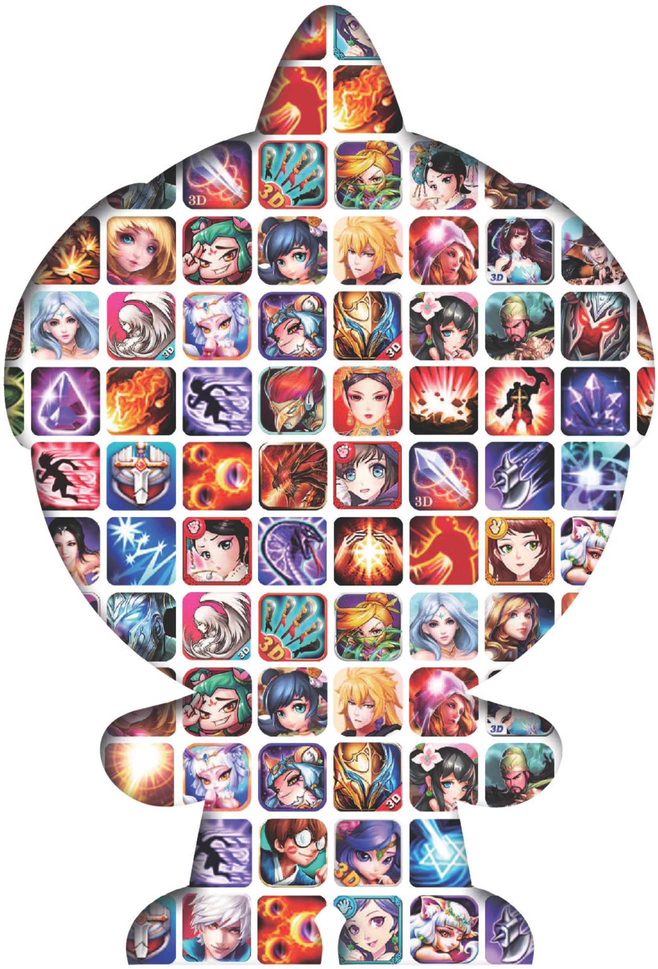
LINEKONG
蓝港互动



LINEKONG

2015 ANNUAL REPORT

藍港互動集團有限公司
Linekong Interactive Group Co.,Ltd.
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Feng *(Chairman and chief executive officer)*
Ms. Liao Mingxiang *(President)*
Mr. Mei Song
(appointed with effect from June 11, 2015)
Mr. Zhao Jun
(appointed with effect from June 11, 2015)
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

Non-executive Director

Mr. Qian Zhonghua

Independent Non-executive Directors

Mr. Ma Ji
Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
Mr. Zhang Xiangdong
Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
Mr. Chen Tong
(retired with effect from June 11, 2015)

BOARD COMMITTEES

Audit Committee

Mr. Ma Ji *(Chairman)*
Mr. Qian Zhonghua
(appointed with effect from June 11, 2015)
Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
Mr. Zhang Xiangdong
Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
Mr. Chen Tong
(retired with effect from June 11, 2015)

Remuneration Committee

Mr. Zhang Xiangdong *(Chairman)*
Mr. Wang Feng
Ms. Liao Mingxiang
Mr. Ma Ji
Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
Mr. Zhao Jun
(appointed with effect from June 11, 2015)
Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
Mr. Chen Tong
(retired with effect from June 11, 2015)

Nomination Committee

Mr. Wang Feng *(Chairman)*
Ms. Liao Mingxiang
(appointed with effect from June 11, 2015)
Mr. Ma Ji
Mr. Mei Song
(appointed with effect from June 11, 2015)
Mr. Qian Zhonghua
Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
Mr. Zhang Xiangdong
Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
Mr. Chen Tong
(retired with effect from June 11, 2015)

COMPANY SECRETARY

Ms. Leung Wing Han Sharon *(FCS, FCIS)*
(appointed with effect from June 30, 2015)
Ms. Lam Wai Yee Sophie
(resigned with effect from June 30, 2015)
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

AUTHORISED REPRESENTATIVES

Mr. Wang Feng
(appointed with effect from June 11, 2015)
Ms. Liao Mingxiang
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

Corporate Information

COMPLIANCE OFFICER

Ms. Liao Mingxiang
(appointed with effect from June 11, 2015)
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

REGISTERED OFFICE

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

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

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

LEGAL ADVISORS AS TO HONG KONG LAWS

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

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

COMPLIANCE ADVISOR

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

GEM STOCK CODE

8267

COMPANY WEBSITE

www.linekong.com

Chairman's Statement

On behalf of the Board of Linekong Interactive Group Co., Ltd. (the "**Company**" or "**we**"), I am pleased to report to our valued shareholders and investors the review and outlook of the Company and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended December 31, 2015.

In 2015, the Group enhanced its investment in research and development. The Group offered more sufficient support in three aspects of personnel, capital and time in order to guarantee and upgrade the product quality, to make full efforts to develop exquisite products, and to maximize the value of the integration of Intellectual Property (**IP**). Due to restructure in such development strategies, our results were unsatisfactory during the period. Our share price underperformed as impacted by the overall macroeconomic factors domestic and international. We expressed our sincere apologies to our shareholders and investors who have offered us long-term support and trust.

