, CMGE entered into a warrant subscription agreement (the "Second Warrant Agreement") with Mr. Hendrick Sin on 1 April 2014 in relation to the issuance by CMGE to Mr. Hendrick Sin a total of 600,000 unlisted warrants (the "2014/04 Warrant(s)"). Each 2014/04 Warrant confers rights entitling holder thereof to subscribe for one ADS at the exercise price of US$29.03 per ADS. Upon full exercise of the 2014/04 Warrants under the Second Warrant Agreement, 600,000 ADSs (represent 8,400,000 new CMGE Shares) will be issued. Subject to the conditions as stipulated in the Second Warrant Agreement, Mr. Hendrick Sin can exercise the subscriptions rights of the 2014/04 Warrants during the five-year period commencing from 1 April 2014.

   The Board recognises the importance of Mr. Hendrick Sin and the contributions he made in building up CMGE. The Board held the view that the issue of the 2014/04 Warrants to Mr. Hendrick Sin would align the Group's interest with that of Mr. Hendrick Sin for the further development of CMGE. In addition, issue of the 2014/04 Warrants may provide fresh funds to CMGE while no immediate dilution effect on the shareholding of the existing shareholders and ADS holders of CMGE would be involved. The funds raised upon cash exercise of the subscription rights attaching to the 2014/04 Warrants would provide opportunities for CMGE to strengthen its capital base and financial position to better equip CMGE with the financial flexibility for development of the existing business or any other new business of CMGE.

   Mr. Hendrick Sin is the Vice-chairman and an executive director of CMGE, and accordingly a connected person of the Company under the Listing Rules. Issuance of the 2014/04 Warrants under the Second Warrant Agreement to Mr. Hendrick Sin therefore constitutes a connected transaction for the Company.

3. As disclosed in the announcement of the Company dated 9 October 2014, CMGE entered into a warrant subscription agreement (the "Third Warrant Agreement") with Mr. Xiao Jian on 9 October 2014 in relation to the issuance by CMGE to Mr. Xiao Jian a total of 905,927 unlisted warrants (the "2014/10 Warrant(s)"). Each 2014/10 Warrant confers rights entitling holder thereof to subscribe for one ADS at the exercise price of US$20.23 per ADS. Upon full exercise of the 2014/10 Warrants under the Third Warrant Agreement, 905,927 ADSs (represent 12,682,978 new CMGE Shares) will be issued. Subject to the conditions as stipulated in the Third Warrant Agreement, Mr. Xiao Jian can exercise one-third of the subscriptions rights of the 2014/10 Warrants during the period from 15 March to 14 September in each of the year 2015, 2016 and 2017.

CONNECTED TRANSACTIONS *(Continued)*

3. *(Continued)*

   The Board recognizes the importance of Mr. Xiao Jian and the contributions he made in building up CMGE. The Board held the view that the issue of the 2014/10 Warrants to Mr. Xiao Jian would align the Group's interest with that of Mr. Xiao Jian for the further development of CMGE. In addition, issue of the 2014/10 Warrants may provide fresh funds to CMGE while no immediate dilution effect on the shareholding of the existing shareholders and ADS holders of CMGE would be involved. The funds raised upon cash exercise of the subscription rights attaching to the 2014/10 Warrants would provide opportunities for CMGE to strengthen its capital base and financial position to better equip CMGE with the financial flexibility for development of the existing business or any other new business of CMGE.

   Mr. Xiao Jian is the Chief Executive Officer and an executive director of CMGE, and accordingly a connected person at the subsidiary level of the Company. The issue of the 2014/10 Warrants constitutes a discloseable and connected transaction of the Company.

4. As disclosed in the announcement of the Company dated 9 October 2014, CMGE entered into respective deed of amendment with each of Dr. Zhang Lijun and Mr. Hendrick Sin on 9 October 2014 to alter the respective exercise prices of the 2014/01 Warrants and 2014/04 Warrants to the altered exercise price of US$20.23 per ADS (the "Altered Exercise Price"). Following the issue of the 2014/01 Warrants and the 2014/04 Warrants, the prices of the ADS had dropped considerably. In order to motivate Dr. Zhang Lijun and Mr. Hendrick Sin to continue their relentless efforts in growing CMGE from strength to strength, CMGE had entered into separate deed of amendment with Dr. Zhang Lijun and Mr. Hedrick Sin to reduce the exercise prices of the 2014/01 Warrants and the 2014/04 Warrants to the Altered Exercise Price.

   As mentioned above, Dr. Zhang Lijun and Mr. Hendrick Sin are connected persons of the Company and therefore the reduction of the exercise prices of the 2014/01 Warrants and 2014/04 Warrants to the Altered Exercise Price constitute connected transactions of the Company.

The above-mentioned connected transactions were subject to the reporting and announcement requirements and were exempt from the circular (including independent financial advice) and shareholders' approval requirements under the Listing Rules.

SUBSEQUENT EVENTS

1. As disclosed in the announcement of the Company dated 13 February 2015, CMGE granted 690,000 share options to eligible participants pursuant to the share option scheme of CMGE on 12 February 2015 (United States Eastern time). Each share option confers rights entitling holder thereof to subscribe for 14 CMGE Shares (equal to one ADS) at the exercise price of US$15.76. Subject to the vesting conditions, the share options are exercisable during the period from 12 February 2016 to 11 February 2020. None of the grantees of the share options are the Directors or substantial shareholders of the Company, or an associate (as defined in the Listing Rules) of any of them.

2. As disclosed in the announcement of the Company dated 13 February 2015, CMGE entered into respective warrant subscription agreement (collectively the "Warrant Agreements") with each of Dr. Zhang Lijun, Mr. Hendrick Sin, Mr. Xiao Jian, Mr. Wang Yongchao and Mr. Chang Fei Fu (the "Subscribers") on 13 February 2015 in relation to the issuance by CMGE to each of the Subscribers 186,000 unlisted warrants (the "2015/02 Warrant(s)"). Each 2015/02 Warrant confers rights entitling holder thereof to subscribe for one ADS at the exercise price of US$15.76 per ADS. Upon full exercise of the 2015/02 Warrants by all of the Subscribers under the respective Warrant Agreements, 930,000 ADSs (represent 13,020,000 new CMGE Shares) will be issued. Subject to the conditions as stipulated in the Warrant Agreements, the Subscribers can exercise the subscriptions rights of the 2015/02 Warrants during the five-year period commencing from 13 February 2015.

   As mentioned above, Dr. Zhang Lijun, Mr. Hendrick Sin and Mr. Xiao Jian are the connected persons of the Company. Mr. Wang Yongchao is the Vice-Chairman and an executive director of CMGE. Mr. Chang Fei Fu is the Chief Financial Officer and an executive director of CMGE. Accordingly, Mr. Wang Yongchao and Mr. Chang Fei Fu are the connected persons of the Company. The issuance of the 2015/02 Warrants by CMGE to each of the Subscribers therefore constitute connected transactions of the Company. The issuance of the 2015/02 Warrants by CMGE to the Subscribers in aggregate constitute discloseable transaction of the Company. The transactions were subject to the reporting and announcement requirements and were exempt from the circular (including independent financial advice) and shareholders' approval requirements under the Listing Rules.

RELATED PARTY TRANSACTIONS

During the year, the Group had certain related party transactions, further details of which are included in note 40 to the financial statements. The Directors believe the relevant disclosure requirements under the Listing Rules are met, where applicable.

EMOLUMENTS OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

The Group remunerates the Directors and its staff primarily based on their contribution, responsibilities, qualification and experience under the remuneration policy set up by the Remuneration Committee. The Group has implemented share option schemes as incentive to the Directors and eligible employees.

Details of the emoluments of the Directors, the senior management and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

AUDIT COMMITTEE

The audited financial statements of the Group for the year ended 31 December 2014 has been reviewed by the Audit Committee. Information on the composition and the work of the Audit Committee is set out in the "Corporate Governance Report" section of this report.

AUDITOR

The financial statements have been audited by BDO Limited.

A resolution for the re-appointment of BDO Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhang Lijun
Chairman

Hong Kong
27 March 2015

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining statutory and regulatory standards and adhering to good corporate governance in the conduct of its business. The Board believes that good corporate governance is essential in enhancing the confidence of the shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Company's shareholders.

The Company had applied and complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2014 except for the deviations with explanations as set out hereunder.

1. According to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Up to the date of this report, the Board has not appointed an individual to the post of chief executive. The role of the chief executive has been performed collectively by all the executive Directors, particularly by the chairman of the Company. The Board considers that this arrangement is appropriate and cost effective in fostering the development of the Group, allowing contributions from all executive Directors with different expertise and more coherence and consistency in the planning and implementation of the policies and long term business strategies of the Company. The Board will periodically review the effectiveness of this arrangement and consider appointing an individual as chief executive when it is appropriate.

2. According to the code provision A.5.1 of the CG Code, nomination committee should comprise a majority of independent non-executive directors. Mr. Wang Zhichen, an independent non-executive Director and a member of the Nomination Committee, passed away on 8 October 2014. Following the passing away of Mr. Wang Zhichen, the Nomination Committee did not comprise a majority of independent non-executive Directors. The Company appointed Prof. Gong Zhankui as an independent non-executive Director and a member of Nomination Committee with effect from 28 November 2014 and has duly complied such code provision since then.

3. According to the code provision A.6.7 of the CG Code, independent non-executive directors should attend general meetings. Two of the independent non-executive Directors were unable to attend the annual general meeting of the Company held on 30 May 2014 due to various work commitments.

BOARD OF DIRECTORS

BOARD COMPOSITION

The Board currently has five members, comprising two executive Directors and three independent non-executive Directors. Collectively, they bring a broad range of commercial, financial, technology, management and stewardship experiences and varied skills, expertise and qualifications for leading and directing the Group's affairs. The Directors' biographical details and other information are set out in the "Directors' Report" section of this report. The role and function of the Directors are published on the websites of the Stock Exchange and the Company.

Dr. Zhang Lijun and Ms. Wang Chun is a couple. Save as disclosed above, there are no financial, business, family or other material/relevant relationships among members of the Board.

BOARD OF DIRECTORS *(Continued)*

BOARD COMPOSITION *(Continued)*

Any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of a filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to their number) and shall then be eligible for re-election at that meeting. In accordance with the Bye-laws of the Company which conform to the requirements of the Listing Rules, one-third of Board members are required to retire by rotation each year at the annual general meeting provided that every Director shall be subject to retirement at least once every three years. Directors, who retire, if eligible, may offer for re-election at the same annual general meeting.

ROLE AND RESPONSIBILITY OF THE BOARD

The management and control of the business of the Company ultimately rests with the Board. The Board sets long term direction and objectives and oversees the management's plans and strategies for the delivery of results. The Board may delegate its responsibilities or functions to board committees and the day-to-day operation to management and ensures appropriate human and financial resources are appropriately applied and that the performance for the achievement of results is evaluated periodically. The Board approves all significant transactions and publication including annual reports, interim reports, circulars and announcements. In cases where shareholders' approvals are required, the Board resolves to convene the necessary shareholders' meetings to seek shareholders' approval. Every Director is committed to carrying out his duty in good faith and acting honestly with due diligence, skill and care and in the best interest of the Company and its shareholders at all times.

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS

All Board and committee meetings adhere to a formal agenda set in advance for consideration/resolution. All Directors may arrange to include matters on the agenda for consideration at Board meetings. Board materials are provided in advance of the meetings and detailed minutes are prepared and made available to all Directors.

Pursuant to the Bye-laws, a Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board approving any contract or arrangement or proposal in which he or any of his associate(s) has/have a material interest, and if he shall do so, his vote shall not be counted (nor shall be counted in the quorum for that resolution). Questions arising at any meeting of the Board shall be decided by a majority of votes.

BOARD OF DIRECTORS *(Continued)*

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS *(Continued)*

The Directors give sufficient time and attention of the Group's affair. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. The attendance record of each of the Directors for the Board meetings, the board committees meetings and the annual general meeting held during the year is listed as follows:

	Number of Meetings Attended/Meetings Held					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Corporate Governance Committee Meeting	Annual General Meeting
Executive Directors						
Zhang Lijun	14/14	n/a	3/3	2/2	1/1	1/1
Wang Chun	14/14	n/a	3/3	2/2	n/a	0/1
Independent Non-executive Directors						
Loke Yu (alias Loke Hoi Lam)	14/14	2/2	3/3	2/2	1/1	1/1
Wang Zhichen (Note 1)	8/9	2/2	2/2	1/1	1/1	0/1
Gong Zhankui (Note 2)	0/0	0/0	0/0	0/0	0/0	0/0
Wang Linan	14/14	2/2	3/3	2/2	1/1	0/1

Note 1: Passed away on 8 October 2014.

Note 2: Appointed on 28 November 2014.

TRAINING AND SUPPORT FOR DIRECTORS

Each newly appointed Director has received comprehensive, formal and tailored induction on appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities under the Listing Rules, legal and other regulatory requirements. The Company provides regular updates to the Directors relating to the Group's business and the business and regulatory environments in which the Group operates.

During the year, the Company arranged a seminar on compliance with legal and regulatory requirements to the Directors. The seminar covered a broad range of topics including the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), new amendments to the Listing Rules and grant of share options. All Directors attended the seminar. In addition, Dr. Loke Yu (alias Loke Hoi Lam) attended relevant seminars organized by professional bodies.

The Directors have access to the advice and services of the Company Secretary and if necessary, have recourse to external professional advice at the Company's expense. Also, the Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company believes that the independent non-executive Directors comprise a good mix of professional and business executives who have significant exposure to the business and accounting environment of Hong Kong and the PRC. The Board believes that such a group is ideally qualified to provide independent advice and guidance to the Board, to serve on the board committees and to act as independent stewards of the Company for the interests of its shareholders.

Following the passing away of Mr. Wang Zhichen, an independent non-executive Director as well as the chairman of the Corporate Governance Committee and member of the Audit Committee, Remuneration Committee and Nomination Committee, on 8 October 2014, the Company failed to comply with the requirements in respect of the minimum number of independent non-executive directors under Rule 3.10(1), the minimum number of members of audit committee under Rules 3.21 and remuneration committee shall comprise a majority of independent non-executive directors under Rule 3.25 of the Listing Rules. Following the appointment of Prof. Gong Zhankui as an independent non-executive Director as well as the chairman of the Corporate Governance Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 28 November 2014, the above rules have been duly complied with.

The Company currently has three independent non-executive Directors (represent more than one-third of the Directors), including an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

The Board evaluates the independence of all independent non-executive Directors on an annual basis and has established the practice of requesting written confirmation from each independent non-executive Director regarding his independence. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them to be independent.

Each of the independent non-executive Directors has entered into a service agreement with the Company for a specific term of three years, and they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws.

CHAIRMAN AND CHIEF EXECUTIVE

In accordance with the Bye-laws, the Board members elect among themselves a Director to be the Chairman. Dr. Zhang Lijun has been the Chairman since 8 December 2006.

BOARD COMMITTEES

To assist the Board in execution of its duties and facilitate effective management, certain functions of the Board have been delegated by the Board to the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee. Written terms of reference, which are in line with the CG Code, of all the board committees are available on the websites of the Stock Exchange and the Company.

BOARD COMMITTEES *(Continued)*

AUDIT COMMITTEE

The Audit Committee was set up in 1999 and currently comprises three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Prof. Gong Zhankui and Mr. Wang Linan.

The Audit Committee provides the Board with advice and recommendations on accounting, reporting and internal control matters and acts as a formal liaison channel for review, communication and problem resolution between the Company and its auditors. The Audit Committee members collectively hold the relevant commercial, industry, financial and auditing experience necessary for the Audit Committee to function effectively and independently.

The Audit Committee's primary functions include:

- to recommend to the Board on the appointment and terms of engagement of the external auditor;
- to review and monitor the appropriateness of accounting policy, accounting practices, financial reporting and disclosure and the application of judgment and estimates related thereto;
- to review the Company's annual and interim reports and any opinion expressed by the external auditor;
- to review any related party transactions and connected party transactions for compliance with the requirements of the Listing Rules and for reasonableness and fairness to the Company and its shareholders;
- to review with the external auditor issues raised in the external auditor's management letter, queries or similar communications;
- to monitor the external auditor's independence and objectivity, and the effectiveness of the audit process in accordance with applicable standards; and
- to assure that adequate internal controls including financial, operational, compliance controls and risk management are in place and followed.

During the year, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2013 and the unaudited interim financial statements for the six months ended 30 June 2014 with recommendations to the Board for approval. It also reviewed the internal control system of the Group, and discussed with the management and the external auditors the accounting policies and practices which may affect the Group and financial reporting matters. The Audit Committee has also actively participated at the full Board or any independent board committees formed from time to time for the purpose of advising the independent shareholders of the Company of transaction(s) which require their input or contributing their independent views in the areas of business, financial, management and operating practices.

BOARD COMMITTEES *(Continued)*

REMUNERATION COMMITTEE

The Remuneration Committee was set up in 2007 and currently comprises three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam) (the chairman), Prof. Gong Zhankui and Mr. Wang Linan, and two executive Directors, namely Dr. Zhang Lijun and Ms. Wang Chun.

For determining the remuneration packages of the executive Directors and senior management, the Remuneration Committee has adopted the model that it shall perform an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of the executive Directors and senior management. It recommends to the Board on the Company's policy and structure for all remuneration of the Board members and senior management, on the establishment of a formal and transparent procedure for developing policy on such remuneration and to determine specific remuneration packages for the Directors and senior management of the Company.

During the year, the Remuneration Committee reviewed the remuneration policy, structure and packages for Directors and senior management, and assessed the performance of the executive Directors. The Remuneration Committee also reviewed the remuneration package and service agreement of Prof. Gong Zhankui upon his appointment as an independent non-executive Director. Recommendations regarding the increase of the remuneration of the Directors and senior management were made by the Remuneration Committee to the Board.

The level of remuneration should be appropriate to attract, retain and motivate the Directors to run the Company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance. In setting remuneration packages, the Company takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Director. Individual Director and executive would not be involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee was set up in 2008 and currently comprises two executive Directors, namely Dr. Zhang Lijun (the chairman) and Ms. Wang Chun and three independent non-executive Directors, namely Dr. Loke Yu (alias Loke Hoi Lam), Prof. Gong Zhankui and Mr. Wang Linan.

The Nomination Committee is responsible for formulating and reviewing the nomination and Board diversity policies, reviewing the size, structure and composition of the Board, and making recommendations to the Board on nominations, appointment of Directors and Board succession with adequate consideration to the Board diversity policy. The Company endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Nomination Committee adopts certain criteria to assist in its evaluation including but not limited to the candidate's gender, age, cultural and educational background, professional experience, business background, his past responsibility, exposure to the business environment in which the Group operates and intends to be engaged in and his experience including directorship or senior management level involvements with other entities, and his contribution or achievement to the Group. The Nomination Committee also assesses the independence of the independent non-executive Directors.

BOARD COMMITTEES *(Continued)*

NOMINATION COMMITTEE *(Continued)*

During the year, the Nomination Committee reviewed the policy for the nomination of Directors, the composition of the Board, the Board diversity policy, the independence of the independent non-executive Directors and the re-election of all the retiring Directors at 2014 annual general meeting. The Nomination Committee also reviewed the biographical details, diversity to the Board, independence and time contribution of Prof. Gong Zhankui in relation to his appointment as an independent non-executive Director.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was set up in 2012 and currently comprises three independent non-executive Directors, namely Prof. Gong Zhankui (the chairman), Dr. Loke Yu (alias Loke Hoi Lam) and Mr. Wang Linan, and an executive Director, namely Dr. Zhang Lijun.

The primary functions of the Corporate Governance Committee are to develop and review the Company's policies and practices on corporate governance in compliance with legal and regulatory requirements. The Corporate Governance Committee also reviews the disclosure systems of the Company and introducing relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company.

During the year, the Corporate Governance Committee reviewed the policies and practices on corporate governance of the Company, the training and continuous professional development of the Directors and senior management, and the disclosure in the corporate governance report in the 2013 Annual Report of the Company.

AUDIT AND RELATED FEES

During the year under review, the fees paid or payable to the Group's external auditor BDO Limited were as follows:

Audit	HK$1,371,000
Non-audit services	Nil

INTERNAL CONTROL

The Board is entrusted with the overall responsibility for establishing and maintaining effective internal control systems for the Group. The management of the Group is delegated with the responsibility from time to time to implement and maintain the Board's policies on risk management and control. Detailed procedures are developed by management for major business units. At least annually, the significant internal control system is reviewed with the Company's auditor. The Group's internal control systems are designed to provide cost effective and reasonable protection that safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Group emphasises the appointment of qualified, experienced and capable individuals to carry out critical control functions and has put in place a system for effective segregation of key duties and responsibilities. The Board and the Audit Committee periodically evaluate major controls and risks and where considered necessary, retains external professional services to evaluate or seek improvements to the internal control systems.

During the year, the Audit Committee had reviewed effectiveness of the internal control system of the Group on behalf of the Board. The review covered all material control areas including financial, compliance and risk management functions. Based on the results of the review, the Board is satisfied that the Group has maintained sound and adequate internal controls in all major areas.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions and dealings, which applies to all the relevant persons as defined in the Model Code, including the Directors, any employee of the Company, or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment or involvement, are likely to come into contact or be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors who have confirmed their compliance with the required standards set out in the Model Code during the year under review.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge that they are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Company and of the Group and of the Group's results and cash flow for that period. In preparing the accounts for the year ended 31 December 2014, the Directors have, among other things:

- selected suitable accounting policies and applied them consistently;
- approved adoption of all Hong Kong Financial Reporting Standards; and
- made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The auditor's respective responsibilities to the shareholders in respect of the financial statements are included in the "Independent Auditor's Report".

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out in the "Directors' Report" section of this report.

CONSTITUTIONAL DOCUMENTS

The memorandum of association of the Company and the Bye-laws are published on the websites of the Stock Exchange and the Company. During the year, there is no significant change in the Company's constitutional documents.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company attaches great priority to open and effective communications with its shareholders and potential investors on the development of the Company. The Company has established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness.

The Company maintains a website through which the Company's updated financial information, announcements, circulars, notices of meetings, press releases and contact details can be accessed by its shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

The Directors regard all meetings with its shareholders to be very important as they offer opportunities for direct communication with the shareholders. When appropriate, presentations would be made at general meetings for the purposes of keeping shareholders informed of corporate developments. The Chairman and the chairmen of the Audit Committee, Remuneration Committee, Nomination Committee, as well as the Company's auditor maintained an on-going dialogue with the shareholders and answered all questions raised by the shareholders during the last annual general meeting held on 30 May 2014.