In 2015, mobile game industry experienced various difficulties such as hard access to IP and unchanged ranking with intensifying competition in the industry. To cope with such challenges, we put forward the group development strategy of exquisite games +IP and profound internationalization. We carried out multi-tactile explorations and practices for this goal. We have achieved significant breakthroughs in development and operation of IP supported games and completed the innovation attempts of animation-themed and movie-themed mobile games. We have successfully commercialized the highly popular IP supported mobile games consecutively, such as ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), ***The Legend of ZhenHuan*** (甄嬛傳), etc. and completed the business pan-entertainment layout. We've also established a US subsidiary to further expand the overseas market. Meanwhile, we have established Linekong Pictures (Tianjing) Corporation ("**Linekong Pictures**") and officially initiated the multi-development strategy integrating movies and games. In addition to continuously deepening our advantages gained in the "Movie-Game Interaction" field, we'll deliver our classic IPs of original games to the movie and animation fields, extend our reputation, and develop our brand values to a new level.

In 2016, benefited from the effect arising out of strategic restructuring of the previous year, our corporate performance began to recover from the fourth quarter of 2015, and we recorded different growth in revenues, gross profit and gross profit margin. For this, we have put forward the more precise development strategy of community-based products, entertaining business and marketing internationalization at the beginning of 2016. Our full line of products, including either MMO (massive multiplayer online) role-playing games or action fighting and turn-based games will further enhance with community-based. We'll attach greater importance to analyzing big data in the game and intensifying interaction between players to promote their activeness and game viscosity. Competition, conflict, honor and other social connections will be generated from such social intercourses, making the payment for games more healthy and effective. Such move will improve the loyalty of players and enable more users persistent to our platform. To reach the objective of entertaining business, we focus more attention on reservation and development of first-class animation-themed and movie-themed IPs. We reach strategic cooperation with Anhui TV to further deepen the "Platform-Movie-Game Interaction" model in partnership with Linekong Pictures, expand our brand influence in the public sector, thus enlarge our user base coverage. In terms of market internationalization, we'll breakthrough from the North America market and conduct rapid expansion of overseas business on the basis of Linekong US; we'll further strengthen extensive cooperation with top overseas IPs and game developers and attract high-end R&D talents worldwide to present and launch globally the high-quality IP games suitable for the international market, in an attempt to develop our business throughout the globe. In conclusion, we are confident that we will bring better returns to our shareholders in 2016.

In 2016, on the basis of our powerful R&D, the Group continues to launch a number of massive MMO role-playing games, fighting games and turn-based game of core competitiveness. On January 27, ***The Wars of Shushan*** (蜀山戰紀之劍俠傳奇), a mobile game based on the popular TV serials of the same name, was successfully commercialized on all platforms, which initiated the "Platform, Movie and Game Interaction" model and achieved the triple win of TV terminal, Internet terminal and game terminal. It has made satisfactory achievements by ranking the first of App Store Free Games List and ranking among TOP10 on App Store Best-Seller List for 41 consecutive days (as end of 17 March). Coming up, ***The Legend of Miyue*** (羋月傳), ***Daybreak*** (黎明之光), ***Big Words of Shushan*** (大話蜀山), ***Excalibur II*** (王者戰魂 II, tentative name), ***B.E.E.*** (雛蜂), ***Monster Hunt*** (捉妖記) and the IP games of Linekong US will gradually commercialize during the year, which will guaranteed the diversity and stability of our production lines.

A new year leads a brand new beginning. I would like to take this opportunity to express my gratitude to our shareholders and investors for their long-term support and trust, and I also want to thank all employees for their valuable contributions to Linekong Group during the challenging period. We will make great efforts to do better and achieve more self-breakthroughs in future.

Wang Feng
Chairman & Chief Executive Officer
March 29, 2016

Biographical details of the Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. Wang Feng, aged 47, is the chairman of the Board, chief executive officer and an executive Director. He is also the chairman of the nomination committee of the Board (the "**Nomination Committee**") and a member of the remuneration committee of the Board (the "**Remuneration Committee**"). Mr. Wang is the founder of the Group and is primarily responsible for formulating and implementing the overall strategy as well as products and business plans of the Group. He was appointed as a Director on May 24, 2007. Prior to joining the Group, Mr. Wang worked at Beijing Kingsoft Software Co., Ltd. ("**Beijing Kingsoft**"), a subsidiary of Kingsoft Corporation Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 3888), in various senior positions successively as product manager, vice president in charge of anti-virus software department, and vice president in charge of digital entertainment business from March 1997 to December 2005, and served as senior vice president in charge of digital entertainment and sales and marketing from January 2006 to March 2007. Mr. Wang has over 17 years of experience in the Internet industry and was awarded several honours, including "Individual Award for Outstanding Contributions to 20 Years of Development in Zhongguancun" granted by Beijing municipal government in 2009, "New Elite in China Game Industry" in 2007 and "the Top-Ten Most Influential People in China Game Industry" granted by China Game Industry Annual Conference ("**GIAC**") in 2008, 2009 and 2011 by GIAC. Mr. Wang was also awarded "Outstanding Entrepreneur" in both 2011 and 2013 by China Game Trade Annual Conference. Mr. Wang graduated from Peking University with a master of business administration degree in June 2005.