In addition, key executives of the Company also participate in conferences and forums with the objective of promoting investor and stakeholder interests in the Group's businesses.

SHAREHOLDERS' RIGHT

CONVENE A SPECIAL GENERAL MEETING

Pursuant to the Bye-laws, special general meetings shall also be convened on requisition as provided by the Companies Act of Bermuda. The Directors, notwithstanding anything in the Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company, and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

SHAREHOLDERS' RIGHT *(Continued)*

PUT FORWARD PROPOSALS AT GENERAL MEETINGS

Pursuant to the Companies Act of Bermuda, any number of members of the Company representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relate or not less than one hundred members of the Company may deposit a written requisition to put forward proposals.

The Company shall then give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

PUT ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns to the Board with contact details as below:–

Investor Relations
V1 Group Limited
Room 3006, 30th Floor
Gloucester Tower, The Landmark
11 Pedder Street
Central, Hong Kong

Telephone: 852-2869 8966
Facsimile: 852-2869 8960
E-mail: info@vodone.com.hk, ir@v1.cn

Upon receipt of the enquiries, the staff of the investor relations department will consider the concern proposed and raise it to the Board in the regular Board meeting for their considering and communicate with the shareholders for the result and feedback of the Board meeting.

Share Option Schemes

THE COMPANY

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the "V1 Group Scheme") and adopted it on 30 April 2012, and terminated the share option scheme adopted on 7 June 2002 (the "Old V1 Group Scheme").

Upon the termination of the Old V1 Group Scheme, no further share options will be offered under the Old V1 Group Scheme. However, the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old V1 Group Scheme. As at 31 December 2014, there was no outstanding share options granted under the Old V1 Group Scheme.

Under the V1 Group Scheme, the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The V1 Group Scheme is effective for the period from 30 April 2012 to 29 April 2022. The total number of shares which may be allotted and issued upon exercise of all options (excluding options which have lapsed in accordance with the terms of the V1 Group Scheme) to be granted under the V1 Group Scheme must not in aggregate exceed 10% of the shares in issue as at the date of approval of the V1 Group Scheme (the "V1 Group Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at general meeting to refresh the V1 Group Scheme Limit. The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the V1 Group Scheme and the Old V1 Group Scheme shall not exceed 30% of the share capital of the Company in issue from time to time.

A summary of the principal terms of the V1 Group Scheme is given below:

(I) *Purpose of the V1 Group Scheme:*

The purpose of the V1 Group Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group.

(II) *Participants of the V1 Group Scheme:*

The Directors may, in accordance with the provisions of the V1 Group Scheme, at their absolute discretion invite any person belonging to any of the following classes of participants to take up options to subscribe for shares of the Company:

a. any employee, executive (including any executive director but excluding any non-executive director), manager, consultant or proposed employee, manager, consultant of the Company, any of its subsidiaries ("Subsidiary"), any controlling shareholder (as defined in the Listing Rules) of the Company ("Holding Company") or any entity in which any member of the Group holds any equity interest ("Invested Entity");

b. any non-executive directors (including independent non-executive directors) of the Company, any Subsidiary, any Holding Company or any Invested Entity;

c. any supplier of goods or services to any member of the Group or any Holding Company or any Invested Entity;

THE COMPANY *(Continued)*

d. any customer of the Group or any Holding Company or any Invested Entity;

e. any person or entity that provides research, development or other technological support to the Group or any Holding Company or any Invested Entity;

f. any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

g. any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Holding Company or any Invested Entity; and

h. any joint venture partner or business alliance that co-operates with any member of the Group or any Holding Company or any Invested Entity in any area of business operation or development.

(III) Total number of shares available for issue under the V1 Group Scheme and percentage of issued share capital it represents as at the date of this report:

The total number of shares available for issue under the V1 Group Scheme was 235,778,478 shares representing approximately 7.15% of the issued share capital as at the date of this report.

(IV) Maximum entitlement of each participant under the V1 Group Scheme:

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the V1 Group Scheme (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being unless it is approved by shareholders at general meeting of the Company with such grantee and his associates abstaining from voting. Where any grant of share options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the shares issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million; such further grant of options must be approved by shareholders at general meeting of the Company.

(V) The period within which the shares must be taken up under an option:

The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not be more than 10 years from the relevant date of grant.

(VI) The minimum period for which an option must be held before it can be exercised:

The Company may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The V1 Group Scheme does not contain any such minimum period.

THE COMPANY *(Continued)*

(VII) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option within such time specified in the offer (which shall not be later than 10 business days from the date of the grant).

(VIII) The basis of determining the exercise price:

The exercise price under the V1 Group Scheme shall be a price determined by the Directors but shall not be less than the highest of:

a. the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares on the date of the offer of grant which must be a business day;

b. the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trades in one or more board lots of shares for the five business days immediately preceding the date of the offer of grant which must be a business day; and

c. the nominal value of a share.

(IX) The remaining life of the V1 Group Scheme:

The V1 Group Scheme has the period of 10 years commencing from 30 April 2012.

Details of the share options granted by the Company during the year ended 31 December 2014 are set out in note 39 to the financial statements.

THE SUBSIDIARY

Under the share option scheme of CMGE, a non-wholly owned subsidiary of the Company, adopted by CMGE and approved by the Company on 15 November 2011 (the "CMGE Scheme"), the directors of CMGE may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of CMGE. The CMGE Scheme is effective for the period from 15 November 2011 to 14 November 2021. The total number of shares of CMGE ("CMGE Shares") which may be issued upon exercise of all options to be granted under the CMGE Scheme shall not in aggregate exceed 10% of the CMGE Shares in issue on the date of approval of the CMGE Scheme (the "CMGE Scheme Limit") unless shareholders' approval of CMGE and the Company have been obtained at general meetings to refresh the CMGE Scheme Limit, provided that options lapsed in accordance with the terms of the CMGE Scheme will not be counted for the purpose of calculating the CMGE Scheme Limit. On 30 May 2014, the shareholders of the Company approved the refreshment of the 10% scheme mandate limit under the CMGE Scheme. The total number of CMGE Shares which may be issued upon exercise of all options to be granted under the CMGE Scheme, as refreshed, represents 10% of the CMGE Shares in issue as at 30 May 2014. The total number of the CMGE Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CMGE Scheme shall not exceed 30% of the CMGE Shares in issue from time to time.

THE SUBSIDIARY *(Continued)*

A summary of the principal terms of the CMGE Scheme is given below:

(I) *Purpose of the CMGE Scheme:*

The purpose of the CMGE Scheme is to enable CMGE to grant option to selected eligible persons as incentives or rewards for their contribution or potential contribution to CMGE and/or the Affiliate as defined below.

(II) *Participants of the CMGE Scheme:*

Subject to the terms of the CMGE Scheme and for so long as CMGE remains a subsidiary of the Company, subject also to the Listing Rules, the board of directors of CMGE (the "CMGE Board"), may at their absolute discretion, make offers to any eligible persons as defined below to take up options to subscribe for the CMGE Shares:

a. any executive, employee or director of CMGE or any company which is a holding company, a subsidiary, a fellow subsidiary or an associated company of CMGE (the "Affiliate"); and

b. any consultant, adviser, agent, business partner, joint venture partner, service provider, contractor of CMGE or any Affiliate, who, as determined at the sole discretion of the CMGE Board, has or may have contribution to CMGE.

(III) *Total number of shares available for issue under the CMGE Scheme and percentage of issued share capital it represents as at the date of this report:*

The total number of CMGE Shares available for issue under the CMGE Scheme was 33,031,391 shares representing approximately 7.48% of the issued share capital of CMGE as at the date of this report.

(IV) *Maximum entitlement of each participant under the CMGE Scheme:*

The total number of CMGE Shares issued and to be issued upon the exercise of the options granted and to be granted to any eligible person (including both exercised and outstanding options) in any 12-month period up and including the date of grant shall not exceed 1% of the CMGE Shares in issue as at the date of grant unless it is approved by the shareholders of CMGE and the Company (other than the grantees and/or their respective associates) in general meeting of CMGE and the Company. Where any proposed grant of options to a substantial shareholder (as such term is defined in the Listing Rules) or an independent non-executive director of the Company, or any of their respective associates, will result in the total number of CMGE Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of grant: (a) representing in aggregate over 0.1% of the CMGE Shares in issue; and (b) having an aggregate value, assuming such options were exercised and based on the adjusted net asset value per share in accordance with the latest audited accounts of CMGE, or based on the closing price of the CMGE Shares at the date of each grant where the CMGE Shares are listed on any stock exchange, in excess of HK$5 million, such further grant of options shall be subject to approval by shareholders of CMGE and the Company in general meetings.

THE SUBSIDIARY *(Continued)*

(V) *The period within which the shares must be taken up under an option:*

The period within which the options must be exercised will be specified by CMGE at the time of grant. This period shall not be more than 10 years from the relevant date of grant.

(VI) *The minimum period for which an option must be held before it can be exercised:*

CMGE may specify any minimum period(s) for which an option must be held before it can be exercised at the time of grant of the options. The CMGE Scheme does not contain any such minimum period.

(VII) *The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:*

A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option within such time specified in the offer.

(VIII) *The basis of determining the exercise price:*

The exercise price under the CMGE Scheme shall be determined by the CMGE Board on a fair and reasonable basis, taking into consideration the prevailing market condition, performance of CMGE and after having assessed the efforts, performance and/or future potential contribution of the eligible persons to the success of the business and operations of CMGE (and its subsidiaries from time to time), which shall be no less than the nominal value of the CMGE Share on the date of the offer of grant.

(IX) *The remaining life of the CMGE Scheme:*

The CMGE Scheme has the period of 10 years commencing from 15 November 2011.

Details of the share options granted by CMGE during the year ended 31 December 2014 are set out in note 39 to the financial statements.


CMGE
中国手游娱乐集团
China Mobile Games and Entertainment Group

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion And Analysis

OPERATING RESULTS

Turnover of the Group for the year ended 31 December 2014 amounted to HK$1,945,712,000, representing an increase of around 227% as compared with last year. Loss attributable to the owners of the Company was HK$131,590,000 (2013: Loss of HK$160,014,000).

BUSINESS MODEL AND STRATEGIC DIRECTION

BUSINESS MODEL

The Group is engaged in three main core business operations including the tele-media business, lottery-related business and mobile games business, which are of sizeable scale and significant influence in Mainland China. We are committed to providing high-quality services and creating sustainable values for shareholders and investors.

In relation to the tele-media business, its principal business is V1 Portal and telecommunication value-added business. By leveraging on the advantage of possessing all the necessary qualifications and licenses, the Group is able to offer high-quality, smooth and user-friendly "mini-video news portal" platform according to users' needs, and to generate advertising revenue from such platform.

In respect of the lottery-related business, our major income is derived from the web site and mobile apps developed by the partners of the Group. Besides, the Group earns income by providing lottery-related services, such as live match broadcasting, website information, member services and discussion forums.

In respect of the mobile game business, the Group has divided the mobile games business into two areas which are mobile games development and mobile games publishing. In addition to having its own gaming platform, the Group has also cemented partnership with mobile network operators and major application stores in China to sell mobile games and related products. Furthermore, the Group will also actively seek for co-operation opportunities like exclusive licensing, initial launching and joint operation of quality online games, so as to obtain additional revenue.

The Group's main sources of revenue are derived from advertising revenue, revenue from lottery-related business, mobile games development and distribution, and revenue sharing from projects.

STRATEGIC DIRECTION

The Group adopts the following strategies to create sustainable values for shareholders:

- Making focused efforts on the mini-video news portal platform, lottery-related business and mobile games business
- Actively stepping up business expansion and cementing partnership
- Balancing risk exposures
- Maintaining prudent financial management

Making focused efforts on the mini-video news portal platform, lottery-related business and mobile game business

The Group attains growth by winning patronage from China's internet users and mobile phone users, and has built itself into an impeccably reputed player and an unrivalled brand over the years. With strong confidence in the continued expansion of the internet mini-video news, lottery-related business and mobile game market, the Group is expanding into the internet mini-video news, lottery-related business and mobile game business. Given that the Group is firmly dedicated to pursuing its core strategy of providing excellent and quality services, the Group's brand secures widespread market recognition. The Group will uphold its core strategy and continue to strengthen its brand.

Actively stepping up business expansion and cementing partnership

The Group dedicated vigorous efforts on its business expansion through enrichment of website contents and development of new products and mobile games. The Group also formed stronger partnership with a number of media partners in relation to the expansion of sales channels. Based on our renowned reputation, seasoned team plus unswerving commitment to premium product and service quality, we will be well-positioned to extend focused endeavours on the development and consolidation of the Group's business as well as to maintain our brand value.

Balancing risk exposures

The Group's risk management policies, which are framed in accordance with the operating principles of the Company, aim to prevent any possible losses within the scope of bearable risks, enhance shareholder values to the extent of an optimal balance between risks and rewards as well as fulfill the principle of optimization of capital allocation. The management expects to exercise continued control over the cost of the Group in the future, and to strive for sustainable core competitiveness, with a view to striking a balance between the development of the Group and the reward for shareholders.

Maintaining prudent financial management

The key to our success is to maintain sound financial position. With prudent financial management in place, we can ensure the positive development of the Group and enable the Group to capture the opportunities to invest in attractive projects. The Group places great emphasis on the management of liquidity, in order to ensure that the Company has a sufficient pool of funds to meet day-to-day operations and to finance strategic investments.

BUSINESS REVIEW AND DEVELOPMENT

In 2014, the Group focused mainly on the development of the tele-media, lottery-related and mobile games businesses.

- ### TELE-MEDIA BUSINESS

V1 Portal Constantly Increases its Influence

In 2014, the pageviews of V1 Portal registered its highest global ranking of No.358 (Source: ALEXA). Meanwhile, it recorded a significant increase in revenue.

Coverage of “Two Sessions”

In respect of the reports on National People’s Congress (“NPC”) and the National Committee of the Chinese People’s Political Consultative Conference (“CPPCC”) (“Two Sessions”) in 2014, V1 Portal provided live streaming for 19 times, planned 12 programs, produced 237 video clips and extensively disseminated them through approximately 100 media and channels. Consequently, V1 Portal was honored with the “2014 Two Sessions Online Reporting Organization Award”.

During the period, the website launched a large-scale report on Xi Jinping, President of the PRC, named “Running the Country over a Year”（治國理政一年間）which was highly recommended on the front page of various portals and central media websites, indicating the important role of V1 Portal among its partners.

V1 Portal planned two exclusive video programs on 2014 Two Sessions, namely, "I Have a Question for the Premier"(我有問題問總理) and "8 Seconds in Politics"(8秒問政), which were transmitted over multiple channels, including Xinhua Daily Telegraph (新華每日電訊報), the official Weibo of Xinhua News Agency (新華社) and Tencent Weishi (騰訊微視).

News Features

V1 Portal interprets current affairs and hot topics, with key follow-up reports on China's policies, situations and topical issues. V1 Portal received wide acclaim for its coverage of the 2014 Asia-Pacific Economic Cooperation (APEC) Summit. In particular, V1 Portal dispatched a 15-member team for the key feature report "2014 APEC China Day". During the two-day event, V1 Portal produced 104 pieces of video news and 28 photo galleries. It also utilized V1 Circle, the Group's mobile application to keep V1 Portal's website and mobile application in real-time synchronization, yielding great publicity effect. In addition, V1 Portal also produced in-depth reports on hot topics with extensive dissemination among social and TV media such as "The Fourth Plenary Session of the 18th Communist Party of China (CPC) Central Committee in 2014"(二零一四年十八屆四中全會), "The 65th Anniversary of the Founding of the People's Republic of China"(建國65週年), "Combating Corruption and Upholding Integrity"(反腐倡廉) and "First-lady's Diplomacy"(夫人外交).

Programming Lineup

Apart from "The First View of News"(新聞第一眼), V1 Portal's representative online live broadcast news program. V1 Portal has launched a series of self-produced programs, such as "World of Soldiers"(兵論天下), "National Spitslot"(全民大吐槽), "Big Coming"(大牌來襲), "Entertainment Weathervane"(娛樂風向標), "Stars Topic"(星光邦), "News Interpretation"(新聞大字曝) and the commercially designed program "Oh, My CAR"(哎喲我CAR), providing in-depth news coverage of entertainment and other information. Collectively, these programs have now more than 2,400 episodes. In respect of entertainment, the website was recognised by the public of its program "Interpreting the sorrows of the 10-year Growth of China's Film Industry"(解讀中國電影十年成長煩惱), a report of major events and awards in China's entertainment industry, and its key program "Oh, My CAR" featuring industrialized information and entertainment-oriented interpretation.

Meanwhile, V1 Portal is now launching an abundance of self-generated content, and has successively released "V1 Exposition", "Careful Thoughts"(左思右想), "V1 Test Drive"(V1試駕), "National Spitslot" and other featured programs, strengthening its popularity in the industry. "National Spitslot" has been placed in prominent positions in various online media such as Tianya (天涯網) and Netease (網易) user terminals, it even attained more than a million hits on a single episode.

V1 Portal has successively cooperated with the wireless terminals of Ifeng.com (鳳凰網), CCTV.com (央視網) and Tudou.com (土豆網) and reached agreements on revenue-sharing based on hits on programs including "World of Soldiers", "National Spitslot" and "News Interpretation". Furthermore, "V1 Test Drive", "T Stage for New Cars"(新車T型台) and other quality programs are broadcasted on weekends over Shaanxi TV and Hubei TV.

V1 Portal will listen to the voice of audiences and provide them with the latest news in an accurate, authentic, fast, objective and neutral manner.

Layout of New Business

The Group adapts its overall strategy and business development planning to the rapid development of mobile internet and socialnomics. Having V1 Portal as the foundation, the Group has started its transition from the single service of video news to a diversified portfolio that includes entertainment, communities and vertical e-commerce. Apart from V1 Family and V1 Circle that were launched before, the Group promptly introduced another three new business lines, namely, V1Game, V1BO and V1PIN in the second half of 2014.

The diversified business model helps V1 Portal expand its business, and thus increase number of users and revenue, laying a solid foundation for its strategy of refinement and continuous profitability.

V1 Family (V1家)

Amid the intense competition in the mobile-applications market, by virtue of V1 Portal's unique background and resource advantages, it took the lead to put forward V1 Family, which is a "media APP for individual celebrity" and a platform integrating contents in the forms of texts, photos, audios and videos.

At present, the platform is hosted by a number of renowned commentators. Based on its extraordinary performance, V1 Family earned the "Annual Innovation Award in Global Mobile Internet Union 2014".

V1 Circle (V1圈) (http://paike.v1.cn)

"Circusee Is Power!"(圍觀就是力量!). V1 Circle was newly developed by V1 Portal, and was the first mobile-video social platform in China, which integrated news browsing, video shooting, editing and sharing.

Since its launch, V1 Circle has caught the attention of various media and the market of mobile applications, with hundreds of thousands of users sharing their real stories through micro-film, creative short videos and affection videos on V1 Circle. From September to December 2014, V1 Circle initiated the searching for street children and missing children jointly with over 100 media such as People.cn (人民網), Beijing Times (京華時報) and Tianya. In particular, the program "Making Your Video to Save Street Children"(「隨手拍視頻解救流浪兒童」) has received tremendous support from those who are searching for missing family members, attracting 32.681 million hits and 3,468 discussions. Furthermore, the program has caught the attention of and thorough investigation by the Anti-abduction Office of the Ministry of Public Security.

V1Game (V1遊戲) (http://g.v1.cn)

Established on 4 August 2014, V1Game is positioned as a first tier web-based interactive digital entertainment platform in China. The experienced team built the platform quickly and smoothly and has achieved stellar performance in terms of number of products, user base expansion and platform development. Supplemented by the strong brand strength and technical capability of V1 Portal, V1Game underwent two major revamps within half year upon its establishment. After the revamps, there are a total of 35 games launched on its platform, V1Game is witnessing a surge in the number of games and users. We are proud to say: V1Game is offering or will continue to offer the latest, hottest and long-awaited online games in the market.

V1BO（V1播）(http://v1bo.com)

V1BO is the first live interactive video platform in China, it aims to provide a platform for users and broadcasters to communicate with each other in such forms as voice, text and video. Since August 2014, VIBO team spent several months and rounds of tests to accomplish a multi-functional and multi-system platform, enable the payment function and develop an Android version of mobile application, in order to ensure the stability of its service and platform. We are committed to updating and upgrading our technology in order to enhance user experience.

Following the first broadcaster officially joined on 21 November 2014, the number of broadcasters has reached over a thousand by the end of December 2014. They share with users in the forms of music, chat, make friends and games. The average daily number of live broadcasts has exceeded 500.

V1PIN（唯一品）(http://v1pin.com)

V1PIN is a vertical e-commerce platform encompassing various healthcare, skincare and personal care products for women. It aims to provide an enjoyable and reliable online shopping experience to every beauty-conscious woman who cares about her quality of life. V1PIN guarantees that all of its products are imported from overseas and genuine, and is committed to becoming a trustworthy and high quality shopping platform offering affordable products.

Currently, the website provides a large quantity of international brand products from more than 10 countries. V1PIN targets to extend its product source to around 20 countries.

V1品
V1PIN.COM

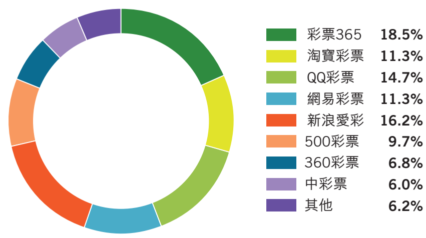
• LOTTERY-RELATED BUSINESS

The main source of income for V1's lottery-related business is the websites set up and operated by the partners of the Group, including Lottery 365, a strategic cooperative mobile application developed by the business partner of the Group, "Zhongguozucaiwang"(中國足彩網)(www.zgzcw.com) and "Diyicai"(第一彩)(www.diyicai.com). This cooperation structure has also contributed to the source of income.

Lottery 365 (彩票365)

By tapping into the business opportunities brought by the 2014 World Cup Brazil, Lottery 365 witnessed a high-speed and all-round growth, both its user base and market share have achieved a remarkable progress, becoming the first lottery mobile application achieving over 100 million downloads in China; it also enjoyed a rapid growth of daily active users. Lottery 365's multiple indicators, including downloads, number of active users and market share, were all ranked the top of the mobile internet lottery industry, according to the statistics from independent research institutes such as myapp.com(騰訊應用寶), Analysys International(易觀智庫) and CNIT-Research(中國IT研究中心).

2014年第3季度中國移動互聯網客戶端銷售份額



數據說明：
移動客服端指彩票廠商APP客服端，不含第三方輔助應用，具體數據根據企業報告預估，市場調研，企業訪談及易觀方法估算獲得，並根據市場最新信息對歷史數據進行微調。

數據來源：EnfoDesk 易觀智庫

Business Cooperation

In March 2014, Lottery 365 was ranked as an excellent product of the year by China Telecom and obtained the long-term recommendation of the mobile distribution platform under China Telecom including "eStore"(天翼空間) and "eMobile Assistant"(天翼手機助手). Lottery 365 has also won the award of "Annual Excellent Partner with China Telecom"(中國電信年度優秀合作夥伴).

Lottery 365 is the only mobile applications on which China Mobile users can buy lotteries directly with the balance of the stored value of their mobile phone, and has been connected to "Mobile Market"(移動MM), a mobile distribution platform under China Mobile. Lottery 365 was also exclusively introduced into their "Data 800"(流量800) service during the 2014 World Cup Brazil. It has become a key online and offline lottery mobile application recommended by China Mobile.

In the meantime, Lottery 365 established strategic cooperation with China Unicom in the form of lottery revenue sharing scheme, by introducing a tailor-made application for "WoStore"(沃商店) and also connecting to its Life Channel in order to provide lottery purchase service for China Unicom users.

In respect of cooperation with mobile manufacturers, Lottery 365 established strategic cooperation with domestic mobile manufacturer Coolpad (酷派), launching "Ku Caipiao" (酷彩票) to 20 million active Coolpad users. Moreover, Lottery 365 deployed a cooperation with Huawei (華為) on revenue-sharing of lottery recharge value, becoming Huawei's sole non-game revenue-sharing partner and achieving strategic lottery cooperation with Huawei Application Market (華為應用市場), Huawei Wallet (華為錢包), Huawei Discovery Channel (華為發現頻道) and Huawei Gift Bag (華為禮包). Furthermore, Lottery 365 has cooperated with other mobile manufacturers such as Lenovo (聯想), MI (小米), Gionee (金立), OPPO (歐珀) and VIVO in the form of lottery revenue-sharing and distribution. In addition, Lottery 365 has been recognized by the top two major mobile manufacturers in the world where it was specially recommended by Apple's App Store and being included in "HotApps" in Samsung's App Store.

Brand Promotion

In April 2014, Lottery 365 formally became the sponsor of Beijing Guoan F.C. (北京國安足球隊), being the only sponsor from the lottery industry for the Chinese Football Association Super League in the 2014 season. The 3-D advertisement in the goal poles area kept appearing on the CCTV broadcasts drew extensive attention from football fans in Beijing and all sectors of community. This led to an all-time record of downloads in Beijing region. Subsequently, Lottery 365 was invited to attend the 2014 Global Mobile Internet Conference (二零一四全球移動互聯網大會) in May and became a highlight in the event.

New Model of Internet Finance

"Caijinbao" (彩金寶), an internet wealth-management product jointly released by Lottery 365 and E Fund Management Co., Ltd., is the first internet financial product launched by a company in the lottery industry. Being different from other wealth-management products such as Yuebao (餘額寶), users who purchase the currency fund of Caijinbao via Lottery 365 will gain income from the currency fund and receive, from Lottery 365, a bonus lottery in an amount equal to the monetary value of the income. It is the first cross-industry attempt to adopt the mode of "Income Plus" (收益+) and consequently it has received a wide coverage in the media. For users, the increase in the returns further accelerate their activity in the program.

In December 2014, Lottery 365 cooperated with CreditEase Toumi (宜信投米), an internet Peer to Peer Lending (P2P) wealth-management platform, and launched the wealth-management scheme "Yitoucai" (宜投彩). This cross-industry cooperation is an innovative move co-authored by different supply chain partners. Not only can boost user's comprehensive income, it can also improve users' loyalty towards Lottery 365.

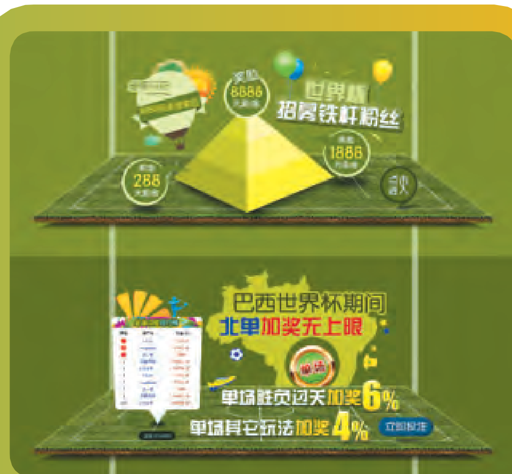
Caring the Community

While developing its business, Lottery 365 endeavors to contribute to the community by actively participating in charity activities. In August 2014, Lottery 365 initiated the first online charitable donation event in China together with Beijing Guoan F.C. and China Children and Teenagers' Fund (中國兒童少年基金會) during the China Internet Conference (中國互聯網大會). In the event, 300 jerseys and footballs with signatures were sold on site and Lottery 365 donated additional RMB200,000. The fund raised was used for youth sports development in the earthquake-stricken area of Ludian County, Yunan Province.

Awards

Lottery 365, by virtue of its exceptional performance in the field of lottery in 2014, won a total of 11 brand awards, including the "Most Valuable Product for Commemorating the 20th Anniversary of China's Full-scale Internet Connection" (「紀念中國全功能接入互聯網20年最具價值產品」), "Best Practice Model for the China's Internet" (「中國互聯網實踐典範」), "2014 Best Lottery APP" (「二零一四年度最佳彩票APP」), "2014 Outstanding APP in China" (「二零一四年度中國好應用」) and "2014 Best APP for Lottery Entertainment" (「二零一四年度最佳彩票娛樂應用」) given by many organizations in the China's internet industry.

Zhongguozucaiwang (中國足彩網) (www.zgzcw.com) and Diyicai (第一彩) (www.diyicai.com)



Given the great opportunity of 2014 World Cup Brazil, Zhongguozucaiwang made efforts in promoting itself on some major search engines and attracted a large number of new users to its website by offering promotions to new users such as trial reward upon registration and recharge discount. During the World Cup, the website also hosted an array of promotional activities, including the "Additional 15% Reward for Game Bets of the World Cup" (世界盃競彩加獎15%), "Grand Prize of One Million Yuan" (直送100萬), "Recruiting Fans" (招募粉絲), "Additional Reward for the Beijing Game" (北單加獎), "Flash Group Purchase" (集齊搶秒殺) and "Calling for Friends" (召喚小夥伴). These interesting activities, with a variety of prizes, brought great fun to the users during the World Cup. These promotional activities led to the exponential growth of the sales volume on the website and a 200% surge in the number of active users as compared to the same period of last year.

Website Improvement

Zhongguozucaiwang has rolled out its new webpages of football lottery information, which preserved some fresh visual effects, comprehensive display of all lottery games and enriched information contents. There are great new functions where users can switch to a variety of game bets and enjoy quicker and more convenient screening of sports matches and betting odds. These and the aforementioned new features offer better service to its users.

More Game Bets

The website has added various high-frequency lottery games, enriching the lottery types, enhancing the entertainment level of the games and enabling users to enjoy a convenient lottery purchase experience even without leaving home.

HTML5 Version

With the growing popularity of mobile social network platforms, marketing models are also changing, content marketing and social networks have become important ways of promotion. A brand new HTML5 lottery-purchase platform was launched in 2014 where users can directly buy lotteries via WeChat. At the moment, the HTML5 version has been connected to the Life Channel on WoStore of China Unicom, the Discovery Channel of Huawei Application Market and was set as the default Lottery Channel on the Meizu（魅族）mobile phones.

Channel Cooperation

Diversified cooperation with various channels has introduced some growth engines into the website. The extensive coverage of such cooperation not only increased the number of users and sales volume, but also improved its brand image, corporate image and reputation, proving the website's leading role in the lottery industry. In respect of the development of channel cooperation, the website has cooperated with such platforms as Lefeng.com（樂蜂網）, 1905.com (1905電影網), LBX Pharmacy（老百姓大藥房）, tuanche.com（團車網）, Beijing Appsports Information Technology（掌控體育）, yiqifa.com（億起發）, JJWorld (Beijing) Network Technology（競技世界）, cnwest.com（陝西西部網）, fengyunzhibo.com（風雲直播）and Go market（安智市場）.

• MOBILE GAMES BUSINESS

As of 31 December 2014, CMGE had over 1,500 employees, with offices located in Shenzhen, Guangzhou, Beijing, Chengdu, Shanghai, Hong Kong, Taipei, Tokyo and Seoul. CMGE has grown rapidly in 2014 in both its publishing business and self-developed games. Moreover, throughout the course of the year, CMGE has strengthened its intellectual property ("IP") and overseas strategy. Building on the core principles of "product innovation" and "user satisfaction," CMGE has firmly established a diverse and comprehensive mobile gaming ecosystem that includes its self-developed games, publishing business, IP, game support platform and distribution platform.

Publishing business

According to Analysys International, CMGE ranked first in terms of gross billings among China's mobile game publishers for six straight quarters from July 2013 to December 2014, and estimated to have over 20.1% market share (2014 Q3: 19.5%). Since our third-party publishing business started in the middle of 2013, CMGE successfully published more than ten mobile games each with monthly gross billings over RMB10 million, including Despicable me: Minion Rush（神偷奶爸：小黃人快跑）, "Crisis Action"（全民槍戰）, Super Hero（超級英雄）, "Tian Tian Ying Xiong"（天天英雄）and "Jue Zhan Sha Cheng"（決戰沙城）. "Jue Zhan Sha Cheng"（「決戰沙城」）, a MMORPG mobile game has been growing its monthly gross billings. In addition, CMGE recently published four new games, including "The King of Fighters' 97"（「拳皇97對戰版」）, "Monster Hunter– the Great Hunting Quest"（「怪物獵人：大狩獵」）, "Pleasant Goat and Big Big Wolf Rush"（「喜羊羊快跑」）and "Uncharted Waters V"（「大航海時代5」）.

One of the world's first First Person Shooting ("FPS") mobile games, "Crisis Action"（「全民槍戰」）, which is being published by CMGE, has been very successful. In addition, on 29 January 2015, we published "Pleasant Goat and Big Big Wolf Rush"（「喜羊羊快跑」）("Pleasant Goat"), the world's first 3D running game based on the "Pleasant Goat" IP rights that we acquired. In its first day of launch, Pleasant Goat created a new benchmark for first day downloads for casual games, i.e., reaching 2.85 million downloads in a single day. "Pleasant Goat" also generated monthly gross billings of over RMB20 million during its first month of being published and has become one of the most eye-catching mobile games in the first quarter of 2015. During February 2015, "Uncharted Waters V"（「大航海時代5」）, which was published in cooperation with Tecmo Koei, became one of the few successful Japanese mobile games published in China in the first quarter of 2015.

In 2014, CMGE also published high-quality mobile games in countries outside of China. CMGE has established offices in Hong Kong, Taiwan, Korea and Japan to focus on the localization of the games it publishes as well as actively pursuing collaboration opportunities with overseas marketing platforms. Throughout 2014, CMGE published more than 10 mobile games overseas, including in Hong Kong, Macau, Taiwan, Korea, Thailand and Russia. Such games include "Wu Shuang San Guo"(「無雙三國」), "Wonder Hero"(「英雄本色」), "Age of Tank"(「坦克世界」), "Chao Shen Xue Yuan"(「超神學園」), "Chao Shen Lian Meng"(「超神聯盟」), "Da Hua Xi You"(「大話西遊」), "Wei Shou Lai Xi"(「尾獸來襲」), "Jin Gu Bang OL"(「金箍棒OL」) and "Dark Creator"(「暗黑創世神」), many of which have performed well in these markets on both Android and iOS. "Rise of Darkness"(「全民破壞神」), an MMORPG mobile game published by Tencent in Mainland China, for which CMGE has the rights to publish in the United States, Canada, Australia and the United Kingdom, is expected to be launched in the United States and Canada in April 2015. CMGE currently has a strong overseas publishing pipeline and is preparing to publish the following games overseas in 2015: "The Creator"(「無間獄」), "Blood Reincarnation"(「戰國陰陽師」), "War Valley: Age of Valor"(「戰谷：勇者時代」) and "Clash Of Galaxy".

In 2014 Golden Plume Award, CMGE was awarded as "The 10 Best Mobile Games Publishers" and "The 10 Best Game Enterprises" and CMGE's Crisis Action won "The Most Popular Social Game". This demonstrates the recognition of CMGE's publishing business.

Self-developed games

According to Analysys International, CMGE was ranked a Top 10 developer in China in the fourth quarter of 2014.

In 2014, CMGE's self-developed MMORPG mobile game "Wonder Hero"(「英雄本色」) was ranked first in popularity rankings on Kakao Talk, Naver, T-store, N-store within 48 hours after its launch in Korea. CMGE also has multiple games in its self-development pipeline. "New Legend of Sword and Fairy"(「新仙劍奇俠傳」), co-developed with "Softstar Technology"(「大宇資訊」) will begin closed beta testing in April 2015. "Naruto: Shinobi Masters"(「火影忍者：忍者大師」), co-developed with GREE, is in its final stage of development. CMGE is also currently developing a Shaolin Temple– themed ARPG mobile game as well as a RPG game that is adapted from the popular online fiction "Ze Tian Ji"(「擇天記」) with "7Cool"(「無錫七酷網路」). Both games are scheduled to enter closed beta testing in the second quarter of 2015. In addition, in 2014, the highly anticipated ARPG mobile game "The Creator"(「無間獄」), which CMGE co-developed with "Shanghai Yin He Shu Wu"(「上海銀河數娛」), won the 2014 Unity3D Vision Award.

CMGE also has multiple other games in various stages of self-development and co-development based on IP rights CMGE acquired, including "One Piece: the Path of Powers"(「航海王」), "Samurai Shodown"(「侍魂」), "Ikkyuu San"(「聰明的一休」), "Si Da Ming Bu"(「四大名捕」) and "Hello Kitty"(「凱蒂貓」), among others, and are expected to be launched within 2015. The Group is looking forward to strong overall growth of CMGE's self-developed games in 2015.

Intellectual property

Throughout 2014, CMGE established a series of strategic partnerships with IP owners in Japan, the United States and Taiwan and sourced several classic IPs such as "Naruto"(「火影忍者」), "One Piece"(「航海王」), "Dragon Ball Z"(「龍珠Z」), "Ikkyuu San"(「聰明的一休」), "Hello Kitty"(「凱蒂貓」), "Samurai Showdown"(「侍魂」), among others. In addition, CMGE made a strategic investment in Inplay, a leading Korean developer of mobile and PC games of which Warner Brothers is the major shareholder.

Recently, in the area of manga, CMGE has acquired the rights from North Star Pictures to develop mobile games based on the popular Japanese manga "Fist of the North Star"(「北斗神拳」). In the area of classic games, CMGE has been authorized by "Softstar Technology"(「大宇資訊」) to co-develop a 3D mobile game version of "New Legend of Sword and Fairy"(「新仙劍奇俠傳」), a game that is widely recognized as a classic Chinese culture-themed RPG. In the area of online fiction, CMGE has been authorized to develop a hard-core mobile game based on the popular online fiction "Si Da Ming Bu Zhi Da Dui Jue"(「四大名捕之大對決」).

Long-life-cycle product strategy

In 2014, in addition to further developing the existing competitive products, CMGE has also developed two product lines each with long life-cycles, including poker games and e-sports games. Both of these products performed exceptionally well in 2014. In addition, CMGE entered into a strategic cooperation with "Jin Huan Tian Lang"(「金環天朗」), a leading mobile poker game developer in China in which CMGE had made a strategic investment in 2014, to focus on building a social platform with multiple social functions and interactive services.

In 2014, CMGE has published various e-sports mobile games, including "Crisis Action"(「全民槍戰」), "Charming Dancer"(「天天炫舞」) and, "King of Fighters' 97"(「拳皇97對戰版」). As one of the world's first FPS competitive mobile games and an official mobile game title in the World E-sport Championship Games ("WECG"), "Crisis Action"(「全民槍戰」) has performed very well as part of the regularly held online competitions titled "Hero Leagues," which attracts many players. Another unique 3D dance-themed game, "Charming Dancer"(「天天炫舞」), with its simple operation, catchy characters and real-time communication tools, has won popularity among players and was awarded the "2014 GMGC Best Visual Award".

In addition, CMGE also commenced closed beta testing on the Android platform for the battle game "The King of Fighters' 97"(「拳皇97對戰版」) in January 2015. This version of "The King of Fighters' 97" preserves the 36 characters from the original game while adding exciting and upgraded visual effects and multiple game play modes for improved player experience. Similarly, CMGE will also upgrade the arcade game "Samurai Shodown"(「侍魂 2」) on Android platforms.

Distribution Platform

In 2014, CMGE's proprietary game center developed steadily with total registered users reaching 24 million by 31 December 2014. In addition, CMGE's highest monthly downloads and total downloads for the year were approximately 100 million and over 700 million, respectively. By pre-installing center applications offline on the handsets of users mainly from third-tier and fourth-tier cities in China, CMGE has achieved success in promoting its single-player games and mobile poker games.

Game Support Platform

In 2014, CMGE also established a solid game support platform. "Super SDK" combines social chatting, cross promotion, data mining and other functions. Super SDK, links game developers with multiple distribution channels while simultaneously increasing the users stickiness and increasing the efficiency of developers in distributing and marketing their games. In order to further consolidate its game support platform, CMGE strategically invested in Shenzhen Yunva Technology ("Yunva Technology") in 2014. In the fourth quarter of 2014, Yunva Technology launched "YAYA Yu Yin" 3.0 version, which has enriched the social functions and incorporated a game distribution function. YAYA Yu Yin had successfully attracted an average 50,000 newly registered users on a daily basis for the forth quarter of 2014. For improved game experience, CMGE's Super SDK has incorporated YAYA Yu Yin. In addition, Beijing Super Flash Software Co. Ltd, in which CMGE also made a strategic investment, launched its "Mobimirage" game engine (the "Mirage Engine") in the third quarter of 2014. The Mirage Engine is a 2D/3D cross-platform mobile game engine. With an average three to five month research and development period, it has already launched several successful games, including "Jue Zhan Sha Cheng"(「決戰沙城」), which was self-developed by us, "Heng Sao Xi You"(「横掃西遊」), which was exclusively published by Tencent as well as "Nu Zhan Xuan Yuan"(「怒斬軒轅」), a mobile game published by Baidu Mobile Games.

MANAGEMENT DISCUSSION AND ANALYSIS

Integrated ecosystem focus on product innovation and user satisfaction

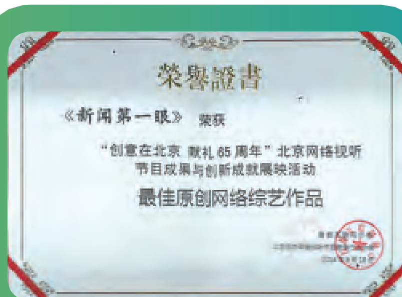
For every segment of the mobile game industry in which it is involved, CMGE has made strategic investment or established operating subsidiaries, striving to develop an integrated ecosystem focused on product innovation and user satisfaction. Such strategic investments and subsidiaries include Inplay, 51 PK (51PK遊戲對戰平台), Yunva Technology, Super Flash and Jin Huan Tian Lang, among others. Among all of CMGE's investment projects, its strategic investment in Success Capital (志成資本) has been instrumental in making CMGE's overall investment strategy in the mobile game industry more complete. Since its inception in June 2014, Success Capital (志成資本) has invested in 18 projects including investments in mobile game developers, television game developers, game art production companies, game music production companies, gaming media as well as game IP integrators.

In 2014, with product innovation and user satisfaction as its core principles, CMGE has successfully established an integrated ecosystem, bringing together self-developed games, game publishing, IP, a game support platform and distribution platform. Through this ecosystem, CMGE will continue to strive to provide the players with more interesting games and high quality services and thereby create a gaming brand to foster loyalty among players.

AWARDS

MAJOR AWARDS IN 2014

No.	Name of Award	Presented by
1	V1 Portal won the "2014 Two Sessions Online Reporting Organization Award"(二零一四年全國「兩會」網絡報導組織獎)	Beijing Internet Information Office
2	"Kongqingdong V1 Family"(孔慶東V1家) won the "Innovation Award of the Year"(年度創新獎)	Global Mobile Internet Union 2014
3	"The First View of News" won the "Best Original Online Variety Production Award" (最佳原創網路綜藝作品獎)	Beijing Internet Association
4	V1 Portal won the "Top 10 Broadcast Institution Award "(十佳播出機構獎) at the 2nd Jinruodan International Micro Film Festival (第二屆金丹若國際微電影藝術節)	China Television Artists Association



No.	Name of Award	Presented by
5	Lottery 365 won the award of "Annual Excellent Partner"(年度優秀合作夥伴)	China Telecom
6	Lottery 365 won the "Most Valuable Product for Commemorating the 20th Anniversary of China's Full-scale Internet Connection"(「紀念中國全功能接入互聯網20年最具價值產品」)	Internet Society of China
7	Lottery 365 won the"2014 Best Mobile Internet APP for Lottery Entertainment in China"(二零一四中國移動互聯網最佳彩票娛樂應用)	The Committee of China Best APP Nationwide Tour Contest
8	Lottery 365 won the "Most Popular APP in 2014"(二零一四年度最受歡迎應用獎)	Go market
9	CMGE won "The 10 Best Mobile Games Publishers" of Golden Plume Award(金翎獎「十大移動遊戲最佳品牌發行商」)	ChinaJoy 2014
10	"Jue Zhan Sha Cheng" won the "Best Adapted Game" Interactive Entertainment Category of eStar in 2014(二零一四易觀之星互動娛樂類「最佳改編遊戲」)	Analysys International
11	"Crisis Action" won the "Best Shooting Mobile Game of the Year"(年度射擊類移動遊戲)	2nd International Mobile Game Forum (IMGF)
12	"Charming Dancer" won the "GMGC Best Visual Award" (「GMGC畫面大獎」)	2014 Global Mobile Game Congress (GMGC)

FINANCIAL REVIEW

BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**83,746**	31,490	**242,681**	114,903	**1,619,285**	448,685	**1,945,712**	595,078
Reportable segment profit/(loss)	**(217,603)**	(71,177)	**78,964**	32,049	**256,061**	2,189	**117,422**	(36,939)

TELE-MEDIA BUSINESS

The tele-media business segment contributed a turnover of HK$83,746,000 to the Group for the year ended 31 December 2014, representing an increase of around 166% as compared with the corresponding period in 2013. Segment loss was HK$217,603,000 for the year (2013: Loss of HK$71,177,000).