Ms. Liao Mingxiang, aged 41, is our president and an executive Director. She is also a member of the Remuneration Committee and the Nomination Committee. Ms. Liao serves as a Director of the Group since May 24, 2007. Ms. Liao is primarily responsible for overseeing the distribution of our online games and human resources, legal and business operations of the Group. Ms. Liao has over 15 years of experience in the Internet industry. Prior to joining the Group, Ms. Liao worked at Beijing Kingsoft from August 1999 to March 2007, as the deputy manager of the game operating department, mainly responsible for managing sales and marketing channels in the PRC, regional offices, regional promotional activities and game operations. Ms. Liao was awarded "the Top-Ten Most Influential People in China Game Industry" granted by GIAC in 2012. Ms. Liao received a bachelor's degree in marketing from Jiangxi Gannan Normal University in July 2005 and a master degree in project management from Changchun University of Technology in April 2014.

Mr. Mei Song, aged 35, was appointed as an executive Director on June 11, 2015. He is also a member of the Nomination Committee. Mr. Mei is a senior deputy President of the Group, leading the second R&D design center, which is primarily responsible for the development of diversified products of the Group such as action fighting, turn-based and massively multiplayer online role-playing game ("**MMORPG**"). The Group successively launched ***Excalibur*** (王者戰魂), ***Sword of Heroes*** (英雄之劍) and other products, and also aggressively prepared to develop diversified products such as ***B.E.E.*** (雛蜂) and ***Excalibur II*** (王者戰魂II). Mr. Mei joined the Group on 9 April 2007 as a manager of our research and development centre, and is mainly responsible for platform development. Since December 2011, he started to serve as the general manager of our mobile games department and is primarily in charge of the development of our mobile games and ***Excalibur*** (王者戰魂). Mr. Mei has over 9 years of experience in the Internet and online game industry. Prior to joining our Group, Mr. Mei worked at Beijing Kingsoft as a development engineer responsible for the development of the online games operating platform from March 2006 to April 2007. Mr. Mei received a bachelor's degree in inorganic non-metal material engineering in July 2003 and a master's degree in computer software and theory in April 2006 from Harbin University of Science and Technology.

Mr. Zhao Jun, aged 36, was appointed as an executive Director on June 11, 2015. He is also a member of the Remuneration Committee. Mr. Zhao Jun is a senior deputy President of the Group, leading the first R&D design center, which is primarily responsible for the development of MMORPG products of the Group. The Group successively launched ***Sword of Heaven*** (蒼穹之劍), ***The Wars of Shushan*** (蜀山戰紀) and other products, and also aggressively prepared to develop various film-game interactive products such as ***Monster Hunt*** (捉妖記) and ***Sword of Heaven II*** (蒼穹之劍II). Mr. Zhao joined us in our platform development team on March 2007. In January 2008, Mr. Zhao served as the major programming engineer of our development project for ***Journey to the West*** (西遊記) and was promoted to the position of project manager in June 2009 and subsequently to project director in October 2010. Mr. Zhao is also responsible for overseeing the management and licensing of the overseas versions (including Taiwan, Vietnamese and Indonesian versions) of our ***Journey to the West*** (西遊記). Since January 2012, Mr. Zhao served as the producer of our ***Sword of Heaven*** (蒼穹之劍). Mr. Zhao has over 9 years of experience in the Internet industry. Prior to joining the Group, Mr. Zhao worked as a software engineer for AsiaInfo Technologies (China) Inc. from August 2004 to August 2006 and served as a software engineer at Beijing Kingsoft from September 2006 to March 2007. Mr. Zhao received a bachelor's degree in mechanical and electronic engineering and a master's degree in electromagnetic fields and microwave technology from Beijing University of Posts and Telecommunications in July 2002 and April 2005, respectively.

Biographical details of the Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Qian Zhonghua, aged 51, joined the Board as a non-executive Director on January 27, 2014 and was re-elected as a non-executive Director on June 11, 2015. He is also a member of the Nomination Committee and the audit committee of the Board (the "**Audit Committee**"). Mr. Qian Zhonghua is also a director of Starwish Global Limited, which has an interest in the share capital of the Company which would fall to be disclosed to the Company under the provisions in Division 2 and 3 of Part XV of the Securities and Futures Ordinance. Mr. Qian has over 20 years of management and investment experience and also has extensive experience in the Internet industry, including the fields of vertical portals, e-commerce, online games, cross-platform applications, convergence of telecommunications, cable and Internet networks and digital publishing. Mr. Qian is currently a managing director of Fosun Equity Investment Management Ltd ("**Fosun**"). Prior to joining Fosun, Mr. Qian served as the chief executive officer of Ourgame.com from May 2000 to January 2003. Mr. Qian also served as the president for Yanhuangxinxing Group from January 2003 to January 2004 where he was primarily engaged in managing its online game and telecommunication value-added services. From June 2004 to March 2006, Mr. Qian worked at Shanda Interactive Entertainment Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: SNDA) before its privatisation in February 2012, as the general manager of its Beijing Branch and mainly focused on the entertainment product management. Mr. Qian was also the member of the Evaluation Committee of Senior Economic (Accounting) Professionals of the Press and Publication Administration from November 2009 to October 2011. Mr. Qian obtained his bachelor's degree in engineering from Tsinghua University in July 1986 and graduated from Guanghua School of Management of Peking University with a master's degree of business administration in June 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ma Ji, aged 38, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee. Mr. Ma has over 14 years of experience in accounting and corporate finance. From July 2000 to June 2011, Mr. Ma worked at Deloitte Touche Tohmatsu CPA Ltd., and served as a senior manager before he left. He then served as a vice president at Vancl Corporation from June 2011 to August 2013. Between August 2013 and October 2014, he served as the chief financial officer at Autonavi Holdings Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: AMAP) before it was delisted as a result of a recent acquisition in July 2014 by Alibaba Group Holding Limited, a company listed on the New York Stock Exchange (NYSE: BABA). Mr. Ma ceased to hold any position in Alibaba group since July 30, 2015. He formally joined JD Group in February 2016 and has been serving as the secretary to the board of directors of JD Finance Group. Mr. Ma is a U.S. certified public accountant, licensed in the state of New Hampshire. Mr. Ma is also a member of the Chinese Institute of Certified Public Accountants. Mr. Ma obtained a bachelor's degree of economics from Peking University in July 2000.