The unsatisfactory performance was mainly attributable to the fact that the Group's tele-media business was still undergoing a strategic realignment process in 2014. These greatly increased the relevant marketing expenses and platform development costs such as content production costs during the period. But the corresponding revenue has not yet been derived during the period.

LOTTERY-RELATED BUSINESS

For the year ended 31 December 2014, the Group recorded a lottery-related income of HK$242,681,000, representing an increase of around 111% as compared with the corresponding period last year. Segment profit for the whole year increased by 146% to HK$78,964,000 when compared with last year's corresponding period.

With the success of various promotional campaigns launched by the Group during the year, the lottery-related business of the Group continue the pattern of high growth in the year.

However, due to the recent promulgation of the Notice of General Administration of Sport on the Practical Implementation of Special Audit Opinions on Lottery Funds to Strengthen the Sports Lottery Management（《體育總局關於切實落實彩票資金專項審計意見加強體育彩票管理工作的通知》）by the General Administration of Sport of the People's Republic of China (the "PRC") and the Notice on Issues Regarding Conducting Self-examination and Self-correction Activities of the Unauthorised Sale of Lottery through Internet（《關於開展擅自利用互聯網銷售彩票行為自查自糾工作有關問題的通知》）jointly promulgated by the Ministry of Finance, Ministry of Civil Affairs and the General Administration of Sport of the PRC, the Group's business partners had suspended the operations of online sale of paperless lottery tickets and sale of lottery tickets through mobile phones with effect from 1 March 2015. Accordingly the Group's lottery-related business had been suspended simultaneously. It is uncertain when the operation of the Group's lottery-related business will resume.

The Group's business partners will observe and comply with any new rules and regulations promulgated by the relevant PRC regulatory authorities and make adjustments to their operations of online sale of lottery tickets and sale of lottery tickets through mobile phones where necessary. And the Group will actively cooperate with its business partners with an aim to have lottery-related business of the Group back on the track as soon as possible.

MOBILE GAMES BUSINESS

For the year of 2014, the mobile games business segment revenue increased to HK$1,619,285,000, representing an increase of around 261% as compared with the corresponding period in 2013. Segment profit increased by 11,598% to HK$256,061,000 when compared with last year's corresponding period (2013: Profit of HK$2,189,000).

The strong financial performance of the Group's mobile games business was driven by the success of its self-developed game and publishing distribution platform after its successful business transitioning process as well as prudent cost control management.

NET LOSS

Loss attributable to the owners of the Company for the year was HK$131,590,000, compared to a loss of HK$160,014,000 in the last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group had HK$602,725,000 cash and cash equivalents (31 December 2013: HK$616,137,000).Working capital was HK$1,508,331,000 as compared with the working capital of HK$1,046,476,000 at the end of last year. The Group had no bank borrowings as at 31 December 2014 (2013: HK$17,938,000). Since the Group generates most of the revenue and incurs most of the costs in Renminbi, there was no material foreign exchange risk. As at 31 December 2014, the Group's current ratio was 4.2 (31 December 2013: 4.1). Taking into account the financial resources available, the directors of the Company (the "Directors") are of the view that the Group will have sufficient working capital for its present requirement.

CAPITAL STRUCTURE

As at 31 December 2014, the total assets of the Group amounted to HK$4,528,160,000 (2013: HK$3,622,718,000). The number of the issued shares of the Company was increased from 3,286,693,262 shares (31 December 2013) to 3,297,925,262 shares (31 December 2014), which was due to the issuance of new shares upon exercise of share options granted pursuant to the share option schemes of the Company. The Group's capital structure, as well as cash inflow, are therefore very healthy.

EMPLOYEES REMUNERATION AND BENEFITS

As at 31 December 2014, the Group had a total of 1,743 employees. They include the management team and the employees in administration, production and sales departments. The Group regularly reviewed its professional team members and will expand its management team whenever necessary.

The Group remunerates the Directors and its staff primarily based on their contribution, responsibilities, qualification and experience. The Group has implemented staff stock option plans. The Group has granted options to the Directors and other employees to encourage them towards enhancing the value of the Group and to promote the long-term growth of the Group.

Furthermore, the Group offers training programs to employees to upgrade their skills and knowledge on a regular basis.


第1彩
DIYICAI.COM

FINANCIAL STATEMENTS

Independent Auditor's Report

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF V1 GROUP LIMITED

(Formerly known as VODONE LIMITED)

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of V1 Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 64 to 157, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

EMPHASIS OF MATTER

We draw attention to the disclosure made in note 45 to the consolidated financial statements which describes the suspension of the Group's lottery-related operation after the reporting period. Our opinion is not qualified in respect of this matter.

BDO Limited
Certified Public Accountants

Ng Wai Man
Practising Certificate no. P05309

Hong Kong, 27 March 2015

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	7	**1,945,712**	595,078
Cost of revenue		**(1,009,904)**	(398,765)
Gross profit		**935,808**	196,313
Other gains and losses	8	**14,960**	52,542
Selling and marketing expenses		**(471,297)**	(189,647)
Administrative expenses		**(471,088)**	(197,265)
Impairment of intangible assets	21	**–**	(3,715)
Finance costs	9	**–**	(3,900)
Share of loss of a joint venture	18	**(826)**	–
Share of profit of associates	17	**1,082**	15
Profit/(loss) before income tax	9	**8,639**	(145,657)
Income tax expense	12(a)	**(3,702)**	(20,149)
PROFIT/(LOSS) FOR THE YEAR		**4,937**	(165,806)
Other comprehensive income			
Items that maybe reclassified subsequently to profit or loss:			
Change in value of available-for-sale financial assets		**(15,696)**	6,242
Exchange differences arising on translation of foreign operations		**(44,085)**	60,552
Other comprehensive income for the year		**(59,781)**	66,794
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(54,844)**	(99,012)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(131,590)**	(160,014)
Non-controlling interests		**136,527**	(5,792)
		4,937	(165,806)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(185,797)**	(99,639)
Non-controlling interests		**130,953**	627
		(54,844)	(99,012)
LOSS PER SHARE			
– Basic (HK cents)	14	**(4.00) cents**	(5.01) cents
– Diluted (HK cents)	14	**(4.00) cents**	(5.01) cents

Consolidated Statement of Financial Position

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**57,421**	48,444
Interests in associates	17	**51,436**	42,654
Interest in a joint venture	18	**2,329**	–
Goodwill	19	**942,857**	957,049
Intangible assets	21	**1,321,501**	1,186,246
Deferred tax assets	29	**–**	3,250
Deposits for acquisition of property, plant and equipment		**–**	836
Other financial assets	25	**179,597**	2,563
		2,555,141	2,241,042
CURRENT ASSETS			
Trade receivables	22	**713,121**	179,032
Other receivables, deposits and prepayments	23	**535,867**	458,131
Inventories	24	**1,013**	–
Other financial assets	25	**30,183**	44,498
Amounts due from associates	40(c)	**90,076**	75,355
Amounts due from related companies	40(d)	**34**	8,523
Bank balances and cash	26	**602,725**	616,137
		1,973,019	1,381,676
CURRENT LIABILITIES			
Trade payables	27	**254,892**	58,920
Deposits received, other payables and accruals	28	**172,959**	106,710
Amount due to an associate	40(e)	**550**	–
Amounts due to related companies	40(e)	**5,895**	53
Other financial liabilities	31	**–**	99,372
Bank borrowings	32	**–**	17,938
Consideration shares	33	**–**	22,680
Deferred revenue		**22,619**	15,466
Tax payable		**7,773**	14,061
		464,688	335,200
NET CURRENT ASSETS		**1,508,331**	1,046,476
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,063,472**	3,287,518
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	**45,999**	49,624
NET ASSETS		**4,017,473**	3,237,894
EQUITY			
Share capital	30	**32,979**	32,651
Reserves		**3,144,231**	2,818,421
Equity attributable to owners of the Company		**3,177,210**	2,851,072
Non-controlling interests		**840,263**	386,822
TOTAL EQUITY		**4,017,473**	3,237,894

Zhang Lijun	**Wang Chun**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company								
	Share capital (note 30) HK$'000	Share premium (note 36(a)) HK$'000	Investment revaluation reserve (note 36(b)) HK$'000	Other reserves (note 36(c)) HK$'000	Share-based compensation reserve (note 36(d)) HK$'000	Exchange fluctuation reserve (note 36(e)) HK$'000	Retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	30,981	1,364,058	–	462,432	44,815	215,365	597,220	175,513	2,890,384
Profit or loss	–	–	–	–	–	–	(160,014)	(5,792)	(165,806)
Other comprehensive income	–	–	6,242	–	–	54,133	–	6,419	66,794
Total comprehensive income for the year	–	–	6,242	–	–	54,133	(160,014)	627	(99,012)
Exercise of share options	–	–	–	1,925	(1,925)	–	–	–	–
Lapse of share options	–	–	–	–	(21,627)	–	21,627	–	–
Acquisition of subsidiaries	1,371	71,308	–	1,942	–	–	–	1,814	76,435
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	176	176
Transfer of consideration shares for business acquisition in prior year	299	21,831	–	–	–	–	–	–	22,130
Recognition of share-based payment expense	–	–	–	–	10,378	–	–	7,691	18,069
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	(592)	(592)
Profit appropriation on dividend paid by a subsidiary	–	–	–	19,286	–	–	(19,286)	–	–
Deemed disposal of partial interest in a subsidiary	–	–	–	128,711	–	–	–	201,593	330,304
At 31 December 2013	32,651	1,457,197	6,242	614,296	31,641	269,498	439,547	386,822	3,237,894
Profit or loss	–	–	–	–	–	–	(131,590)	136,527	4,937
Other comprehensive income	–	–	(15,696)	–	–	(38,511)	–	(5,574)	(59,781)
Total comprehensive income for the year	–	–	(15,696)	–	–	(38,511)	(131,590)	130,953	(54,844)
Exercise of share options (note 39(a), (c))	112	8,621	–	–	(1,171)	–	–	–	7,562
Lapse of share options (note 39(a), (c))	–	–	–	–	(12,683)	–	12,683	–	–
Lapse of put-option of shares in a subsidiary (note 31)	–	–	–	48,036	–	–	–	51,336	99,372
Acquisition of a subsidiary	–	–	–	506	–	–	–	–	506
Transfer of consideration shares for business acquisition in prior year (note 33)	216	22,464	–	–	–	–	–	–	22,680
Recognition of share-based payment expense (note 39)	–	–	–	–	41,486	–	–	48,572	90,058
Deemed disposal of partial interest in a subsidiary (note 20(a),(b))	–	–	–	391,665	–	–	–	222,580	614,245
Profit appropriation	–	–	–	6,309	–	–	(6,309)	–	–
At 31 December 2014	32,979	1,488,282	(9,454)	1,060,812	59,273	230,987	314,331	840,263	4,017,473

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before income tax	**8,639**	(145,657)
Depreciation of property, plant and equipment	**23,771**	17,516
Amortisation of intangible assets	**124,456**	80,438
Foreign exchange gain, net	**–**	(106)
Interest income	**(11,563)**	(5,541)
Interest expense	**–**	3,900
Loss on disposal of property, plant and equipment	**73**	23
Share of profit of associates	**(1,082)**	(15)
Share of loss of a joint venture	**826**	–
Share-based payment expenses in respect of:–		
– granting of share options	**2,690**	772
– granting shares of subsidiary	**87,368**	17,297
Impairment of intangible assets	**–**	3,715
Reversal of provision for write-down of inventories	**–**	(825)
Gain on bargain purchase	**–**	(11,904)
Gain on disposal of a subsidiary	**(17)**	(1,192)
Realised fair value gain on other financial assets	**–**	(20,241)
Fair value gain on consideration shares	**–**	(16,659)
Operating cash flows before working capital changes	**235,161**	(78,479)
Decrease in inventories	**10,338**	3,680
Increase in trade receivables	**(537,419)**	(68,998)
(Increase)/decrease in other receivables, deposits and prepayments	**(80,784)**	24,945
(Increase)/decrease in amounts due from associates	**(15,642)**	176,547
Decrease/(increase) in amounts due from related companies	**8,350**	(7,642)
Increase in trade payables	**188,549**	51,586
Increase in deposits received, other payables and accruals	**64,520**	17,559
Increase in amount due to an associate	**544**	–
Increase in amounts due to related companies	**161**	–
Increase in deferred revenue	**7,145**	15,466
Effect of foreign exchange rate changes	**(10,226)**	(890)
Net cash (used in)/generated from operations	**(129,303)**	133,774
Income tax paid	**(9,631)**	(28,540)
Net cash (used in)/generated from operating activities	**(138,934)**	105,234

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(33,121)**	(19,143)
Purchases of intangible assets		**(266,082)**	(140,863)
Proceeds on disposal of intangible assets		**793**	–
Proceeds on disposal of property, plant and equipment		**2,016**	224
Purchase of investment fund		**(18,934)**	–
Purchase of available-for-sale financial assets		**(159,520)**	(2,563)
Disposal of a subsidiary, net of cash disposed	35(b)	**17**	6
Acquisition of subsidiaries, net of cash acquired		**861**	(107,516)
Acquisition of an associate		**(8,282)**	–
Acquisition of a joint venture		**(3,155)**	–
Compensation from vendors in relation to acquisition of subsidiaries		**–**	54,788
Interest received		**11,563**	5,541
Net cash used in investing activities		**(473,844)**	(209,526)
FINANCING ACTIVITIES			
Net proceeds from issue of shares through exercise of share options		**7,562**	–
Payment of dividends		**–**	(592)
Proceeds from borrowings	32	**–**	17,938
Repayment of borrowings	32	**(17,938)**	–
Proceeds from issue of ordinary shares of a subsidiary	34	**614,245**	330,303
Capital contribution from non-controlling interests		**–**	176
Net cash generated from financing activities		**603,869**	347,825
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(8,909)**	243,533
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**616,137**	364,503
Effect of foreign exchange rate changes		**(4,503)**	8,101
CASH AND CASH EQUIVALENTS AT END OF YEAR		**602,725**	616,137
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**602,725**	616,137

Statement of Financial Position

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	16	**18**	34
Investments in subsidiaries	20	**1,402,967**	1,402,967
Intangible assets	21	**734,984**	777,376
		2,137,969	2,180,377
CURRENT ASSETS			
Deposits	23	**3,819**	3,819
Dividend receivable		**–**	64,394
Other financial assets	25	**30,183**	44,498
Amounts due from subsidiaries	20	**245,324**	244,214
Amount due from a related company	40(d)	**33**	33
Bank balances and cash		**17,743**	17,973
		297,102	374,931
CURRENT LIABILITIES			
Deposits received, other payables and accruals	28	**1,593**	40,687
Amounts due to subsidiaries	20	**131,784**	46,417
Consideration shares	33	**–**	22,680
Tax payable		**–**	6,440
Dividend payable		**1,773**	1,773
		135,150	117,997
NET CURRENT ASSETS		**161,952**	256,934
NET ASSETS		**2,299,921**	2,437,311
EQUITY			
Share capital	30	**32,979**	32,651
Reserves	36	**2,266,942**	2,404,660
TOTAL EQUITY		**2,299,921**	2,437,311

Zhang Lijun
Director

Wang Chun
Director

Notes to the Financial Statements

For the year ended 31 December 2014

1. GENERAL

V1 Group Limited (formerly known as VODone Limited) (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Its principal place of business is located at Room 3006, 30th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.

The Company and its subsidiaries (thereafter referred to as the "Group") are principally engaged in tele-media business, lottery-related business and mobile games business in the People's Republic of China ("PRC"). In 2012, a non-wholly owned subsidiary of the company, China Mobile Games and Entertainment Group Limited, which is principally engaged in mobile games business, is successfully listed on the Nasdaq Global Market in the United States.

The Group provides internet information services through a series of service agreements (as defined in the Company's circular dated 18 August 2006 and mentioned below) entered into among the Company, the Group's associate – VODone Datamedia Technology Co., Ltd. ("TMD1") and VODone Telemedia Co. Ltd. ("VODone Telemedia") or its related company.

VODone Telemedia, a company established in the PRC, owns the domain name (www.v1.cn) and is licensed in the PRC to provide an audio/video transmission platform delivering a range of cross media telecommunications contents and valued added services to its customers. Dr. Zhang Lijun is a director of both VODone Telemedia and the Company and he has beneficial interests in the Company as at the end of reporting period.

Under the abovementioned arrangements, VODone Telemedia, as the holder of the business licenses, has established a normal commercial arrangement to outsource its various technical, contents, advertising and marketing and other support service with TMD1, for the latter to provide the exclusive business support and content services to VODone Telemedia or its related companies. The Group provides the support services to TMD1 which can in turn fulfill its obligation as VODone Telemedia's exclusive service provider.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(A) ADOPTION OF NEW/REVISED HKFRSS – EFFECTIVE 1 JANUARY 2014

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

The adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(B) NEW/REVISED HKFRSS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRSs	Annual Improvement to HKFRSs 2010 – 2012 Cycle[2]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2011 – 2013 Cycle[1]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2012 – 2014 Cycle[3]
HKFRS 9 (2014)	Financial Instruments[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[4]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 July 2014 with limited exceptions
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2018

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(B) NEW/REVISED HKFRSS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE *(Continued)*

HKFRS 9 (2014) – Financial Instruments *(Continued)*

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

3. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

3. BASIS OF PREPARATION *(Continued)*

(B) BASIS OF MEASUREMENT

The financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of the Company is Renminbi ("RMB"), while the financial statements are presented in Hong Kong dollars ("HK$"), which the directors considered it is more beneficial to the users of the financial statements. As the Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited, the directors consider that it will be more appropriate to continuously adopt Hong Kong dollars as the Group's and the Company's presentation currency.

4. SIGNIFICANT ACCOUNTING POLICIES

(A) BUSINESS COMBINATION AND BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(A) BUSINESS COMBINATION AND BASIS OF CONSOLIDATION *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(B) SUBSIDIARIES

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

(D) JOINT ARRANGEMENTS

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) JOINT ARRANGEMENTS *(Continued)*

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures in the same manner as investments in associates (i.e. using the equity method – see note 4(C)).

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

(E) GOODWILL

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(E) GOODWILL *(Continued)*

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The depreciation rates are as follows:

Leasehold improvements	over the remaining terms of the lease but not exceeding 5 years
Motor vehicles	5 years
Plant, machinery and equipment	5-10 years
Computer hardware and software	3-10 years
Furniture, fixtures and office equipment	3-10 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4(P)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(H) INTANGIBLE ASSETS

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of revenue.

Internet SNS assets	Indefinite
Platform and domain names	Indefinite
Purchased software and technology	10-15 years
Mobile games license and platform	2-7 years
Distribution networks	7-10 years
Websites	10 years
Service contracts	3-10 years
Mobile games licenses	2-6 years

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(H) INTANGIBLE ASSETS *(Continued)*

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (note 4(P)).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) FINANCIAL INSTRUMENTS *(Continued)*

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(J) INVENTORIES

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(K) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follow:

(i) advertising income are recognised when services are performed in accordance with the terms of the contract.

(ii) service income are recognised when services are performed in accordance with the substance of the relevant agreement.

(iii) revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

(iv) revenue from single player games and social games in mobile games business is recognised when the goods are delivered based on download of games or consumption of in-game premium features by mobile phone game players, or over the subscription period. The estimated net proceeds to be received from the mobile network operators and the third-party payment platforms for the sale of game points of the social games, using data generated from its internal system, is recorded as deferred revenue upon delivery of game points to mobile phone game players. Deferred revenue is recognised as social games revenue ratably over the estimated average playing period of the paying mobile phone game players, starting from the point in time when game points are delivered to the mobile phone game players. The difference between the estimated proceeds and the actual amounts confirmed by the mobile network operators, third-party payment platforms or mobile phone service providers is recognised in the consolidated statement of comprehensive income when billing confirmations are received by the Group.

(v) revenue from licensed games in mobile games business is recognised at the estimated net proceeds to be received from the third-party payment platforms and third party app stores for the sale of game points of the licensed games net of the amount to be shared with the third-party game developers, using data generated from its internal system, as licensed games revenues upon delivery of game points to mobile phone game players.

(vi) interest income are recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(L) INCOME TAXES

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(M) FOREIGN CURRENCY

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(M) FOREIGN CURRENCY *(Continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange fluctuation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange fluctuation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

(N) EMPLOYEE BENEFITS

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. Prior to the MPF Scheme being effective, the Group did not have any pension arrangements for its employees.

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, and are charged to profit or loss as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(O) SHARE-BASED PAYMENTS

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. When the entity cannot estimate reliably the fair value of goods or services received, they are indirectly measured by reference to the fair value of the equity instruments granted. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(P) IMPAIRMENT OF OTHER ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets with finite useful life;
- investments in subsidiaries and associates

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(Q) CAPITALISATION OF BORROWING COSTS

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(R) GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(S) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(T) RELATED PARTIES

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a); or

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(A) CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(B) KEY SOURCES OF ESTIMATION UNCERTAINTY

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Valuation of intangible assets and useful lives

The Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the useful lives of such assets. These estimations and assumptions impact the consolidated statement of comprehensive income over the useful life of the intangible asset.

(ii) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has three reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Tele-media business – Provision of internet information services, including mini-video news portal and self-produced original news commentary programs, as well as mini-video news platform for the mobile clients; and also operating in mobile internet-related business, including on-line games, on-line shows and E-commerce services etc..

- Lottery-related business – Provision of lottery-related business services through the corresponding services offered to and the complementary support of lottery information, mobile phone lottery betting system and the lottery weibo.

- Mobile games business – Development and provision of mobile games, as well as provision of mobile and internet value-added services, and also developing and designing of mobile communication products.

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

6. SEGMENT REPORTING *(Continued)*

(A) BUSINESS SEGMENTS

	Tele-media business		Lottery-related business		Mobile games business		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Revenue from external customers	**83,746**	31,490	**242,681**	114,903	**1,619,285**	448,685	**1,945,712**	595,078
Reportable segment profit/(loss)	**(217,603)**	(71,177)	**78,964**	32,049	**256,061**	2,189	**117,422**	(36,939)
Interest income	**1,114**	250	**1**	–	**10,448**	5,291	**11,563**	5,541
Impairment of intangible assets	**–**	–	**–**	–	**–**	3,767	**–**	3,767
Depreciation and amortisation	**46,627**	38,834	**29,988**	30,265	**71,612**	28,838	**148,227**	97,937
Share-based payment	**–**	–	**–**	–	**87,369**	16,265	**87,369**	16,265
Reportable segment assets	**819,574**	1,180,764	**1,071,780**	1,023,515	**2,531,135**	1,309,351	**4,422,489**	3,513,630
Additions to non-current assets	**5,683**	228,483	**–**	101,177	**294,752**	106,030	**300,435**	435,690
Reportable segment liabilities	**6,457**	4,181	**45,634**	46,353	**455,213**	163,270	**507,304**	213,804

(B) RECONCILIATION OF REPORTABLE SEGMENT PROFIT/(LOSS), ASSETS AND LIABILITIES

	2014 HK$'000	2013 HK$'000
Profit/(loss) before income tax		
Reportable segment profit/(loss)	**117,422**	(36,939)
Other gains and losses	**(67)**	36,900
Share of profit of associates	**1,082**	15
Share of loss of a joint venture	**(826)**	–
Unallocated expenses:		
– Advertising expenses	**(85,372)**	(104,821)
– Share-based payment expenses	**(2,690)**	(10,745)
– Staff costs	**(15,561)**	(15,184)
– Interest expenses	**–**	(3,900)
– Others	**(5,349)**	(10,983)
Consolidated profit/(loss) before income tax	**8,639**	(145,657)

6. SEGMENT REPORTING *(Continued)*

(B) RECONCILIATION OF REPORTABLE SEGMENT PROFIT/(LOSS), ASSETS AND LIABILITIES *(Continued)*

	2014 HK$'000	2013 HK$'000
Assets		
Reportable segment assets	**4,422,489**	3,513,630
Other financial assets	**30,183**	44,498
Interests in associates	**51,436**	42,654
Interest in a joint venture	**2,329**	–
Unallocated corporate assets	**21,723**	21,936
Consolidated total assets	**4,528,160**	3,622,718

	2014 HK$'000	2013 HK$'000
Liabilities		
Reportable segment liabilities	**507,304**	213,804
Deposits received, other payables and accruals	**3,383**	48,899
Other financial liabilities	**–**	99,372
Consideration shares	**–**	22,680
Unallocated corporate liabilities	**–**	69
Consolidated total liabilities	**510,687**	384,824

(C) GEOGRAPHICAL INFORMATION

During 2014 and 2013, over 90% of the Group's revenue is attributable to customers in the PRC and over 90% of the Group's total non-current assets are located in the PRC and the remaining non-current assets are located in Hong Kong.

(D) MAJOR CUSTOMERS

The Group's associate is the only major customer with whom transactions have exceeded 10% of the Group's revenues. Revenue from the Group's associate amounted to approximately HK$25,355,000 (2013: HK$28,692,000) in the tele-media segment and amounted to approximately HK$242,681,000 (2013: HK$114,903,000) in the lottery-related segment.

7. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and service fees earned. An analysis of turnover and revenue is as follows:

	2014 **HK$'000**	2013 HK$'000
Revenue		
Tele-media business:		
– advertising and service income	**83,746**	31,490
Lottery-related business:		
– service income	**242,681**	114,903
Mobile games business:		
– sales of mobile games and mobile communication products	**1,619,285**	448,685
	1,945,712	595,078

8. OTHER GAINS AND LOSSES

	2014 HK$'000	2013 HK$'000
Interest income	**11,563**	5,541
Net foreign exchange gains	**2,160**	106
Others	**1,293**	(3,078)
Gain on disposal of a subsidiary (note 35(a))	**17**	1,192
Realised fair value gain on other financial assets	**–**	20,241
Loss on disposal of property, plant and equipment	**(73)**	(23)
Fair value gain on consideration shares	**–**	16,659
Gain on bargain purchase	**–**	11,904
	14,960	52,542

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging/(crediting):

	2014 HK$'000	2013 HK$'000
Staff costs (excluding directors' remuneration (note 10))		
Salaries and wages	**207,844**	104,878
Pension fund contributions	**45,795**	21,721
Share-based payments	**81,059**	10,823
	334,698	137,422
Carrying amount of inventories sold	**45,840**	38,836
Reversal of provision for write-down of inventories	**–**	(825)
Depreciation of property, plant and equipment	**23,771**	17,516
Amortisation of intangible assets included in		
Cost of revenue	**88,904**	74,900
Administrative expenses	**35,552**	5,538
Interest expenses on bank borrowings		
– wholly repayable within five years	**–**	3,900
Auditor's remuneration	**1,371**	1,313

10. DIRECTORS' REMUNERATION

	2014 HK$'000	2013 HK$'000
Directors' fees		
Executive directors	**6,297**	5,568
Independent non-executive directors	**451**	439
Basic remuneration, allowances and benefits in kind	**4,320**	4,555
Share-based payments	**8,999**	1,741
Pension fund contributions	**34**	30
	20,101	12,333

Directors' remuneration related information disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK$'000	Basic remuneration, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
2014					
Executive directors					
Zhang Lijun	4,781	2,377	8,483	17	15,658
Wang Chun	1,516	1,943	382	17	3,858
Independent non-executive directors					
Loke Yu, Alias Loke Hoi Lam	185	–	54	–	239
Wang Zhichen (passed away on 8 October 2014)	115	–	40	–	155
Wang Linan	138	–	40	–	178
Gong Zhankui (appointed on 28 November 2014)	13	–	–	–	13
	6,748	4,320	8,999	34	20,101

10. DIRECTORS' REMUNERATION *(Continued)*

	Directors' fees HK$'000	Basic remuneration, allowances and benefits in kind HK$'000	Share-based payments HK$'000	Pension fund contributions HK$'000	Total HK$'000
2013					
Executive directors					
Zhang Lijun	4,224	2,605	1,022	15	7,866
Wang Chun	1,344	1,950	642	15	3,951
Independent non-executive directors					
Loke Yu, Alias Loke Hoi Lam	175	–	31	–	206
Wang Zhichen	132	–	23	–	155
Wang Linan	132	–	23	–	155
	6,007	4,555	1,741	30	12,333

There were no arrangements under which a director waived or agreed to waive any remuneration for the year (2013: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2013: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, one (2013: two) was director of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining four (2013: three) individuals are as follows:

	2014 HK$'000	2013 HK$'000
Basic remuneration, allowances and benefits in kind	6,000	6,997
Share-based payments	62,969	3,331
Pension fund contributions	34	49
	69,003	10,377

Their emoluments are within the following bands:

	2014 No. of employees	2013 No. of Employees
HK$2,000,001 to HK$2,500,000	–	1
HK$3,000,001 to HK$3,500,000	–	1
HK$4,500,001 to HK$5,000,000	–	1
HK$8,000,001 to HK$8,500,000	1	–
HK$15,500,001 to HK$16,000,000	1	–
HK$16,000,001 to HK$16,500,000	1	–
HK$29,000,001 to HK$29,500,000	1	–

The emoluments paid or payable to members of senior management (excluding the directors of the Company) were within the following bands:

	2014 No. of employees	2013 No. of employees
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	–	1

12. INCOME TAX EXPENSE

(a) Taxation in the consolidated statement of comprehensive income represents:

	2014 HK$'000	2013 HK$'000
Current tax – PRC		
– provision for the year	**3,795**	2,606
– (over)/under provision in prior year	**(535)**	960
– withholding tax on distribution of retained profits of subsidiaries	**–**	19,039
Current tax – Hong Kong Profits Tax		
– provision for the year	**–**	454
– over provision in prior year	**(81)**	(151)
Current tax – Overseas income tax		
– provision for the year	**164**	–
Deferred taxation (note 29)		
– attributable to the reversal of temporary differences	**359**	(2,759)
	3,702	20,149

The Hong Kong profits tax of OWX Hong Kong Limited is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the year.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC income tax of the subsidiaries of the Group is calculated based on the statutory tax rate of 25%, except for the following subsidiaries:

(i) VODone Information Engineering Co., Ltd. ("TMD2") is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%.

(ii) 廣州億通天下軟件開發有限公司 is regarded as a high-technology company according to PRC tax regulations and is entitled to a tax concession from local tax authority in which the company was fully exempted from PRC corporate income tax ("CIT") for years 2011 to 2012, followed by a 50% reduction in CIT for the next 3 years, 2013 to 2015.

12. INCOME TAX EXPENSE *(Continued)*

(a) *(Continued)*

(iii) Huiyou Digital (Shenzhen) Ltd. is regarded as a high-technology company according to PRC tax regulations and is entitled to a tax concession from local tax authority in which the company was fully exempted from CIT for years 2012 to 2013, followed by a 50% reduction in CIT for the next 3 years, 2014 to 2016.

(iv) 成都卓星科技有限公司 is regarded as a high-technology company according to PRC tax regulations and is entitled to a tax concession from local tax authority in which the company was fully exempted from CIT for years 2014 to 2015, followed by a 50% reduction in CIT for the next 3 years, 2016 to 2018.

(v) 深圳市嵐悦網悦科技有限公司 is regarded as a high-technology company according to PRC tax regulations and is entitled to a tax concession from local tax authority in which the company was fully exempted from CIT for years 2014 to 2015, followed by a 50% reduction in CIT for the next 3 years, 2016 to 2018.

In 2013, the Company received dividends from TMD2 attributable to the profits of the previous financial year which was subject to PRC withholding tax at 10% of the distributed profits.

(b) The income tax expense for the year can be reconciled to the accounting profit/(loss) as follows:

	2014 HK$'000	2013 HK$'000
Profit/(loss) before income tax	**8,639**	(145,657)
Taxation calculated at PRC income tax of 25% (2013: 25%)	**2,160**	(36,414)
Tax effect of non-taxable income	**(52,944)**	(11,938)
Tax effect of expenses not deductible for taxation purposes	**70,855**	37,155
Tax effect of tax losses not recognised	**62,192**	24,815
Effect of tax exemptions granted	**(101,125)**	(23,383)
Effect of lower tax rate applicable to subsidiaries as a result of preferential tax policy as described in (a)	**(4,056)**	4,321
Effect of tax rate in foreign jurisdictions	**24,100**	5,745
Under provision in prior year	**2,520**	809
Withholding tax on distribution of retained profits of subsidiaries	**–**	19,039
Income tax expense for the year	**3,702**	20,149

13. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss for the year attributable to owners of the Company includes a loss of HK$156,008,000 (2013: a loss of HK$52,434,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2014 HK$'000	2013 HK$'000
Amount of consolidated loss attributable to owners dealt with in the Company's financial statements	(156,008)	(52,434)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	–	190,393
Company's (loss)/profit for the year	(156,008)	137,959

14. LOSS PER SHARE

	2014 HK cents	2013 HK cents
Basic loss per share	(4.00)	(5.01)
Diluted loss per share	(4.00)	(5.01)

The calculation of loss per share for the year is based on the loss for the year attributable to owners of the Company of HK$131,590,000 (2013: loss of HK$160,014,000) and the weighted average number of 3,286,628,566 shares in issue during the year (2013: 3,193,066,058 share in issue). 21,600,067 shares, which were subjected to recall in 2013 as disclosed in note 33, were not treated as outstanding and were excluded from the calculation of basic earnings per share for the year ended 31 December 2013.

The share options outstanding at the year end had an anti-dilutive effect on the basic loss per share. Therefore, the basic and diluted loss per share in 2013 and 2014 are the same.

15. DIVIDENDS

There is no final dividend proposed after the end of the reporting period.

16. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements HK$'000	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Computer hardware and software HK$'000	Furniture, fixture, and office equipment HK$'000	Total HK$'000
Cost:						
At 1 January 2013	19,084	9,864	43,731	32,424	6,755	111,858
Acquisition of subsidiaries	–	–	–	9	216	225
Additions	6,126	–	1,217	6,081	6,263	19,687
Disposals	–	(699)	–	(298)	(178)	(1,175)
Exchange adjustments	600	283	1,286	847	281	3,297
At 31 December 2013	25,810	9,448	46,234	39,063	13,337	133,892
Acquisition of subsidiaries	179	–	–	467	1,111	1,757
Additions	5,079	2,272	1,095	15,954	9,544	33,944
Disposals	(2,650)	(682)	(475)	(686)	(651)	(5,144)
Exchange adjustments	(330)	(140)	(668)	(726)	(193)	(2,057)
At 31 December 2014	**28,088**	**10,898**	**46,186**	**54,072**	**23,148**	**162,392**
Accumulated depreciation:						
At 1 January 2013	12,600	7,783	25,908	17,572	3,044	66,907
Charge for the year	3,996	262	6,074	4,789	2,395	17,516
Written back on disposals	–	(604)	–	(211)	(113)	(928)
Exchange adjustments	383	226	832	392	120	1,953
At 31 December 2013	16,979	7,667	32,814	22,542	5,446	85,448
Charge for the year	6,251	270	4,543	8,228	4,479	23,771
Written back on disposals	(2,179)	(546)	(38)	(143)	(149)	(3,055)
Exchange adjustments	(215)	(181)	(474)	(290)	(33)	(1,193)
At 31 December 2014	**20,836**	**7,210**	**36,845**	**30,337**	**9,743**	**104,971**
Carrying amount:						
At 31 December 2014	**7,252**	**3,688**	**9,341**	**23,735**	**13,405**	**57,421**
At 31 December 2013	8,831	1,781	13,420	16,521	7,891	48,444

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

Company	Leasehold improvements HK$'000	Plant, machinery and equipment HK$'000	Furniture, fixture, and office equipment HK$'000	Total HK$'000
Cost:				
At 31 December 2013 and 2014	**1,485**	**634**	**326**	**2,445**
Accumulated depreciation:				
At 1 January 2013	1,485	626	283	2,394
Charge for the year	–	2	15	17
At 31 December 2013	1,485	628	298	2,411
Charge for the year	–	2	14	16
At 31 December 2014	**1,485**	**630**	**312**	**2,427**
Carrying amount:				
At 31 December 2014	**–**	**4**	**14**	**18**
At 31 December 2013	–	6	28	34

17. INTERESTS IN ASSOCIATES

	Group	
	2014 HK$'000	2013 HK$'000
Share of net liabilities	**(16,337)**	(19,284)
Goodwill	**67,773**	61,938
	51,436	42,654

The acquisition of the associates were related to the Group's tele-media services business ("Tele-media CGU") in the PRC and the carrying amount of interests in associate have been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 19).

17. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the Group's associates are as follows:–

Name of company	Form of business structure	Place of incorporation and operation	Percentage of ownership interests/ voting rights/ profit share	Principal activity
TMD1	Corporation	PRC	49%	Provision of tele-media business support and content services
北京迷你威網絡科技有限公司	Corporation	PRC	49%	Inactive
北京天雨網絡科技有限公司	Corporation	PRC	25%	Inactive

Summarised financial information (material associate)

TMD1	2014 HK$'000	2013 HK$'000
As at 31 December		
Current assets	**113,749**	67,795
Non-current assets	**171**	189
Current liabilities	**(151,017)**	(108,129)
Non-current liabilities	**–**	–
	(37,097)	(40,145)
Included in the above amounts are:		
Bank balances and cash	**89**	728
Current financial liabilities (excluding trade and other payables)	**(109,050)**	(64,274)
Non-current financial liabilities (excluding other payables and provisions)	**–**	–
Year ended 31 December		
Revenue	**335,992**	138,292
Profit for the year	**2,451**	221
Total comprehensive income	**2,451**	221
Dividend received from associate	**–**	–
Included in the above amounts are:		
Depreciation and amortisation	**15**	9

17. INTERESTS IN ASSOCIATES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2014 **HK$'000**	2013 HK$'000
Net liabilities of the associate	**(37,097)**	(40,145)
Proportion of the Group's ownership interest in the associate	**49%**	49%
Goodwill	**61,020**	61,938
Carrying amount of the Group's interest in the associate	**42,842**	42,267

Summarised financial information (immaterial associate)

Year ended 31 December		
Loss for the year	**(338)**	(191)
Total comprehensive income	**(338)**	(191)

18. INTEREST IN A JOINT VENTURE

	Group	
	2014 **HK$'000**	2013 HK$'000
Share of net assets	**2,329**	–

18. INTEREST IN A JOINT VENTURE *(Continued)*

Particulars of the Group's interest in a joint venture are as follows:–

Name of company	Form of business structure	Place of incorporation and operation	Percentage of ownership interests/ voting rights/ profit share	Principal activity
北京奇文網絡科技有限公司	Corporation	PRC	50%	Provision of tele-media business support and content services

Summarised financial information

	2014 HK$'000
Year ended 31 December	
Revenue	–
Loss for the year	1,653
Total comprehensive income	1,653

19. GOODWILL

	Group HK$'000
Cost:	
At 1 January 2013	904,304
Acquisition of subsidiaries	62,051
Exchange adjustments	26,814
At 31 December 2013	993,169
Exchange adjustments	(14,727)
At 31 December 2014	**978,442**
Accumulated impairment losses:	
At 1 January 2013	35,080
Exchange adjustments	1,040
At 31 December 2013	36,120
Exchange adjustments	(535)
At 31 December 2014	**35,585**
Carrying amount:	
At 31 December 2014	**942,857**
At 31 December 2013	957,049

For the purpose of impairment testing, cost of goodwill is allocated to the cash generating units ("CGU") identified as follows:

	2014 HK$'000	2013 HK$'000
Tele-media CGU (TMD) – PRC	**294,698**	299,133
Tele-media CGU (Pinzheng) – PRC	**115,744**	117,486
Tele-media CGU (Victor Choice) – PRC	**61,131**	62,051
Mobile game CGU (Dragon Joyce) – PRC	**263,830**	218,866
Mobile game CGU (3GUU) – PRC	**207,454**	210,577
Mobile game CGU (OWX) – PRC	**–**	48,936
	942,857	957,049

Following an internal restructing the business of OWX and Dragon Joyce were merged and are now managed together. Accordingly, the goodwill previously allocated to the OWX CGU has been reallocated to the Dragon Joyce CGU.

19. GOODWILL *(Continued)*

TELE-MEDIA CGU (TMD)

The recoverable amounts of tele-media CGU (TMD) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2013: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2014	2013
Operating margin	**34%-51%**	49%-50%
Discount rate	**21.07%**	21.28%
Growth rate within the five-year period	**3%-80%**	30%-114%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

TELE-MEDIA CGU (PINZHENG)

The recoverable amounts of tele-media CGU (Pinzheng) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2013: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2014	2013
Operating margin	**40%-55%**	45%
Discount rate	**21.85%**	20.62%
Growth rate within the five-year period	**3%-50%**	20%-60%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

19. GOODWILL *(Continued)*

TELE-MEDIA CGU (VICTOR CHOICE)

The recoverable amounts of tele-media CGU (Victor Choice) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2013: 3%), which does not exceed the long-term growth rate for tele-media industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2014	2013
Operating margin	**36%-45%**	52%-63%
Discount rate	**22.72%**	19.6%
Growth rate within the five-year period	**3%-30%**	57%-140%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

MOBILE GAME CGU (DRAGON JOYCE)

The recoverable amounts of mobile game CGU (Dragon Joyce) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2013: 3%), which does not exceed the long-term growth rate for mobile game industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2014	2013
Operating margin	**16%-21%**	9%-16%
Discount rate	**21.10%**	21.87%
Growth rate within the five-year period	**5%-30%**	5%-88%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

19. GOODWILL *(Continued)*

MOBILE GAME CGU (DRAGON JOYCE) *(Continued)*

From October 2013, OWX Group ceased its business in handset design and manufacturing and focused on the provision of mobile games in smart phones. As the top management and operation have been merged with the operation of Huiyou Group, the goodwill allocated to OWX Group has been reallocated to Huiyou Group (also known as Dragon Joyce).

MOBILE GAME CGU (3GUU)

The recoverable amounts of mobile game CGU (3GUU) have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2013: 3%), which does not exceed the long-term growth rate for mobile game industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

	2014	2013
Operating margin	**17%-19%**	43%-54%
Discount rate	**21.20%**	21.87%
Growth rate within the five-year period	**5%-46%**	5%-116%

The discount rate used is pre-tax and reflects specific risks relating to the relevant segment. The growth rate within the five-year period has been based on past experience.

All the recoverable amount of the CGUs was higher than its carrying amount with reference to the valuation for the year ended 31 December 2014.

20. INVESTMENTS IN SUBSIDIARIES

	Company 2014 HK$'000	2013 HK$'000
Unlisted shares/capital contributions, at cost	**1,437,276**	1,437,276
Less: Provision for impairment	**(34,309)**	(34,309)
	1,402,967	1,402,967

The amounts due from and to subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the Company's principal subsidiaries at 31 December 2014 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
第一視頻信息工程有限公司 (VODone Information Engineering Co, Ltd.) ("TMD2") (i)	PRC	PRC	RMB160,500,000	99.69%	–	Provision of technical and promotional and advertising services
北京日升影響廣告有限公司 (Beijing Adpeople International Advertising Co, Ltd.) ("TMD3") (i)	PRC	PRC	RMB208,000,000	–	100%	Provision of advertisement production services
北京互聯時代娛樂文化發展有限公司 (Beijing Union Times Entertainment Culture Development Co, Ltd.) ("TMD4") (i)	PRC	PRC	RMB39,306,800	98.47%	–	Provision of entertainment production services
China Mobile Games and Entertainment Group Limited ("CMGE") (note(a),(b))	The Cayman Islands	(ii)	US$392,254	–	42.94%	Investment holding
滙友數碼(深圳)有限公司 (Huiyou Digital (Shenzhen) Ltd.) (note (c)) (i)	PRC	PRC	HK$135,500,000	–	42.94%	Development and provision of mobile games
廣州億通天下軟件開發有限公司 (note (c)) (i)	PRC	PRC	US$3,000,000	–	42.94%	Development and provision of mobile games of smart phones

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Nominal value of issued ordinary/ registered and paid up capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
廣州盈正信息技術有限公司 (note (e))	PRC	PRC	RMB10,000,000	–	42.94%	Development and provision of mobile games of smart phones
OWX Hong Kong Limited (一高香港有限公司) (note (c))	Hong Kong	Hong Kong	HK$100	–	42.94%	Provision of developing, designing and maintenance services of mobile communication products
深圳市中拓科創科技有限公司 (i) (note (c))	PRC	PRC	RMB100,000	–	42.94%	Provision of developing, designing and maintenance services of mobile communication products
深圳市嵐悦網絡科技有限公司 (note (e))	PRC	PRC	RMB10,000,000	–	42.94%	Development, operation and sale of mobile phone games
成都卓星科技有限公司 (note (e))	PRC	PRC	RMB10,000,000	–	42.94%	Development, operation and sale of mobile phone games
Vogins Technology (Shanghai) Co., Ltd. (沃勤網絡科技(上海)有限公司) (i) (note (d))	PRC	PRC	US$5,770,000	–	38.91%	Provision of billing and collection service
北京唯一品電子商務有限公司 (note (e))	PRC	PRC	RMB1,000,000	–	100%	E-commence sales
China Mobile Games and Entertainment Group (HK) Limited (note (c))	Hong Kong	Hong Kong	HK$100	–	42.94%	Investment holding
China Perfect Investment Limited (note (c))	Hong Kong	Hong Kong	HK$1	–	42.94%	Investment holding

(i) These companies are foreign investment enterprises established in the PRC.