Mr. Wang Xiaodong, aged 48, is an independent non-executive Director. He was appointed to the Board on June 11, 2015. He is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Mr. Wang has various working experience in information technology companies. He previously served as senior director of Aruba Networks Inc. from August 2010 to November 2011.Mr. Wang is the founder of Dew Mobile Inc. and currently serving as chairman and chief executive officer. He is also the founder of Lindong Internet Technology (Beijing) Co., Ltd. and has been serving as chairman and chief executive officer since January 2012. He is also the chairman and chief executive officer and legal representative of Lindong (Beijing) Technology Co., Ltd.. Mr. Wang obtained a bachelor's degree in engineering specialising in radio technology and information system from Tsinghua University in July 1989 and a master's degree in electrical engineering from Colorado State University in May 1993. He obtained a degree of master of science in management science and engineering from The Leland Stanford Junior University in September 2002.

Mr. Zhang Xiangdong, aged 38, is an independent non-executive Director. He was appointed to the Board on April 24, 2014. He is also the chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee. Mr. Zhang has over 15 years of experience in the Internet industry. In July 2003, Mr. Zhang founded Sungy Mobile Limited, a company listed on Nasdaq Stock Market (Nasdaq: GOMO), and served as a director and its president from 2003 until October 2014. On October 2014, Mr. Zhang resigned his positions as a director and president. On November 2014, he officially started to pursue his entrepreneurial endeavours in cycling business. Mr. Zhang joined 700Bike as a co-founder and the chief executive officer, devoting himself to promote the development of city bike and cycling culture in China. Mr. Zhang obtained a bachelor's degree in information management from Peking University in July 1999.

Ms. Zhao Yifang, aged 57, is an independent non-executive Director. She was appointed to the Board on June 11, 2015. She is also a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. Ms. Zhao is currently serving as director and general manager of Zhejiang Huace Film &Tv Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300133). Ms. Zhao is currently the vice chairman of China Television Drama Production Industry Association. Ms. Zhao completed a postgraduate programme in modern and contemporary literature offered by Hangzhou University in September 1998.

Biographical details of the Directors and Senior Management

SENIOR MANAGEMENT

Mr. Leung Oi Kin, aged 41, is our chief financial officer. Mr. Leung has more than 18 years of experience in accounting and financial management. He is a professional accountant and a member of the CPA Australia. Prior to joining our Company, Mr. Leung worked in PricewaterhouseCoopers as an auditor from January 1997 to June 2000. From December 2003 to May 2010, he was the financial controller of Jabil Circuit (Shanghai) Company Ltd., a wholly-owned subsidiary of Jabil Circuit, Inc. (NYSE listed stock code: JBL). From November 2010 to June 2012, he was the group financial controller of China NT Pharma Group Company Limited (stock code: 1011), a company listed on the Stock Exchange. From June 2012 to December 2013,he was the company secretary and chief financial officer of Wisdom Holdings Group (stock code: 1661), also a company listed on the Stock Exchange. Mr. Leung graduated from the University of Adelaide, Australia in April 1997 with a bachelor's degree in commerce.

Mr. Feng Haili, aged 36, is our senior vice president of the Group. Mr. Feng is primarily responsible for our game licensing business and issue business. Mr. Feng joined the Group on May 10, 2007 as the head of our sales and distribution department and was mainly responsible for the channel promotion business. In May 2011, he started to serve as the vice president of our games licensing department and is primarily in charge of obtaining licenses and right of use, licensed game testing, products planning and game commercialisation. Mr. Feng has over 15 years of experience in the Internet and online game industry. Prior to joining the Group, Mr. Feng worked at Beijing Kingsoft Digital Entertainment Co., Ltd. ("**Kingsoft Digital**"), a subsidiary of Beijing Kingsoft as a regional manager responsible for the marketing and promotion of Kingsoft's games in Shandong Province, from November 2003 to May 2007. He also worked as a staff in information technology products department for Beijing Everest Electronic Commerce Network Service Co., Ltd, responsible for procurement from December 1999 to December 2001. Mr. Feng graduated in international business from Liaoning University in July 1999.

Mr. Chen Min, aged 37, is our co-chief technology officer. Mr. Chen is primarily responsible for research and development of several of our important games as well as safety management of our source code, assessment of our engineers, technical training and new technology promotion. Mr. Chen joined the Group on March 1, 2008 as a software engineer during which period Mr. Chen led and oversaw the work of all engineers and the game development and project teams and was promoted as our co-chief technology officer on February 2013. Mr. Chen has over 10 years of experience in the Internet and online game industry. Prior to joining the Group, he worked as a software engineer at Beijing Branch of Chengdu Kingsoft Digital Entertainment Co., Ltd., responsible for developing graphics, image functions and 3D game engines from July 2004 to February 2008. Mr. Chen received a bachelor's degree in medicine in June 2002 and a master's degree in software engineering in June 2004 from Wuhan University.

Mr. Li Hui, aged 38, is our co-chief technology officer of the Group. Mr. Li is primarily responsible for developing the business supporting platform of the Group. Mr. Li has been working in the research and development system since he joined the Group in 2008. Mr. Li has extensive experience in the Internet industry. Prior to joining the Group, Mr. Li worked as a senior engineer for Asialnfo Technologies (China) Inc. from January 2003 to June 2008. Mr. Li was awarded a Bachelor's Degree in Economic Information Management from the Shandong Institute of Business and Technology (formerly the China Coal Economic College) in July 2000.

Mr. Zhang Hongliang, aged 32, is the vice president of the Group. Mr. Zhang is assuming the role as a gaming producer in the gaming research and design team. Mr. Zhang joined the Group on April 25, 2008 as a programming engineer, and was mainly responsible for designing and developing the server of our online game ***Journey to the West*** (西遊記). Since June 2011, he started to serve as the technical director of our research and development department and is primarily in charge of the development and optimisation of our mobile game ***Sword of Heaven*** (蒼穹之劍) and was promoted as our co-chief technology officer in February 2013. Mr. Zhang has over 9 years of experience in the Internet and online game industry. Prior to joining the Group, he worked at Tencent Technology (Shenzhen) Co., Ltd., a subsidiary of Tencent Holdings Ltd, a company listed on the Main Board of the Stock Exchange, (Stock Code: 700), from July 2006 to April 2008. Mr. Zhang received a bachelor's degree in software engineering from Sichuan University in July 2006.

Biographical details of the Directors and Senior Management

Mr. Liu Xinyun, aged 32, is the vice president of our Group and the president of Linekong US Inc., a subsidiary of the Group being founded in the U.S. on June 12, 2015. Mr. Liu is primarily responsible for the business relating to Linekong US Inc., including game development and issuance. Mr. Liu joined the Group on July 16, 2015 and has over 10 years of experience in overseas game development and issuance. Prior to joining the Group, he worked at PopCap Games International in Dublin, Ireland as software engineer and early member of the mobile team from June 2006 to April 2011, and contributed as a team member to some award winning mobile games, including ***Plants VS Zombies*** (植物大戰僵屍), etc.. He worked at GimmieWorld in Burlingame at California, USA, as chief technology officer from October 2011 to August 2012, being responsible for overall product and technical architecture and also heavily involved in the fund raising and business development. He worked at Chartboost, San Francisco, CA, USA as head of Greater China from September 2012 to April 2014, being responsible for the overall APAC strategy, business expansion and marketing development. He also worked at Forgame US Corp in Burlingame at California, USA as chief executive officer from April 2014 to July 2015, being responsible for the US office for Forgame Holdings Ltd., a publicly traded company in the Stock Exchange (Stock Code: 484) and in charge of international strategy, and US studio general management. Mr. Liu received a master's degree in mobile computing and networking from University College Cork, Ireland and a bachelor's degree in software engineering from East China Normal University in July 2005.

Mr. Ren Zhaonian, aged 52, is the vice president of our Group and the chief executive officer of Linekong Pictures. Mr. Ren is responsible for the overall strategy, business plan and management of Linekong Pictures. Mr. Ren joined the Group on March 16, 2016 and has nearly 11 years of experience in internet industry. Prior to joining the Group, he worked in United Parcel Service International Inc, Taiwan Branch from January 1991 to December 1997 and was in charge of the development of local business. He successively served as the general manager of pan-China operations division and the managing director of pan-China of BMG from January 1998 to December 2004, being responsible for the operations of the three BMG subsidiaries in Taiwan, Hong Kong and China. He served as the chief executive officer of Wayi Intl Digital Entertainment Co., Ltd. (Taiwan Stock Exchange: 3086) from April 2005 to January 2008, being responsible for the on line game operations and research and development in greater China. He served as the vice president and E-commerce chief executive director of Daphne International Holdings Limited (Stock Exchange: 210) from June 2008 to July 2009, being responsible for starting up the Daphne E-commerce site. He participated in the setting up of E Fun Technology Entertainment Co., Ltd., being the first web game platform operations in Taiwan, and acted as the director from March 2008 to 2012. He served as general manager of YY Inc. (NASDAQ: YY) from February 2011 to February 2016, being responsible for developing new business model for the platform. Mr. Ren received a master's degree in industrial and system engineering from Rutgers University, New Jersey, USA in 1991 and a bachelor's degree in industrial engineering from Chung-Yuan University, Taiwan in 1985.