(ii) The subsidiary of the Company is investment holding only and does not have any operations.

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Note:

(a) On 21 March 2014, CMGE issued 48,188,000 Class A ordinary shares at a par value of US$0.001 per share in a public placement. The interest held by the Company in CMGE was diluted from 48.34% to 43.05%.

(b) As at 31 December 2014, although the Group's ownership interest in CMGE was 42.94%, which is less than 50%, the Group holds all the Class B ordinary shares of CMGE which are entitled to five votes per share. As the Company control approximately 78.37% of the voting power to CMGE as at 31 December 2014, the directors of the Company consider the Company has the power to exercise control and have treated the interest in CMGE as interest in a subsidiary.

(c) They are wholly owned subsidiaries of CMGE.

(d) It is a non-wholly owned subsidiary of CMGE with 90.6% equity interest.

(e) The Group does not have legal ownership in equity of these entities. Nevertheless, under certain contractual agreements entered into with the registered owners of these entities, the Group controls these entities by way of controlling the voting rights, governing its financial and operating policies, appointing or removing the majority of the members of its controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these entities to the Group. As a result, it is presented as controlled structured entities of the Company.

21. INTANGIBLE ASSETS

Group	Internet SNS assets HK$'000 (note (a))	Platform and domain names HK$'000 (note (b))	Purchased software and technology HK$'000 (note (c))	Mobile games license and platform HK$'000 (note (d))	Distribution networks HK$'000 (note (e))	Websites HK$'000 (note (f))	Service contracts HK$'000 (note (g))	Mobile games licenses HK$'000 (note (h))	Total HK$'000
Cost:									
At 1 January 2013	59,500	255,385	454,219	73,392	46,434	15,749	123,471	–	1,028,150
Acquisition of subsidiaries	–	77,604	–	–	–	–	101,177	–	178,781
Additions	–	–	84,952	31,463	–	–	–	58,531	174,946
Exchange difference	–	987	–	2,330	860	467	3,661	825	9,130
At 31 December 2013	59,500	333,976	539,171	107,185	47,294	16,216	228,309	59,356	1,391,007
Acquisition of subsidiaries	–	–	410	–	–	–	–	–	410
Additions	–	–	–	29,459	–	–	–	236,623	266,082
Disposals	–	–	–	–	–	–	–	(810)	(810)
Exchange difference	–	(1,659)	2	(1,176)	(443)	(240)	(3,386)	(787)	(7,689)
At 31 December 2014	**59,500**	**332,317**	**539,583**	**135,468**	**46,851**	**15,976**	**224,923**	**294,382**	**1,649,000**
Amortisation and impairment:									
At 1 January 2013	–	–	30,614	40,045	26,653	3,149	17,363	–	117,824
Amortisation for the year	–	–	34,546	14,552	2,945	1,599	20,387	6,409	80,438
Impairment	–	–	–	3,715	–	–	–	–	3,715
Exchange difference	–	–	–	1,461	315	116	802	90	2,784
At 31 December 2013	–	–	65,160	59,773	29,913	4,864	38,552	6,499	204,761
Amortisation for the year	–	–	40,297	15,465	2,942	1,597	20,360	43,795	124,456
Disposals	–	–	–	–	–	–	–	(17)	(17)
Exchange difference	–	–	–	(803)	(184)	(71)	(564)	(79)	(1,701)
At 31 December 2014	**–**	**–**	**105,457**	**74,435**	**32,671**	**6,390**	**58,348**	**50,198**	**327,499**
Carrying amount:									
At 31 December 2014	**59,500**	**332,317**	**434,126**	**61,033**	**14,180**	**9,586**	**166,575**	**244,184**	**1,321,501**
At 31 December 2013	59,500	333,976	474,011	47,412	17,381	11,352	189,757	52,857	1,186,246

21. INTANGIBLE ASSETS *(Continued)*

Company	Internet SNS assets HK$'000 (note (a))	Platform and domain names HK$'000 (note (b))	Purchased software and technology HK$'000 (note (c))	Mobile games license and platform HK$'000 (note (d))	Total HK$'000
Cost:					
At 1 January 2013	59,500	222,062	454,219	–	735,781
Additions	–	–	84,952	23,384	108,336
At 31 December 2013 and 2014	**59,500**	**222,062**	**539,171**	**23,384**	**844,117**
Amortisation:					
At 1 January 2013	–	–	30,614	–	30,614
Amortisation for the year	–	–	34,546	1,581	36,127
At 31 December 2013	–	–	65,160	1,581	66,741
Amortisation for the year	–	–	40,209	2,183	42,392
At 31 December 2014	**–**	**–**	**105,369**	**3,764**	**109,133**
Carrying amount:					
At 31 December 2014	**59,500**	**222,062**	**433,802**	**19,620**	**734,984**
At 31 December 2013	59,500	222,062	474,011	21,803	777,376

Notes:

(a) Internet social networking service assets ("Internet SNS Assets") included all the rights of Domouse in relation to the Domain Names, all the rights to the Domouse Software and Domouse Database, the Domouse Message Management Platform and any relevant intellectual property rights, with an indefinite useful life. As the economic benefits arising from the Domouse Assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 19).

21. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(b) Platform and domain names included the following intangible assets:–

(i) MiniV.tv Assets, a software application of a website, with an indefinite useful life.

As the economic benefits arising from the miniV.tv Assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 19).

(ii) An intellectual property right of a shopping website, with indefinite useful life.

The recoverable amounts have been determined from value-in-use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated average growth rate of 3% (2013:3%), which does not exceed the long-term growth rate for e-commence industry in the PRC. Cash flows for the first five financial periods are based on expected sales orders estimated by management. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development.

Gross profit margin	15%-18%
Discount rate	24.84%
Growth rate within the five-year period	3%-100%

The discount rate used is pre-tax and reflects specific risks relating to the relevant asset. The growth rate within the five-year period has been based on past experience. There is no indication that it needs to be impaired.

(iii) A software application for lottery platform and intellectural property rights of a website. The software application for lottery platform used in smartphone which would enhance the level of entertainment and interactivity in lottery purchases on users' own handsets, with an indefinite useful life. The intellectual property rights of a website would strengthen its presence in the PRC's lottery business, by enhancing its analytical and research capability and its appeal to lottery players, with an indefinite useful life.

As the economic benefits arising from the above lottery-related assets are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 19).

(iv) A lottery-related platform is tested for impairment and there is no indication that it needs to be impaired.

21. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(c) Purchased software and technology included software, administrative systems and software technology as follows:

(i) Computer software and system applied on a number of paperless lottery platforms, with estimated useful lives of ten years. It is tested for impairment and there is no indication that it needs to be impaired.

(ii) E-commerce platform system and two software for live broadcasting on website, and video sharing used in smart phones, with estimated useful life of fifteen years.

Among these intangible assets, the e-commerce platform system was acquired to converge with the original online shopping platform so as to enhance and optimize its operating capacity. The software for live broadcasting on website are acquired for the establishment of broadcasting studios for general, financial as well as entertainment news, which are for the purpose of conducting authorized businesses under the Network Audio-Video Broadcast License（網絡視聽播放許可證）issued by the State Administration of Radio Film and Television and the Internet Commercial Performances License（互聯網經營性演出許可證）issued by the Ministry of Culture of the PRC. The software for video sharing used in smart phones is mainly for enabling upload of video contents and connection play on users' own handsets, offering the quickest way for users to upload their latest video contents with minimum streaming resources so as to increase the website traffic.

In addition, an information website computer system with estimated useful life of ten years were acquired to add more functions to the portal and improve user stickiness.

The abovementioned intangible assets have been tested for impairment and there is no indication that it needs to be impaired.

(iii) A web-based application which provides a web platform for end users to upload and watch videos through internet browser using 4G technology.

As the economic benefits arising from this asset are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 19).

(d) The mobile games licenses and platform acquired through acquisition of Dragon Joyce Limited and its subsidiaries in 2009, with estimated useful life of seven years are tested for impairment (Mobile game CGU (Dragon Joyce)) (note 19) and there is no indication that it needs to be impaired.

The mobile game licenses and platform acquired through acquisition of 3GUU Group, with estimated useful life of two to five years are tested for impairment (Mobile game CGU (3GUU)) (note 19) and there is no indication that it needs to be impaired.

In 2013, the Group acquired a set of web games and game engines. As the economic benefits arising from this asset are totally integrated with the existing operating segments of the Group, its carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to Tele-media CGU (TMD) (note 19).

In 2013, the Group recognized an impairment of HK$3,715,000 on the feature phone middleware platform of the 3GUU Group due to charges in business strategy by management in light of the downward trend in the feature phone market. The intangible asset was no longer expected to generate any further economic benefits for the Group.

21. INTANGIBLE ASSETS *(Continued)*

Notes: *(Continued)*

(e) The distribution networks acquired through acquisition of Dragon Joyce Group, with estimated useful life of ten years are tested for impairment (Mobile game CGU (Dragon Joyce)) (note 19) and there is no indication that it needs to be impaired.

The distribution networks acquired through acquisition of OWX Group, with estimated useful life of seven years. The amount is fully written off in 2012 as the Company has stopped to trade with those customers in the list of Customer Relationship.

(f) The websites acquired through acquisition of Pinzheng Group, with estimated useful life of ten years are tested for impairment and there is no indication that it needs to be impaired.

(g) Service contract represented an 8-year sport lottery sales contract dated 24 September 2011 entered with Qinghai Province Sports Lottery Administration Centre, where the Group has the right to perform sport lottery sales through mobile and internet in Qinghai Province. It is tested for impairment and there is no indication that it needs to be impaired.

In 2013, the Group acquired another service contract though acquisition of Victor Choice Group. It represented a 10-year sports lottery sales contract dated 6 June 2013 entered with Hebei Province Sports Lottery Administration Centre, where the Group has the right to perform sport lottery sales through mobile and internet in Hebei Province. It is tested for impairment (Tele-media CGU (Victor Choice)) (note 19) and there is no indication that it needs to be impaired.

In 2013, the Group also acquired a contract with mobile network operator though acquisition of Vogins Group. It represents a co-operation agreement with a mobile network operator which allows the Group to act as a service provider for billing and collection services. The acquired contract with mobile network operator is recognised at fair value at the date of acquisition using a valuation technique based on expected income and amortized on a straight-line basis over the remaining contractual term of three years.

(h) Mobile game licenses represent the exclusive rights obtained to publish the mobile games developed by third-party game developers on the Group's game platform or third-party app stores and are capitalised and amortised on a straight-line basis over the shorter of the contractual terms or the estimated economic lives, which range from two to six years. As the mobile game licenses can generate cash inflows of these CGUs, the carrying amount has been taken into consideration for the impairment assessment of goodwill allocated to the three Mobile-game CGUs (note 19).

22. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of reporting period, based on invoice date, is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Within 1 month	**234,763**	95,109
2 to 3 months	**260,587**	73,900
4 to 6 months	**160,515**	8,679
7 to 12 months	**56,406**	22
Over 1 year	**850**	1,322
	713,121	179,032

The credit period of the Group's trade receivables ranges from 30 days to 180 days.

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2014	2013
	HK$'000	HK$'000
Neither past due nor impaired	**649,573**	154,395
Less than 1 month past due	**42,639**	17,743
1 to 3 months past due	**18,456**	5,315
More than 3 months past due	**2,453**	1,579
	713,121	179,032

Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Included in trade receivables are receivables from mobile network operators in mobile game business of HK$701,771,000 (2013: HK$178,952,000).

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Other receivables (note a)	**42,594**	32,062	**–**	–
Deposits	**17,174**	8,758	**3,819**	3,819
Prepayments (note b)	**476,099**	417,311	**–**	–
	535,867	458,131	**3,819**	3,819

Note:

(a) Included in other receivables were advances to game developers of HK$11,992,000 (2013: HK$17,426,000). It represented the financial support provided to two third-party game developers to each develop a social game according to the Group's requests and specifications.

(b) Included in prepayments are

(i) prepaid cost for advertising space of HK$158,103,000 (2013: HK$310,856,000). The directors are of the opinion that according to the Group's strategy plan, the Group expects to utilise such amounts in the next year.

(ii) prepayments of HK$156,107,000 (2013: HK$34,748,000) to third-party game developers in connection with the arrangements to obtain licenses to publish the third-party developed games on the Group's game platform or third-party app stores. The third-party game developers are entitled to profit sharing based on a prescribed percentage of the gross amount charged to the mobile phone game players under the licensed games publishing arrangement. The shared profits earned by the third-party game developers will initially be offset against the prepayments until the balance is reduced to zero.

(iii) prepaid upfront payments of HK$21,964,000 (2013: HK$29,470,000) to certain mobile phone service providers as a form of sales incentives in exchange for an exclusive channel for billing and collection services (the "Channel") offered by the mobile service providers to mobile phone game players who purchase the Group's in-game premium features. The upfront payments are amortised over the useful life of the Channels, which is estimated to be 5 to 6 years depending on the historical relationship between the Group and the mobile phone service providers.

(iv) Prepayment of HK$43,369,000 (2013: HK$Nil) to third-party game developers in designing games, including the background music, graphic design or even the design of the whole game. The company was required to make a certain amount as prepayment at the beginning of the contract period and the remaining contract balance will be paid to the design companies after passing the quality test from the company. The contract period is usually from 1 to 2 years.

24. INVENTORIES

	Group	
	2014	2013
	HK$'000	HK$'000
Packing materials	**53**	–
Finished goods	**960**	–
	1,013	–

25. OTHER FINANCIAL ASSETS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current portion:–				
Available-for-sale financial assets:–				
Compensation arising from profit guarantee arrangement of				
– 3GUU Group (note (a))	**30,183**	44,498	**30,183**	44,498
	30,183	44,498	**30,183**	44,498
Non-current portion:–				
Available-for-sale financial assets:–				
– Unlisted (note (b))	**162,045**	2,563	**–**	–
– Investment fund (note (c))	**17,552**	–	**–**	–
	179,597	2,563	**–**	–

25. OTHER FINANCIAL ASSETS *(Continued)*

Note:

(a) Pursuant to the profit guarantee arrangement in relation to the acquisition of 3GUU Group, the Company is entitled to recover the related consideration shares at no cost as the actual result of 3GUU Group for the year ended 31 December 2013 was less than the relevant profit target. The Company has decided not to recall the consideration shares and asked the vendors to dispose of the related shares to settle the compensation in cash. Further, as the value of the surrendered consideration shares was insufficient to cover the shortfall in the profit guarantee arrangement, the vendors had agreed to dispose part of their interests in China Mobile Games and Entertainment Group Limited, a subsidiary of the Company, and pay the Company the sale proceeds to make good the shortfall in actual profit of 3GUU Group. Compensation is determined on the agreed number of shares to be disposed of at their fair value at the end of reporting period. The compensation is classified as available-for-sale financial asset in the consolidated statement of financial position. It is carried at fair value with changes in fair value recognized in the other comprehensive income.

(b) The Group's strategic investments included:

- 4% interest in Shanghai Douwan Network Technology Co., Ltd. ("Shanghai Douwan"), a company established in the PRC.
- 14.634% interest in InPlay Interactive Co., Limited ("InPlay"), a company established in the Korea.
- 10% interest in MAS Technology Company Limited ("MAS"), a company established in the PRC.
- 10% interest in 深圳雲娃科技有限公司 ("雲娃"), a company established in the PRC.
- 4.76% interest in Beijing Superflash Software Co., Ltd ("Superflash"), a company established in the PRC.

The above investments are classified as available-for-sale investments as the Group does not have the power to control or significant influence on the investees. It is stated at cost as it does not have readily determinable fair value as at year end.

(c) In November 2014, the Group set up 深圳市志成千里投資企業 (the "Fund") with three independent third party partners for total capital of RMB61,500,000 (equivalent to HK$77,631,000), in which RMB30,000,000 (equivalent to HK$37,869,000) was contributed by the Group. This Fund is engaged in investment in mobile games and apps development business, and derives its return through investment income. The Group is a limited partner in the Fund and does not have control nor significant influence in the Fund's operational and financing decisions. The directors of the Company ("Directors") classified the investment as an available-for-sales financial asset. The Directors consider that there was no significant change in the fair value of the investment from the dates of acquisition to 31 December 2014 as underlying investment projects are at a start-up stage.

26. BANK BALANCES AND CASH

It included restricted cash of HK$20,148,000 as at 31 December 2013, which was not available for withdrawal or the Company's general use until after the corresponding bank borrowings (note 32) was repaid. The corresponding bank borrowings was fully repaid by the Company on 7 January 2014.

27. TRADE PAYABLES

Generally, the credit term received from suppliers of the Group is 30 days. An ageing analysis of year-end trade payables is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Current or less than 1 month	**208,842**	36,011
1 to 3 months	**32,021**	14,623
More than 3 months but less than 12 months	**13,168**	8,286
More than 1 year	**861**	–
	254,892	58,920

Trade payables include amounts payable in respect of mobile games business of HK$254,774,000 (2013: HK$58,833,000).

28. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Dividend payable to non-controlling interests	**3,332**	2,483	**–**	–
Other payables	**97,540**	61,676	**2**	40,666
Deposits received	**2,171**	3,340	**21**	21
Accruals	**69,916**	39,211	**1,570**	–
	172,959	106,710	**1,593**	40,687

29. DEFERRED TAXATION

Details of the deferred tax assets recognised and movements during the year:

	Group Fair value adjustments HK$'000
At 1 January 2013	–
Acquisition of subsidiaries	3,250
At 31 December 2013	3,250
Debit to profit or loss for the year (note 12)	(3,250)
At 31 December 2014	–

Details of the deferred tax liabilities recognised and movements during the year:

	Group Fair value adjustments HK$'000
At 1 January 2013	9,442
Acquisition of subsidiaries	42,700
Credit to profit or loss for the year (note 12)	(2,759)
Exchange difference	241
At 31 December 2013	49,624
Credit to profit or loss for the year (note 12)	(2,891)
Exchange difference	(734)
At 31 December 2014	45,999

29. DEFERRED TAXATION *(Continued)*

A deferred tax asset has not been recognised for the following:

	Group	
	2014	2013
	HK$'000	HK$'000
Unused tax losses	**72,294**	40,644

Out of the tax losses of the Group as at 31 December 2014, approximately HK$65,842,000 (2013: HK$35,966,000) has an expiry period of five years since 2010.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2014, the Group has not recognised deferred tax liabilities of HK$58,602,000 (2013: HK$38,841,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounting to HK$586,024,000 (2013: HK$388,408,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

30. SHARE CAPITAL

	2014	2013
	HK$'000	HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
3,297,925,262 (2013: 3,265,093,195) ordinary shares of HK$0.01 each	**32,979**	32,651

30. SHARE CAPITAL *(Continued)*

The movements in the issued share capital of the Company during the year are as follows:

	Number of ordinary shares	Share capital HK$'000
At 1 January 2013	3,149,563,262	31,496
Shares issued for acquisition of subsidiaries	137,130,000	1,371
	3,286,693,262	32,867
Less: consideration shares which are subject to recall (i)	(21,600,067)	(216)
At 31 December 2013	3,265,093,195	32,651
At 1 January 2014	3,286,693,262	32,867
Exercise of shares options (ii)	11,232,000	112
At 31 December 2014	3,297,925,262	32,979

Notes:

(i) As at 31 December 2013, 21,600,067 shares, which were issued for acquisition of a subsidiary and assets, were subject to lock-up and dealing restrictions and adjustments. These shares are classified as financial liabilities until the date when the relevant restrictions were released.

During the year, the relevant restrictions were released and the shares were reclassified as equity.

(ii) During the year, certain options were exercised to subscribe for a total of 11,232,000 ordinary shares in the Company at an aggregate consideration of HK$7,562,000 of which HK$112,000 was credited to share capital and the balance of HK$7,450,000 was credited to the share premium account. HK$1,171,000 has been transferred from the share-based compensation reserve to the share premium account accordingly.

31. OTHER FINANCIAL LIABILITIES (CURRENT)

	Group	
	2014	2013
	HK$'000	HK$'000
Put-option of shares in a subsidiary	–	99,372

Note:–

On 11 May 2012, CMGE issued 26,485,961 ordinary shares at a purchase price of US$0.45307 to two investors. Under the Share Purchase Agreement, the investors have the option, jointly and not severally, to require CMGE to purchase all of the shares held by the investors in the event that (i) the IPO is consummated on or prior to 10 May 2013 ("the IPO Target Date") and the market capitalisation of the IPO ("the Company's initial public offering of its Ordinary Shares and listing on the New York Stock Exchange, Nasdaq Stock Market or other internationally recognised securities exchange") is below US$300,000,000, or (ii) the IPO has not been consummated on or prior to the IPO Target Date. The returned consideration is equal to the sum of the purchase price of all investor shares plus accrued interest.

On 10 May 2013, a revised Share Purchase Agreement was entered into between CMGE and the investors where the IPO Target Date was changed to 31 December 2013.

On 21 January 2014, the redemption right of the put-option expired without being exercised by the holders. The liabilities are released and transferred to the equity.

32. BANK BORROWINGS

	Group	
	2014	2013
	HK$'000	HK$'000
Short-term bank borrowings	–	17,938

Note:–

The short-term bank borrowing outstanding as at 31 December 2013 represents a RMB denominated loan of RMB14,000,000 obtained from a financial institution in the PRC for working capital purposes. The short-term bank borrowing has a term of three months at a fixed interest rate of 5.60% per annum. The short-term bank borrowing was fully repaid by the Group on 7 January 2014.

33. CONSIDERATION SHARES

	Group and the Company	
	2014	2013
	HK$'000	HK$'000
Fair value of considerations shares for business acquisition		
– Pinzheng Group (note (a))	**–**	11,118
Fair value of considerations shares for business acquisition		
– 3GUU Group (note (b))	**–**	11,562
	–	22,680

Notes:

(a) During the year, the remaining 10,588,449 (2013: 8,822,000) contingent consideration shares were transferred to equity upon release of the lock-up and dealing restrictions in January 2014.

(b) During the year, the remaining 11,011,618 (2013: 19,172,382) contingent consideration shares were transferred to equity upon release of the lock-up and dealing restrictions in January 2014.