Mr. Wang Jing (also known as Mr. Yan Yusong), aged 42, is the vice president of our Group and the president of Linekong Pictures. Mr. Wang is primarily responsible for the business relating to Linekong Pictures. Mr. Wang joined the Group on January 11, 2016 and has over 18 years of experience in the film and television entertainment Industry. Prior to joining the Group, Mr. Wang worked at Film, Television and Literature Channel of Sichuan TV Station as host and producer from September 1997 to May 2000, and at Taiwan Azio TV as director from May 2000 to June 2003. He worked at Shanghai Dragon TV as producer from August 2003 to August 2007, during which he was involved in the planning and production of TV programs such as "My Show" and "My Hero". He worked at Star International Medio Co., Ltd. as vice president from September 2009 to April 2012, during which he was responsible for the business of the artist manager company, the music company and the film company of the group and involved in the production and issuance of films such as "Mulan". He worked at TVB China Company as the general manager of Beijing branch office from November 2012 to February 2015, during which he was responsible for the investment, production and issuance of TVB China Company's film and television drama, the purchase of copyright and artist manager business for TVB artists in Mainland China. He also worked at Beijing Yurui International Culture Media Co., Ltd. as chief executive officer from March 2015 to December 2015, being responsible for film and television planning and entertainment marketing. Mr. Wang graduated in business arts from Chengdu University in July 2015.

Ms. Qi Yunxiao, aged 33, is our senior vice president of the Group and the chief operating officer of Linekong Pictures, a subsidiary of the Group being founded on December 4, 2015. Ms. Qi is primarily responsible for marketing and promotion of the Group's online games and is also responsible for normal operation and management of Linekong Pictures. Ms. Qi joined the Group on April 10, 2007 as the head of our advertising department and procurement department, in charge of formulating our advertising strategies and implementing our advertising monitoring system. Ms. Qi was further promoted as our vice president in charge of our Company's marketing and promotion business in October 2012. Ms. Qi has over 11 years of experience in the Internet industry. Prior to joining the Group, Ms. Qi worked at Kingsoft Digital from May 2003 to April 2007, as sales manager in charge of cooperation with distribution and payment channels. Ms. Qi received an associate degree in administration management from the Open University of China in July 2010.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

Review

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

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

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

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

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

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

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT *(Continued)*

Review *(Continued)*

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

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

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

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

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

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

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks. There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future. The Board will continue to identify, evaluate and manage the significant risks faced by the Group, and to enhance the internal control system of the Group with the assistance of the IC Department on an ongoing basis. Also, the financial risk management policies and practices of the Group are shown in note 3 to the financial statements.

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

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

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT *(Continued)*

Prospect

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

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

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

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

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

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

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

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

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT *(Continued)*

Prospect *(Continued)*

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

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

Revenue by game forms and sources

The following table sets out the breakdown of revenue by game forms and sources for the years ended December 31, 2014 and 2015, respectively:

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

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

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

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT *(Continued)*

International markets

We have traditionally licensed our games, including our self-developed games and licensed games for which we have global exclusive licenses, to third-party publishers in the international markets. As of December 31, 2015, our games were published in 47 countries and regions outside Mainland China. In 2015, the Group set up one subsidiary in San Francisco, US, and has started to R&D and was planning to publish more games in North America. Revenue generated from overseas market maintained approximately RMB59.5 million for the year ended December 31, 2015, representing a slight decrease of approximately 1.7% compared to approximately RMB60.5 million for the year ended December 31, 2014.

Our players

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

Comparison of business objectives with actual business progress

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

Business objectives	Business plans	Progress up to December 31, 2015
Development of new games, on-going optimisation and update of existing games and purchase of intellectual properties for popular entertainment franchises	• Commercialize ***The White Haired Witch*** (白髮魔女傳) and ***Excalibur II*** (王者戰魂II)	1) We didn't commercialize ***The White Haired Witch*** (白髮魔女傳) and ***Excalibur II*** (王者戰魂II), we commercialized ***The Legend of Zhenhuan*** (甄嬛傳), and ***Warrior Crash*** (亂彈三國志).
	• Commercialize at least another three self-developed games	2) We plan to commercialize ***Excalibur II*** (王者戰魂II) in 2016 and started Close Beta Test in January 2016
	• Enter into additional license agreements for the rights to adapt popular entertainment franchises into online games	3) We had the IP rights of ***The Legend of Miyue*** (羋月傳), and ***B.E.E.*** (雛蜂), and will commercialize these mobile games in 2016
Licence and publishing of high-quality games from third-party developers	• Commercialize at least four licensed games	1) We didn't commercialize four licensed games
	• Enter into additional agreements for the exclusive rights to publish third-party developed games	2) We signed agreement for the exclusive right to publish a mobile game ***Daybreak*** (黎明之光)
Enhance and promote our own distribution platform, 8864.com	• Increase spending on promotion of 8864.com	1) We changed our business strategy which is into focusing on R&D of mobile games, we spent more resources on R&D
	• Improve infrastructure such as upgrading servers and increasing bandwidth	2) We did improve infrastructure and upgrading servers and bandwidth for publishing new mobile games

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT *(Continued)*

Comparison of business objectives with actual business progress *(Continued)*

Business objectives	Business plans	Progress up to December 31, 2015
Development of our own game development tools and potential purchase of commercialised game engines developed by third parties	• Complete development of our software tools package 3.0 • Enter into license agreements to acquire more foundational development tools from third parties	1) We completed development of our software tools package 5.0
Expand our business in overseas markets	• Initiate the process for establishing a presence in the U.S. based on and subject to our market research result	1) We established the U.S. subsidiary in San Francisco and the R&D team of U.S. will commercialize at least three products in the pipeline in 2016, ***Raids of Glory***, ***Fashion*** and an IP RTS game.
	• Increase spending on promotional activities in Southeast Asia	2) We commercialized ***The Legend of Zhenhuan*** (甄嬛傳) in Taiwan and had good achievement with many promotional activities

FINANCIAL REVIEW

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

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

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Revenue

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

Cost of revenue

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

Gross profit and gross profit margin

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

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

Selling and marketing expenses

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

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Administrative expenses

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

Research and development expenses

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

Other gains — net

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

Finance income — net

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

Fair value loss of preferred shares

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

Share of loss of associates

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

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Income tax expense

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

Loss for the year

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

Non-IFRSs Measure — Adjusted net profit

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

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

	For the year ended 31 December,		
	2015	2014	**Change**
	RMB'000	*RMB'000*	*approximate %*
Loss for the year	**(53,797)**	(154,583)	(65.2)
Add:			
Share-based compensation expenses	**62,882**	118,853	(47.1)
Listing-related expenses	**–**	43,578	(100.0)
Fair value loss of Preferred Shares	**–**	156,949	(100.0)
Adjusted net profit (unaudited)	**9,085**	164,797	(94.5)

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

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

In 2015, we financed our operations primarily through cash generated from our operating activities. We have also strengthened our cash position by the net proceeds we received from the Listing which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the year ended December 31, 2015, the Group's idle capital was invested in short-term wealth management products which are issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or speculative derivative instruments.

Cash and cash equivalents

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

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

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the year ended December 31, 2015, our total capital expenditure amounted to approximately RMB32.8 million (2014: approximately RMB43.3 million), including the purchase of furniture and office equipment of approximately RMB3.2 million (2014: approximately RMB2.8 million), server and other equipment of approximately RMB1.8 million (2014: approximately RMB1.9 million), motor vehicles of approximately RMB0.7 million (2014: approximately RMB2.4 million), leasehold improvements of approximately RMB4.7 million (2014: approximately RMB1.6 million), trademarks and licenses approximately RMB22.0 million (2014: approximately RMB33.9 million) and computer software of approximately RMB0.4 million (2014: approximately RMB0.6 million). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

During the year ended December 31, 2015, we did not have any short-term or long-term bank borrowings.

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

Management Discussion and Analysis

CHARGE ON GROUP ASSETS

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

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2015, the Group had 676 employees (December 31, 2014: 568), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at December 31, 2014 and December 31, 2015 respectively:

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

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

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

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

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

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

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

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

Management Discussion and Analysis

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY *(Continued)*

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

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

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

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss would have been approximately RMB28,991,000 lower/higher for the year ended December 31, 2015 (2014: RMB27,620,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Therefore, foreign exchange risk primarily arose from recognized assets in the Group's PRC subsidiaries whose base currency is RMB when receiving or to receive foreign currencies from overseas cooperated counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if U.S. dollars had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB712,000 lower/higher for the year ended December 31, 2015 (2014: approximately RMB877,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in U.S. dollars. The Group does not hedge against any fluctuation in foreign currency.

DIVIDEND

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

Corporate Governance Report

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company has complied with the Code for the year ended December 31, 2015, except for the deviation from code provision A.2.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended December 31, 2015, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-caliber individuals. The Board currently comprises four executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

BOARD OF DIRECTORS

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

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

Composition

The composition of the Board for the year ended December 31, 2015 is set out as follows:

Executive Directors

Mr. Wang Feng *(Chairman and chief executive officer)*
Ms. Liao Mingxiang *(President)*
Mr. Mei Song
(appointed with effect from June 11, 2015)
Mr. Zhao Jun
(appointed with effect from June 11, 2015)
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

Corporate Governance Report

BOARD OF DIRECTORS *(Continued)*

Composition *(Continued)*

Non-executive Director
Mr. Qian Zhonghua

Independent non-executive Directors
Mr. Ma Ji
Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
Mr. Zhang Xiangdong
Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
Mr. Chen Tong
(retired with effect from June 11, 2015)

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 5 to 8 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

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

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors has entered into a service contract with our Company and we have issued letters of appointment to our non-executive Director and each of our independent non-executive Directors. The service contracts with Mr. Wang Feng and Ms. Liao Mingxiang, being our executive Directors, and the letter of appointment with Mr. Qian Zhonghua, being our non-executive Director, are for an initial term of three years commenced from August 22, 2014. The service contracts with Mr. Mei Song and Mr. Zhao Jun, being our executive Directors, are for an initial term of three years commenced from June 11, 2015. The letters of appointment with Mr. Ma Ji and Mr. Zhang Xiangdong, being our independent non-executive Directors, are for an initial term of three years commenced from April 24, 2014 and the letters of appointment with Mr. Wang Xiaodong and Ms. Zhao Yifang, being our independent non-executive Directors, are for an initial term of three years commenced from June 11, 2015. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

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

Corporate Governance Report

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

The Board will make separate announcement(s) with regard to the arrangement of re-election of directors at the forthcoming annual meeting of the Company which is expected to be held on June 10, 2016.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

The Directors are aware of the requirement under the code provision A.6.5 of the Code regarding continuous professional development. During the year ended December 31, 2015, all the Directors had attended the training session regarding director's duty which was conducted by Peter Yuen & Associates, being the former legal advisor as to Hong Kong laws to the Company.