34. NON-CONTROLLING INTERESTS

CMGE, a 42.94% owned subsidiary of the Company, has material non-controlling interests ("NCI"). The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to the NCI of CMGE, before intra-group eliminations, is presented below:

	2014 HK$'000	2013 HK$'000
For the period ended 31 December		
Revenue	**1,619,286**	448,685
Profit/(loss) for the year	**256,061**	(12,590)
Total comprehensive income	**251,352**	(8,970)
Profit/(loss) allocated to NCI	**136,482**	(5,416)
Dividend paid to NCI	**–**	–
For the year ended 31 December		
Cash flows from operating activities	**(29,154)**	(74,662)
Cash flows from investing activities	**(460,895)**	(90,702)
Cash flows from financing activities	**616,503**	353,834
Net cash inflow	**126,454**	188,470
As at 31 December		
Current assets	**2,961,291**	718,324
Non-current assets	**567,741**	135,644
Current liabilities	**(1,880,229)**	(152,152)
Non-current liabilities	**(9,963)**	(8,338)
Net assets	**1,638,840**	693,478
Accumulated non-controlling interests	**936,550**	358,597

34. NON-CONTROLLING INTERESTS *(Continued)*

On 21 March 2014, CMGE issued 48,188,000 Class A ordinary shares at a par value of US$0.001 per share in a public placement. The interest held by the Company in CMGE was diluted from 48.34% to 43.05%. The transaction has been accounted for as an equity transactions with the non-controlling interests as follows:

	2014 HK$'000
Capital contribution from NCI	612,162
Change in net assets attributable to NCI	221,392
Increase in equity attributable to owners of the Company (included in retained earnings)	390,770

During the year, around 1,100,204 CMGE's shares options and warrants have been exercised by the employees and investors respectively. The transaction has been accounted for as an equity transactions with the non-controlling interests as follows:

	2014 HK$'000
Capital contribution from NCI	2,083
Change in net assets attributable to NCI	1,188
Increase in equity attributable to owners of the Company (included in retained earnings)	895

35. DISPOSAL OF A SUBSIDIARY

(a) On 7 January 2014, the Company disposed of its 100% equity interest in Shanghai Lanfeng Technology Co., Ltd. ("Shanghai Lanfeng") to a third party for a total cash consideration of RMB500,000. Shanghai Lanfeng was engaged in the development, operation and sale of mobile phone games in the PRC.

Assets and liabilities disposed of at the date of disposal:

	HK$'000
Property, plant and equipment	2
Other receivables	621
Bank balances and cash	16
Other payables	(25)
Net assets disposed of	614
Consideration received	631
Gain on disposal of subsidiary included in other gains or losses in the consolidated statement of comprehensive income (note 8)	17

(b) Cash inflow arising from disposal of a subsidiary

	HK$'000
Cash consideration	631
Bank balances and cash disposed of	(17)
	614

36. RESERVES

Company

	Share premium HK$'000 (Note (a))	Investment revaluation reserve HK$'000 (Note (b))	Other reserves HK$'000 (Note (c))	Share-based compensation reserve HK$'000 (Note (d))	Retained profits HK$'000	Total reserves HK$'000
Balance at 1 January 2013	1,364,058	–	523,125	35,179	244,186	2,166,548
Profit and total comprehensive income for the year	–	6,242	–	–	137,959	144,201
Lapse of share options	–	–	–	(21,627)	21,627	–
Acquisition of subsidiaries	71,308	–	–	–	–	71,308
Transfer of consideration shares for business acquisition in prior year	21,831	–	–	–	–	21,831
Recognition of share-based payment expense	–	–	–	772	–	772
Balance at 31 December 2013	1,457,197	6,242	523,125	14,324	403,772	2,404,660
Profit and total comprehensive income for the year	–	(14,314)	–	–	(156,008)	(170,322)
Lapse of share options (note 39(a))	–	–	–	(12,683)	12,683	–
Exercise of share options (note 39(a))	8,621	–	–	(1,171)	–	7,450
Transfer of consideration shares for business acquisition in prior years	22,464	–	–	–	–	22,464
Recognition of share-based payment expense (note 39(a))	–	–	–	2,690	–	2,690
Balance at 31 December 2014	1,488,282	(8,072)	523,125	3,160	260,447	2,266,942

36. RESERVES *(Continued)*

NATURE AND PURPOSE OF RESERVES

(a) The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by Section 40 of the Bermuda Companies Act 1981 (as amended).

(b) Investment revaluation reserve represents change in fair value of available-for-sale financial assets.

(c) The Group's other reserves represent:–

(i) the difference between the amount by which the non-controlling interests are adjusted and the fair value of the shares of the subsidiary granted to employees; and

(ii) certain portion of the profits of the Group's subsidiaries established in the PRC transferred from the retained earnings which are restricted to use pursuant to the relevant laws and regulations in the PRC.

The Company's other reserve is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the group reorganisation in 1991. Under the Bermuda Companies Act 1981 (as amended), a company may make distributions to its members out of its other reserves under certain circumstances.

(d) Share-based compensation reserve comprises the value of the unexercised share option granted by the Company recognised in accordance with the accounting policy adopted for share-based payments in note 4(O).

(e) Exchange fluctuation reserve represents gains/losses arising on retranslating the net assets of foreign operations into Hong Kong dollars.

37. OPERATING LEASE ARRANGEMENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Minimum lease payments paid under operating leases during the year	**47,099**	21,473	**3,843**	3,476

37. OPERATING LEASE ARRANGEMENTS *(Continued)*

At 31 December 2014, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**51,220**	24,429	**3,371**	3,371
In the second to fifth year, inclusive	**103,452**	30,635	**1,123**	4,494
	154,672	55,064	**4,494**	7,865

Operating lease payments represent rentals payable by the Group and the Company on certain of its leased properties. Leases are negotiated for an average term of one to five years at fixed rental.

38. COMMITMENTS

	2014	2013
	HK$'000	HK$'000
Contracted, but not provided for:		
– Acquisition of mobile games license and platform	**29,033**	–
– Investment in other financial assets	**18,935**	–
– Acquisition of property, plant and equipment	**–**	1,073

39. SHARE-BASED PAYMENT

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

On 27 April 2012, the shareholders of the Company approved a new share option scheme (the "V1 Group Scheme") and adopted it on 30 April 2012, and terminated the share option scheme adopted on 7 June 2002 (the "Old V1 Group Scheme"). Upon the termination of the Old V1 Group Scheme, no further share options will be offered under the Old V1 Group Scheme. However, the share options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old V1 Group Scheme. Under the V1 Group Scheme, the directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company.

The exercise price for the share options shall be determined in accordance with the Old V1 Group Scheme and V1 Group Scheme and the relevant provisions of the Listing Rules. The costs for the value of the grant of share options were recognised as an expense during the year.

39. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

(A1) The Old V1 Group Scheme

The terms and conditions of the grants and movements in the number of share options under the Old V1 Group Scheme during the year were as follows:

2014

	Number of shares issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Executive directors							
Zhang Lijun							
on 30 March 2011	258,500	–	–	(258,500)	–	2.273	30/03/2011 to 29/03/2014
Wang Chun							
on 30 March 2011	258,500	–	–	(258,500)	–	2.273	30/03/2011 to 29/03/2014
Sub-total	517,000	–	–	(517,000)	–		
Employees/others							
on 7 August 2009	3,997,400	–	(132,000)	(3,865,400)	–	1.064	07/08/2009 to 06/08/2014
on 12 October 2009	10,417,000	–	–	(10,417,000)	–	1.527	12/10/2009 to 11/10/2014
on 3 January 2011	3,300,000	–	–	(3,300,000)	–	2.209	03/01/2011 to 02/01/2014
on 30 March 2011	21,483,000	–	–	(21,483,000)	–	2.273	30/03/2011 to 29/03/2014
on 3 January 2012	3,300,000	–	(1,000,000)	(2,300,000)	–	0.909	03/01/2012 to 02/01/2014
Sub-total	42,497,400	–	(1,132,000)	(41,365,400)	–		
Total	43,014,400	–	(1,132,000)	(41,882,400)	–		

39. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

(A1) The Old V1 Group Scheme *(Continued)*

2013

	Number of shares issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Executive directors							
Zhang Lijun							
on 4 November 2010	2,530,000	–	–	(2,530,000)	–	2.044	04/11/2010 to 03/11/2013
on 30 March 2011	258,500	–	–	–	258,500	2.273	30/03/2011 to 29/03/2014
on 7 November 2011	2,629,000	–	–	(2,629,000)	–	1.136	07/11/2011 to 06/11/2013
	5,417,500	–	–	(5,159,000)	258,500		
Wang Chun							
on 4 November 2010	2,530,000	–	–	(2,530,000)	–	2.044	04/11/2010 to 03/11/2013
on 30 March 2011	258,500	–	–	–	258,500	2.273	30/03/2011 to 29/03/2014
on 7 November 2011	2,629,000	–	–	(2,629,000)	–	1.136	07/11/2011 to 06/11/2013
	5,417,500	–	–	(5,159,000)	258,500		
Sub-total	10,835,000	–	–	(10,318,000)	517,000		
Independent non-executive directors							
Loke Yu (alias Loke Hoi Lam)							
on 4 November 2010	330,000	–	–	(330,000)	–	2.044	04/11/2010 to 03/11/2013
Wang Zhichen							
on 4 November 2010	330,000	–	–	(330,000)	–	2.044	04/11/2010 to 03/11/2013
Wang Linan							
on 4 November 2010	330,000	–	–	(330,000)	–	2.044	04/11/2010 to 03/11/2013
Sub-total	990,000	–	–	(990,000)	–		
Employees/others							
on 7 August 2009	3,997,400	–	–	–	3,997,400	1.064	07/08/2009 to 06/08/2014
on 12 October 2009	10,417,000	–	–	–	10,417,000	1.527	12/10/2009 to 11/10/2014
on 4 November 2010	48,400,000	–	–	(48,400,000)	–	2.044	04/11/2010 to 03/11/2013
on 3 January 2011	3,300,000	–	–	–	3,300,000	2.209	03/01/2011 to 02/01/2014
on 30 March 2011	21,483,000	–	–	–	21,483,000	2.273	30/03/2011 to 29/03/2014
on 8 September 2011	28,380,000	–	–	(28,380,000)	–	0.984	08/09/2011 to 07/09/2013
on 7 November 2011	9,900,000	–	–	(9,900,000)	–	1.136	07/11/2011 to 06/11/2013
on 3 January 2012	3,300,000	–	–	–	3,300,000	0.909	03/01/2012 to 02/01/2014
Sub-total	129,177,400	–	–	(86,680,000)	42,497,400		
Total	141,002,400	–	–	(97,988,000)	43,014,400		

39. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

(A2) The V1 Group Scheme

The terms and conditions of the grants and movements in the number of share options under the V1 Group Scheme during the year as follows:

2014

	Number of shares issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Executive directors							
Zhang Lijun							
on 9 September 2013	1,500,000	–	–	–	1,500,000	0.604	09/09/2013 to 08/09/2016
on 17 April 2014	–	2,100,000	–	–	2,100,000	0.750	17/04/2014 to 16/04/2017
	1,500,000	2,100,000	–	–	3,600,000		
Wang Chun							
on 9 September 2013	1,500,000	–	–	–	1,500,000	0.604	09/09/2013 to 08/09/2016
on 17 April 2014	–	2,100,000	–	–	2,100,000	0.750	17/04/2014 to 16/04/2017
	1,500,000	2,100,000	–	–	3,600,000		
Sub-total	3,000,000	4,200,000	–	–	7,200,000		
Independent non-executive directors							
Loke Yu (alias Loke Hoi Lam)							
on 9 September 2013	400,000	–	–	–	400,000	0.604	09/09/2013 to 08/09/2016
on 17 April 2014	–	400,000	–	–	400,000	0.750	17/04/2014 to 16/04/2017
	400,000	400,000	–	–	800,000		
Wang Zhichen (Note 1)							
on 9 September 2013	300,000	–	–	–	300,000	0.604	09/09/2013 to 08/09/2016
on 17 April 2014	–	300,000	–	–	300,000	0.750	17/04/2014 to 16/04/2017
	300,000	300,000	–	–	600,000		
Wang Linan							
on 9 September 2013	300,000	–	(300,000)	–	–	0.604	09/09/2013 to 08/09/2016
on 17 April 2014	–	300,000	–	–	300,000	0.750	17/04/2014 to 16/04/2017
	300,000	300,000	(300,000)	–	300,000		
Sub-total	1,000,000	1,000,000	(300,000)	–	1,700,000		
Employees/others							
on 13 September 2012	6,000,000	–	(4,300,000)	–	1,700,000	0.700	13/09/2012 to 12/09/2015
on 9 September 2013	6,000,000	–	(5,500,000)	–	500,000	0.604	09/09/2013 to 08/09/2016
on 17 April 2014	–	14,800,000	–	–	14,800,000	0.750	17/04/2014 to 16/04/2017
Sub-total	12,000,000	14,800,000	(9,800,000)	–	17,000,000		
Total	16,000,000	20,000,000	(10,100,000)	–	25,900,000		

Note 1: Passed away on 8 October 2014

39. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

(A2) The V1 Group Scheme *(Continued)*

2013

	Number of shares issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of the year	Exercise price HK$	Exercise period
Executive directors							
Zhang Lijun							
on 9 September 2013	–	1,500,000	–	–	1,500,000	0.604	09/09/2013 to 08/09/2016
Wang Chun							
on 9 September 2013	–	1,500,000	–	–	1,500,000	0.604	09/09/2013 to 08/09/2016
Sub-total	–	3,000,000	–	–	3,000,000		
Independent non-executive directors							
Loke Yu (alias Loke Hoi Lam)							
on 9 September 2013	–	400,000	–	–	400,000	0.604	09/09/2013 to 08/09/2016
Wang Zhichen							
on 9 September 2013	–	300,000	–	–	300,000	0.604	09/09/2013 to 08/09/2016
Wang Linan							
on 9 September 2013	–	300,000	–	–	300,000	0.604	09/09/2013 to 08/09/2016
Sub-total	–	1,000,000	–	–	1,000,000		
Employees/others							
on 13 September 2012	6,000,000	–	–	–	6,000,000	0.700	13/09/2012 to 12/09/2015
on 9 September 2013	–	6,000,000	–	–	6,000,000	0.604	09/09/2013 to 08/09/2016
Sub-total	6,000,000	6,000,000	–	–	12,000,000		
Total	6,000,000	10,000,000	–	–	16,000,000		

On 17 April 2014, a total of 20,000,000 share options were granted to directors of the Company and eligible participants under the V1 Group Scheme and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.750 per share, with closing price per share immediately before the date on which the share options were granted at HK$0.72. The options may be exercisable during the period from 17 April 2014 to 16 April 2017.

39. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

(A2) The V1 Group Scheme *(Continued)*

Fair value of share options granted during the year and assumptions are as follows:

	Granted on 17 April 2014 (the V1 Group Scheme)
Fair value at grant date	HK$0.1345
Weighted average share price at grant date	HK$0.75
Weighted average contractual life	3 years
Expected volatility	45.184%
Expected dividend rate	0%
Risk-free interest rate	0.2110%

The volatility assumption is measured at the average of the comparable companies' share price return volatility over the same period.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The fair value of the share options granted during the year was approximately HK$2,690,000 (2013: HK$772,000), all of which was recognised an equity-settled share-based payment expenses during the year.

39. SHARE-BASED PAYMENT *(Continued)*

(A) EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY *(Continued)*

Details and movements of share options are as follows:

	Weighted average exercise price	Number '000
At 1 January 2013	HK$1.64	147,002
Granted during the year	HK$0.60	10,000
Lapsed during the year	HK$1.60	(97,988)
At 31 December 2013	HK$1.53	59,014
Granted during the year	HK$0.75	20,000
Exercised during the year	HK$0.67	(11,232)
Lapsed during the year	HK$1.89	(41,882)
At 31 December 2014	HK$0.72	25,900

The weighted average exercise price of options outstanding at the end of the year is HK$0.72 (2013: HK$1.53) and their weighted average remaining contractual life was 2.09 years (2013: 0.90 years). The validity period of the share options of the Company granted during the year is from 17 April 2014 to 16 April 2017 (2013: from 9 September 2013 to 8 September 2016).

Of the total number of options outstanding at the end of the year, all were exercisable at the end of the year.

The weighted average closing share price immediately before the dates of exercise of share options of Old V1 Group Scheme of the Company during the year was HK$1.09 (2013: HK$ Nil).

The weighted average closing share price immediately before the dates of exercise of share options of V1 Group Scheme of the Company during the year was HK$1.36 (2013: HK$ Nil).

In 2014, 41,882,400 (2013: 97,988,000) share options lapsed. Accordingly, the related share-based compensation reserve of HK$12,683,000 (2013: HK$21,627,000) was released to retained profits/(accumulated losses).

In 2014, 11,232,000 (2013: Nil) share options are exercised. Accordingly, the related share-based compensation reserve of HK$1,171,000 (2013: HK$ Nil) was released to share capital and share premium.

39. SHARE-BASED PAYMENT *(Continued)*

(B) ALLOTMENT OF SHARES IN THE SUBSIDIARIES – CMGE TO THE DIRECTORS

(i) On 16 March 2012, a total of 639,000 shares of CMGE were allotted to directors of the Company and eligible participants, at a price of US$0.001 per share.

The fair value of HK$460,000 (2013: HK$1,033,000) of services received in return for shares granted is measured by reference to the fair value of CMGE's shares at the date of allotment and was recognised as equity-settled share-based payment expenses during the year.

(ii) On 26 January 2014, CMGE issued 136,500 warrants to a director of the Company. Each warrant allows the director to purchase one ADS of CMGE at US$29.34 per ADS with a contractual life of five years. Pursuant to the warrant agreement, (i) 25% of the warrants are vested and exercisable on the first anniversary of the date of grant; (ii) 25% of the warrants are vested and exercisable on the second anniversary of the date of grant; (iii) 25% of the warrants are vested and exercisable on the third anniversary of the date of grant; and (iv) 25% of the warrants are vested and exercisable on the fourth anniversary of the date of grant. The warrants issued to the director are classified as equity awards and measured based on the measurement date fair value of US$12.98 per warrant.

On 9 October 2014, the board of directors of CMGE approved a warrant modification to reduce the exercise price of warrants that were granted to US$20.23 per ADS, which is the closing price of the CMGE's ADSs on 8 October 2014. Other terms of the warrant grants remain unchanged. The director had entered into amendments to its original warrant agreements with CMGE.

The fair value of the warrants issued was approximately HK$13,738,000 with the incremental fair value of HK$2,101,000. In accordance with HKFRS 2, the fair value of warrants issued determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$7,224,000 was recognised in profit or loss for the year ended 31 December 2014.

39. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE

The terms and conditions of the grants and movements in the number of share options under the share option scheme of CMGE during the year were as follow:

2014

	Number of shares issuable under share options							
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At end of the year	Exercise price US$	Exercise period
Executive directors								
Zhang Lijun								
on 6 February 2012	1,519,747	–	–	–	–	1,519,747	0.605 (Notes 1 and 3)	06/02/2012 to 05/02/2017
on 8 February 2013	1,656,200	–	–	–	–	1,656,200	6.500 (Notes 2 and 4)	08/02/2013 to 07/02/2018
	3,175,947	–	–	–	–	3,175,947		
Wang Chun								
on 6 February 2012	1,519,747	–	–	–	–	1,519,747	0.605 (Notes 1 and 3)	06/02/2012 to 05/02/2017
Sub-total	4,695,694	–	–	–	–	4,695,694		
Employees/others								
on 6 February 2012	18,380,951	–	(2,075,024)	(1,946,755)	–	14,359,172	0.605 (Notes 1 and 3)	06/02/2012 to 05/02/2017
on 8 February 2013	2,739,495	–	(17,080)	–	–	2,722,415	0.605 (Notes 1 and 5)	08/02/2013 to 07/02/2018
on 8 February 2013	12,765,200	–	(1,190,896)	–	–	11,574,304	6.500 (Notes 2 and 4)	08/02/2013 to 07/02/2018
on 13 January 2014	–	5,851,482	–	–	–	5,851,482	29.03 (Notes 2 and 6)	13/01/2014 to 12/01/2019
on 13 January 2014	–	25,365,956	–	–	(25,365,956)	–	29.03 (Notes 2 and 7)	13/01/2014 to 14/09/2017
on 8 October 2014	–	1,462,860	–	–	–	1,462,860	20.23 (Notes 2 and 8)	08/10/2014 to 07/10/2019
Sub-total	33,885,646	32,680,298	(3,283,000)	(1,946,755)	(25,365,956)	35,970,233		
Total	38,581,340	32,680,298	(3,283,000)	(1,946,755)	(25,365,956)	40,665,927		

39. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE *(Continued)*

2013

	Number of share issuable under share options						
	At beginning of the year	Granted during the year	Exercised during the year	Lapsed during the year	At end of the year	Exercise price US$	Exercise period
Executive directors							
Zhang Lijun							
on 6 February 2012	1,519,747	–	–	–	1,519,747	0.605 (Notes 1 and 3)	06/02/2012 to 05/02/2017
on 8 February 2013	–	1,656,200	–	–	1,656,200	6.500 (Notes 2 and 4)	08/02/2013 to 07/02/2018
	1,519,747	1,656,200	–	–	3,175,947		
Wang Chun							
on 6 February 2012	1,519,747	–	–	–	1,519,747	0.605 (Notes 1 and 3)	06/02/2012 to 05/02/2017
Sub-total	3,039,494	1,656,200	–	–	4,695,694		
Employees/others							
on 6 February 2012	22,796,218	–	(3,183,194)	(1,232,073)	18,380,951	0.605 (Notes 1 and 3)	06/02/2012 to 05/02/2017
on 8 February 2013	–	2,739,495	–	–	2,739,495	0.605 (Notes 1 and 5)	08/02/2013 to 07/02/2018
on 8 February 2013	–	12,765,200	–	–	12,765,200	6.500 (Notes 2 and 4)	08/02/2013 to 07/02/2018
Sub-total	22,796,218	15,504,695	(3,183,194)	(1,232,073)	33,885,646		
Total	25,835,712	17,160,895	(3,183,194)	(1,232,073)	38,581,340		

Note 1: The exercise price is the price to subscribe for one class A ordinary shares of US$0.001 each in the share capital of CMGE.

Note 2: The exercise price is the price to subscribe for 14 class A ordinary shares of US$0.001 each in the share capital of CMGE which equals to one ADS of CMGE.

Note 3: On 6 February 2012, CMGE granted shares options under its share option scheme (the "2011 Share Option Scheme") to purchase 25,835,712 ordinary shares of CMGE to its employees at an exercise price of US$0.605 per share with a contractual life of five years. Pursuant to the share options agreement, (i) 25% of the share options are vested and exercisable by each grantee on the first anniversary of the date of grant; and (ii) the remaining 75% of the share options are vested and exercisable by each grantee in 12 equal quarterly tranches beginning one calendar quarter after the first anniversary of the date of grant.

The fair value of the share options granted was approximately HK$30,397,000. In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$1,476,000 (2013: HK$8,940,000) was recognised in profit or loss for the year ended 31 December 2014.

39. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE *(Continued)*

Note 4: On 8 February 2013, CMGE granted options under the 2011 Share Option Scheme to purchase 970,100 ADS and 60,000 ADS of CMGE to certain of its employees and a third-party individual consultant who provides consultancy service to CMGE respectively, at an exercise price of US$6.50 per ADS with a contractual life of five years. Pursuant to the share options agreement, (i) 25% of the share options are vested and exercisable on the first anniversary of the date of grant; and (ii) the remaining 75% of the share options are vested and exercisable in 12 equal quarterly tranches beginning one calendar quarter after the first anniversary of the date of grant. There is a service condition attached to the vesting of the option granted to the employees. The closing price immediately before the date on which the share options of CMGE were granted was at US$3.53 per ADS.

The fair value of the share options granted was approximately HK$6,536,000. In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$3,424,000 (2013: HK$1,706,000) was recognised in profit or loss for the year ended 31 December 2014.

Note 5: On 8 February 2013, CMGE granted options under the 2011 Share Option Scheme to purchase 2,539,495 and 200,000 shares to an employee and a consultant who became an employee of CMGE on 20 March 2013, respectively, at an exercise price of US$0.605 per share with a contractual life of 5 years. Pursuant to the share option agreement, 25% of the share options are vested and exercisable on each of the first to fourth anniversary of the grant date if the grantees continue to provide service to a subsidiary of the Company and this subsidiary achieves predetermined performance conditions. There is a service condition in addition to a performance condition attached to the vesting of these options. The closing price immediately before the date on which the share options of CMGE were granted was at US$3.53 per ADS.

The fair value of the share options granted was approximately HK$1,261,000. In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$393,000 (2013: HK$495,000) was recognised in profit or loss for the year ended 31 December 2014.

Note 6: On 13 January 2014, CMGE granted options under the 2011 Share Option Scheme to purchase 417,963 ADS of CMGE to certain of its employees at an exercise price of US$29.03 per ADS with a contractual life of five years. Pursuant to the share option agreement, (i) 25% of the share options are vested and exercisable on the first anniversary of the grant date; and (ii) the remaining 75% of the share options are vested and exercisable in 12 equal quarterly tranches beginning one calendar quarter after the first anniversary of the date of grant. There is a service condition attached to the vesting of the share options granted to the employees. The closing price immediately before the date on which the share options of CMGE were granted was at US$28.20 per ADS.

The fair value of the share options granted was approximately HK$38,334,000. In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$20,041,000 was recognised in profit or loss for the year ended 31 December 2014.

39. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE *(Continued)*

Note 7: On 13 January 2014, CMGE granted options under the 2011 Share Option Scheme to purchase 1,811,854 ADS of CMGE to certain of its employees at an exercise price of US$29.03 per ADS with a contractual life of approximately 3.67 years. Pursuant to the share option agreement, the share options are vested and exercisable in 3 equal tranches during the period from 15 March to 14 September in each of the year 2015, 2016 and 2017 if the grantees continue to provide service to CMGE and CMGE achieves predetermined annual profit targets in 2014, 2015 and 2016. There is a service condition in addition to a performance condition attached to the vesting of these options. The average closing price immediately before the date on which the share options of CMGE were granted was at US$28.20 per ADS.

All of the above-mentioned 1,811,854 share options of CMGE granted on 13 January 2014 were cancelled during the year ended 31 December 2014.

Note 8: On 8 October 2014, CMGE granted options under the 2011 Share Option Scheme to purchase 104,490 ADS of CMGE to its employees at an exercise price of US$20.23 per ADS with a contractual life of five years. Pursuant to the share option agreement, (i) 25% of the share options are vested and exercisable on the first anniversary of the grant date; and (ii) the remaining 75% of the share options are vested and exercisable in 12 equal quarterly tranches beginning one calendar quarter after the first anniversary of the date of grant. The closing price immediately before the date on which the share options of CMGE were granted was at US$19.66 per ADS.

The fair value of the share options granted was approximately HK$7,648,000. In accordance with HKFRS 2, the fair value of share options granted determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$1,001,000 was recognised in profit or loss for the year ended 31 December 2014.

Fair value of share options granted during the year and assumptions are as follows:

	Granted on 13 January 2014 (Note 6 above)
Fair value at grant date	US$11.36 – US$12.70
Weighted average share price at grant date	US$2.07
Weighted average contractual life	5 years
Expected volatility	49.36%
Expected dividend rate	–
Risk-free interest rate	1.58%

39. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE *(Continued)*

	Granted on 13 January 2014 (Note 7 above)
Fair value at grant date	US$6.51 – US$10.12
Weighted average share price at grant date	US$2.07
Weighted average contractual life	3.67 years
Expected volatility	44.77% – 48.68%
Expected dividend rate	–
Risk-free interest rate	0.27% – 1.02%

	Granted on 8 October 2014 (Note 8 above)
Fair value at grant date	US$9.15 – US$9.80
Weighted average share price at grant date	US$1.45
Weighted average contractual life	5 years
Expected volatility	55.73%
Expected dividend rate	–
Risk-free interest rate	1.55%

The volatility assumption is measured at the average of the comparable companies' share price return volatility over the same period.

39. SHARE-BASED PAYMENT *(Continued)*

(C) EQUITY-SETTLED SHARE OPTION SCHEME OF THE SUBSIDIARIES – CMGE *(Continued)*

Details and movements of share options are as follows:

	Weighted average exercise price	Number '000
At 1 January 2013	US$0.605	25,836
Granted during the year	US$0.487	17,160
Exercised during the year	US$0.605	(3,183)
Lapsed during the year	US$0.605	(1,232)
At 31 December 2013	US$0.553	38,581
Granted during the year	US$1.945	32,680
Exercised during the year	US$0.554	(3,283)
Lapsed during the year	US$0.605	(1,947)
Cancelled during the year	US$2.074	(25,365)
Outstanding, at 31 December 2014	US$0.800	40,666
Exercisable at 31 December 2014	US$0.600	13,893

The weighted average closing share price immediately before the dates of exercise of shares options of CMGE during the year was US$23.00.

The weighted average exercise price of options outstanding at the end of the year is US$0.800 (2013: US$0.553) and their weighted average remaining contractual life was 2.87 years (2013: 4.10 years). The validity period of the share options of CMGE granted during the year is from 13 January 2014 to 7 October 2019 (2013: from 8 February 2013 to 7 February 2018).

39. SHARE-BASED PAYMENT *(Continued)*

(D) WARRANTS ISSUED TO EMPLOYEES – CMGE

(i) On 13 January 2014, CMGE issued 78,000 warrants to an employee. Each warrant allows the employee to purchase one ADS of CMGE at US$29.03 per ADS with a contractual life up to 12 January 2018. Pursuant to the warrant agreement, (i) 26,000 warrants are exercisable on or after 1 January 2015 and when CMGE fulfills certain market conditions; (ii) 26,000 warrants are exercisable on or after 1 January 2016 and when CMGE fulfills certain market conditions; and (iii) 26,000 warrants are exercisable on or after 1 January 2017 and when CMGE fulfills certain market conditions. The warrants issued to the employee are classified as equity awards and measured based on the measurement date fair value of US$10.00 to US$11.00 per warrant.

On 8 October 2014, the board of directors of CMGE approved a warrant modification to reduce the exercise price of warrants to US$20.23 per ADS, which is the closing price of the CMGE's ADSs on 8 October 2014. Other terms of the warrant grants remain unchanged. The employee had entered into amendments to its original warrant agreement with CMGE.

The fair value of the warrants issued was approximately HK$6,381,000 with the incremental fair value of HK$966,000. In accordance with HKFRS 2, the fair value of warrants issued determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$4,341,000 was recognised in profit or loss for the year ended 31 December 2014.

(ii) On 1 April 2014, CMGE issued 600,000 warrants to an employee. Each warrant allows the employee to purchase one ADS of CMGE at US$29.03 per ADS with a contractual life of five years. Pursuant to the warrant agreement, (i) 25% of the warrants are vested and exercisable on the first anniversary of the date of grant; (ii) 25% of the warrants are vested and exercisable on the second anniversary of the date of grant; (iii) 25% of the warrants are vested and exercisable on the third anniversary of the date of grant; and (iv) 25% of the warrants are vested and exercisable on the fourth anniversary of the date of grant. The warrants issued to the employee are classified as equity awards and measured based on the measurement date fair value of US$9.15 per warrant.

On 9 October 2014, the board of directors of CMGE approved a warrant modification to reduce the exercise price of warrants that were granted to US$20.23 per ADS, which is the closing price of CMGE's ADSs on 8 October 2014. Other terms of the warrant grants remain unchanged. The employee had entered into amendments to its original warrant agreement with CMGE.

The fair value of the warrants issued was approximately HK$42,564,000 with the incremental fair value of HK$8,821,000. In accordance with HKFRS 2, the fair value of warrants issued determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$18,370,000 was recognised in profit or loss for the year ended 31 December 2014.

39. SHARE-BASED PAYMENT *(Continued)*

(D) WARRANTS ISSUED TO EMPLOYEES – CMGE *(Continued)*

(iii) On 8 October 2014 and 9 October 2014, CMGE granted 905,927 warrants to each of two employees. Each warrant allows the employees to purchase one ADS of CMGE at US$20.23 per ADS with a contractual life of three years. Pursuant to the warrant agreements, one-third of the warrants are vested and exercisable during the period from 15 March to 14 September in each of the year 2015, 2016 and 2017 if the grantees continue to provide services to CMGE and CMGE achieves predetermined annual profit targets in 2014, 2015 and 2016. There is a service condition in addition to a performance condition attached to the vesting of these options.

In substance, as mentioned in Note 39(C) – Note 7, CMGE cancelled the share options granted on 13 January 2014 and new warrants were granted on 8 October 2014 and 9 October 2014. In accordance with HKFRS 2, it is treated as a modification to terms and conditions.

The fair value of the warrants issued was approximately HK$119,759,000 with the incremental fair value of HK$31,112,000. In accordance with HKFRS 2, the fair value of warrants issued determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the share-based compensation reserve. Balance of approximately HK$30,639,000 was recognised in profit or loss for the year ended 31 December 2014.

(E) WARRANTS ISSUED TO CONSULTANTS – CMGE

(i) On 7 February 2013, CMGE issued 500,000 warrants to an external consultant in exchange for its financial advisory service. Each warrant allows the consultant to purchase one ADS of CMGE at US$8.50 per ADS. The exercise period commences on the date of issuance and expires on 7 February 2018. Pursuant to the warrant agreement, 250,000 warrants immediately vested upon issuance and the remaining 250,000 warrants would be vested on 31 December 2013 if the Company continues to retain the consultant as its financial advisor. However, the Company may, at its sole discretion, terminate the consultant as its financial advisor without cause. On 23 September 2013, CMGE terminated the consultant as its financial advisor and cancelled the second batch of the 250,000 unvested warrants. The warrants issued to the consultant are classified as equity awards and measured based on the measurement date fair value of US$0.6951 per warrant.

Since all of the warrants granted, except for the 250,000 warrants that were cancelled on September 23, 2013, were fully vested upon issuance. The fair value of the 250,000 warrants issued was approximately HK$1,352,000 which was recognised in profit or loss for the year ended 31 December 2013.

The fair value of HK$1,352,000 of services received in return for warrants granted is measured by reference to the fair value of CMGE's shares at the date of issue and was recognised as equity-settled share-based payment expenses for the year ended 31 December 2013.

39. SHARE-BASED PAYMENT *(Continued)*

(E) WARRANTS ISSUED TO CONSULTANTS – CMGE *(Continued)*

(ii) On 25 June 2013, CMGE issued 100,000 fully vested warrants to an external consultant in exchange for its financial advisory service. Each warrant allows the consultant to purchase one ADS of CMGE at US$12.92 per ADS. The exercise period commences on the date of issuance and expires on 25 June 2015. The exercise of these 100,000 warrants is subject to certain market conditions. The warrants issued to the consultant are classified as equity awards and measured based on the measurement date fair value of US$3.0874 per warrant.

Since all of the warrants granted were fully vested upon issuance, the fair value of the warrants issued was approximately HK$2,402,000 which was recognised in profit or loss for the year ended 31 December 2013.

The fair value of HK$2,402,000 of services received in return for warrants granted is measured by reference to the fair value of CMGE's shares at the date of issue and was recognised as equity-settled share-based payment expenses for the year ended 31 December 2013.

(iii) On 27 September 2013, CMGE issued 100,000 fully vested warrants to an external consultant in exchange for its financial advisory service. Each warrant allows the consultant to purchase one ADS of CMGE at US$15.6 per ADS. The exercise period commences on the date of issuance and expires on 27 September 2015. The exercise of these 100,000 warrants is subject to certain market conditions. The warrants issued to the consultant are classified as equity awards and measured based on the measurement date fair value of US$1.76 per warrant.

Since all of the warrants granted were fully vested upon issuance, the fair value of the warrants issued was approximately HK$1,369,000 which was recognised in profit or loss for the year ended 31 December 2013.

The fair value of HK$1,369,000 of services received in return for warrants granted is measured by reference to the fair value of CMGE's shares at the date of issue and was recognised as equity-settled share-based payment expenses for the year ended 31 December 2013.

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year:

	Note	2014 HK$'000	2013 HK$'000
Service fee income earned from an associate, TMD1	(i)	**268,036**	143,595
Management fee charged by TMD1	(ii)	**41,693**	51,752
Gain on bargain purchase of Vogins BVI from Gaintech		–	11,904
Sale of inventories to directors of a subsidiary	(iii)	–	2,981

(i) Service fee income was charged in accordance with the terms and conditions of the exclusive technology support and services agreements entered with TMD1 dated 29 April 2006.

(ii) Under the service agreements as mentioned in Note 1, the Company, TMD1 and VODone Telemedia entered into an arrangement in which a subsidiary of VODone Telemedia provides management services to the Group in order to assist the Group in providing the internet information services. The fee was charged at cost basis and terms agreed between the related parties.

(iii) In 2013, the Group sold all of its inventories to Mr. Kuang Yixun and Mr. Hu Zhengning, directors of subsidiaries at cost, due to the business transition of the OWX Group from handset design business to mobile phone games promotion business. No gain or loss was resulted from the sale of inventories.

40. RELATED PARTY TRANSACTIONS *(Continued)*

(b) The remuneration of directors and other member of key management during the year is as follows:

	2014 HK$'000	2013 HK$'000
Short term benefits	**11,102**	10,592
Share-based payments	**8,999**	1,741
	20,101	12,333

(c) The amounts due from associates mainly arising from the trading transaction detailed in note (a)(i) above are unsecured, interest-free and repayable on demand.

(d) Amounts due from related companies, which is disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, is as follows:

The related company includes MediaTek Inc., the parent company of a non-controlling shareholder of the company. Details of the balances with the related companies are as follows:

	Group	
	2014 HK$'000	2013 HK$'000
Balance at 1 January	**8,523**	706
Balance at 31 December	**34**	8,523
Maximum amount outstanding during the year	**8,523**	8,523

The amounts due from the related companies are interest-free, unsecured and repayable on trading terms.

There was no amount due but unpaid, nor any allowance for doubtful debts made against the principal amounts at 31 December 2014 and 2013.

(e) The amounts due to an associate and related companies are interest-free, unsecured and repayable on demand.

41. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of equity attributable to owners of the Company only, comprising share capital and reserves.

42. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price. These risks are limited by the Group's financial management policies and practices described below.

CREDIT RISK

The Group's credit risk is primarily attributable to its accounts receivable, other receivables and amounts due from a related company and associates arising from trade transactions. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of third party accounts and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a concentration of credit risk as 17% (2013: 26%) and 47% (2013: 51%) of the total accounts and other receivables was due from the Group's largest customer and the five largest customers respectively.

The directors consider that the credit risk arising from related party trading transactions is minimal. Based on past experience, management believes that no impairment allowance is necessary in respect of amounts due from associates as there has not been a significant change in credit quality and the balances are still fully recoverable.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set up in note 22.

42. FINANCIAL RISK MANAGEMENT *(Continued)*

LIQUIDITY RISK

The Group's policy are to regularly monitor its liquidity requirements and its compliance with lending covenants and to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

At the end of reporting period, all the Group's and the Company's financial liabilities based on contractual undiscounted cash flows are within one year or on demand.

INTEREST RATE RISK

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cost flows are substantially independent of changes in market interest rate.

CURRENCY RISK

Most of the subsidiaries' functional currency is RMB since majority of the revenue of the Group are derived from operations in the PRC. RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Other than the above, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

EQUITY PRICE RISK

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial liabilities of the Group. At the end of reporting period, the Group is exposed to this risk through the business acquisitions attached to the consideration shares issued by the Company as disclosed in note 33.

SENSITIVITY ANALYSIS

The sensitivity analysis on equity price risk includes the Group's financial liabilities, which fair value or future cash flows will fluctuate because of changes in the Company's own share price. If the Company's own share price had been 5% higher/lower, profit for the year would decrease/increase by HK$Nil (2013: HK$1,134,000) and the financial liabilities would increase/decrease by HK$Nil (2013: HK$1,134,000).

43. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2014 and 2013 may be categorised as follows:

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,465,724**	919,867
Available-for-sale financial assets	**209,780**	47,061
Financial liabilities		
Financial liabilities designated upon initial recognition as at fair value through profit or loss:		
– Consideration shares	**–**	22,680
Financial liabilities measured at amortised cost	**432,125**	237,960

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2014			
Group and Company	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Available-for-sales financial assets	–	–	**30,183**	**30,183**

43. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

	2013			
	Level 1	Level 2	Level 3	Total
Group and Company	HK$'000	HK$'000	HK$'000	HK$'000
Available-for-sales financial assets	–	–	44,498	44,498
Financial liabilities measured at fair value				
– Consideration shares	–	–	22,680	22,680

AVAILABLE-FOR-SALES FINANCIAL ASSET

The available-for-sale financial assets are measured at fair value based on the share price of the Company and take into consideration of whether the profit guarantee is probable to be met (details refer to note 33). The management of the Group used its internal budgets and forecasts which included information about the fair value measurement using significant unobservable inputs (level 3).

The following table shows the reconciliation of Level 3 fair value measurements of available-for-sale financial assets:

	2014	2013
	HK$'000	HK$'000
Group and Company		
At 1 January	**44,498**	49,448
Additions for the year	**–**	23,355
Settlement from the vendors	**–**	(54,788)
Realised gains	**–**	20,241
(Losses)/gains recognized in other comprehensive income	**(14,315)**	6,242
At 31 December	**30,183**	44,498

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorised for issue by the Board of Directors on 27 March 2015.

45. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Due to promulgation of the Notice of General Administration of Sport on the Practical Implementation of Special Audit Opinions on Lottery Funds to Strengthen the Sports Lottery Management (《體育總局關於切實落實彩票資金專項審計意見加強體育彩票管理工作的通知》) by the General Administration of Sport of the People's Republic of China (the "PRC") and the Notice on Issues Regarding Conducting Self-examination and Self-correction Activities of the Unauthorised Sale of Lottery through Internet (《關於開展擅自利用互聯網銷售彩票行為自查自糾工作有關問題的通知》) jointly promulgated by the Ministry of Finance, Ministry of Civil Affairs and the General Administration of Sport of the PRC, the Group's business partners had suspended the operations of online sale of paperless lottery tickets and sale of lottery tickets through mobile phones with effect from 1 March 2015. Accordingly the Group's lottery-related business had been suspended simultaneously. It is uncertain when the operation of the Group's lottery-related business will resume.

It is an uncertainty on how long the self-examination and correction process will take. The suspension would temporarily mean the Group will derive no revenue from online sales of lottery. It is also unknown whether any new regulations or rules will be implemented by the government and how these might affect the Group's operation.

The management is of opinion that its business partners will observe and comply with any new rules and regulations promulgated by the relevant PRC regulatory authorities and make adjustment to their operations where necessary and the Group will actively cooperate with its business partners with an aim to have lottery-related business back on the track.

Taking into account the financial resources available and the effects of the suspension of the lottery-related business, the directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2014, notwithstanding the possibility of a prolonged suspension of the lottery business. Accordingly, the financial statements have been prepared on a going concern basis.

(b) On 12 February 2015, CMGE granted options under the 2011 Share Option Scheme to purchase 690,000 ADSs of CMGE to certain of its employees at an exercise price of US$15.76 per ADS, which was the closing price per ADS as of 12 February 2015. There is a service condition attached to the vesting of these options.

(c) On 13 February 2015, CMGE granted warrants to purchase 186,000 ADS each to a director of the Company and four employees of CMGE. Each warrant allows the holder to purchase one ADS of CMGE at US$15.76. Pursuant to the warrant agreements, (i) 25% of the warrants are vested and exercisable on the first anniversary of the date of grant; (ii) the remaining 75% of the warrants are vested and exercisable in 12 equal quarterly tranches beginning one calendar quarter after the first anniversary of the date of grant.

Five Year Financial Summary

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group and reclassified as appropriate, is set out below:

	Year ended 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**1,945,712**	595,078	476,800	950,072	767,591
Profit/(loss) for the year	**4,937**	(165,806)	(15,416)	399,393	349,714
Attributable to:					
Owners of the Company	**(131,590)**	(160,014)	(3,138)	370,688	325,428
Non-controlling interests	**136,527**	(5,792)	(12,278)	28,705	24,286
	4,937	(165,806)	(15,416)	399,393	349,714

	As at 31 December				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**2,555,141**	2,241,042	1,867,260	1,482,023	1,185,518
Current assets	**1,973,019**	1,381,676	1,229,112	1,491,585	1,177,729
Current liabilities	**(464,688)**	(335,200)	(196,546)	(264,649)	(497,450)
Net current assets	**1,508,331**	1,046,476	1,032,566	1,226,936	680,279
Non-current liabilities	**(45,999)**	(49,624)	(9,442)	(13,487)	(14,942)
Net assets	**4,017,473**	3,237,894	2,890,384	2,695,472	1,850,855