Below is a summary of the training the Directors had received during the year ended December 31, 2015:

Name of Directors	Type of trainings
Mr. Wang Feng	A & B
Ms. Liao Mingxiang	A & B
Mr. Mei Song (appointed with effect from June 11, 2015)	A & B
Mr. Zhao Jun (appointed with effect from June 11, 2015)	A & B
Mr. Mao Zhihai (resigned with effect from June 11, 2015)	A & B
Mr. Qian Zhonghua	A & B
Mr. Ma Ji	A & B
Mr. Wang Xiaodong (appointed with effect from June 11, 2015)	A & B
Mr. Zhang Xiangdong	A & B
Ms. Zhao Yifang (appointed with effect from June 11, 2015)	A & B
Mr. Chen Tong (retired with effect from June 11, 2015)	B

A: attended director's training

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

Corporate Governance Report

BOARD COMMITTEE

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

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

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

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

Remuneration Committee

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

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

Nomination Committee

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

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

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

Corporate Governance Report

BOARD COMMITTEE *(Continued)*

Audit Committee

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

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

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

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

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS

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

Board Meeting and General Meeting

For the year ended December 31, 2015, 22 board meetings were held and attendance of each Director is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng *(Chairman)*	22	22[Note]
Ms. Liao Mingxiang	22	22[Note]
Mr. Mei Song (appointed with effect from June 11, 2015)	13	13[Note]
Mr. Zhao Jun (appointed with effect from June 11, 2015)	13	13[Note]
Mr. Mao Zhihai (resigned with effect from June 11, 2015)	9	9
Non-executive Director		
Mr. Qian Zhonghua	22	22[Note]
Independent Non-executive Director		
Mr. Ma Ji	22	22[Note]
Mr. Wang Xiaodong (appointed with effect from June 11, 2015)	13	13[Note]
Mr. Zhang Xiangdong	22	22[Note]
Ms. Zhao Yifang (appointed with effect from June 11, 2015)	13	13[Note]
Mr. Chen Tong (retired with effect from June 11, 2015)	9	9

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

For the year ended December 31, 2015, the Company convened and held two general meetings, namely (1) the 2014 annual general meeting held on June 11, 2015, which was attended by all our then Directors, namely Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Mao Zhihai, Mr. Qian Zhonghua, Mr. Ma Ji, Mr. Zhang Xiangdong and Mr. Chen Tong; and (2) extraordinary general meeting held on December 2, 2015, which was attended by our chairman, Mr. Wang Feng.

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Audit Committee Meeting

For the year ended December 31, 2015, 4 Audit Committee meetings were held for the purpose of reviewing the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and providing advice and recommendations to the Board. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Non-executive Director		
Mr. Qian Zhonghua (appointed with effect from June 11, 2015)	4	4
Independent Non-executive Director		
Mr. Ma Ji *(Chairman of Audit Committee)*	4	4
Mr. Wang Xiaodong (appointed with effect from June 11, 2015)	2	2
Mr. Zhang Xiangdong	4	4
Ms. Zhao Yifang (appointed with effect from June 11, 2015)	2	2
Mr. Chen Tong (retired with effect from June 11, 2015)	2	2

Nomination Committee Meeting

For the year ended December 31, 2015, 1 Nomination Committee meeting was held for the purpose of making recommendations to the Board on appointment of new directors of the Company. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng *(Chairman of Nomination Committee)*	1	1
Ms. Liao Mingxiang (appointed with effect from June 11, 2015)	0	0
Mr. Mei Song (appointed with effect from June 11, 2015)	0	0
Non-executive Director		
Mr. Qian Zhonghua	1	1
Independent Non-executive Director		
Mr. Ma Ji	1	1
Mr. Wang Xiaodong (appointed with effect from June 11, 2015)	0	0
Mr. Zhang Xiangdong	1	1
Ms. Zhao Yifang (appointed with effect from June 11, 2015)	0	0
Mr. Chen Tong (retired with effect from June 11, 2015)	1	1

Corporate Governance Report

ATTENDANCE RECORDS OF MEETINGS *(Continued)*

Remuneration Committee

For the year ended December 31, 2015, 3 Remuneration Committee meetings were held for the purpose of reviewing and considering the specific remuneration packages for the Company's Directors and senior management. The attendance of each member is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Wang Feng	3	3[(Note)]
Ms. Liao Mingxiang	3	3[(Note)]
Mr. Zhao Jun (appointed with effect from June 11, 2015)	2	2[(Note)]
Independent Non-executive Director		
Mr. Ma Ji	3	3[(Note)]
Mr. Wang Xiaodong (appointed with effect from June 11, 2015)	2	2[(Note)]
Mr. Zhang Xiangdong *(Chairman of Remuneration Committee)*	3	3[(Note)]
Ms. Zhao Yifang (appointed with effect from June 11, 2015)	2	2[(Note)]
Mr. Chen Tong (retired with effect from June 11, 2015)	1	1

Note: Among the relevant number of meetings held during term of office, one was conducted through resolution in writing signed by each and every one of the Remuneration Committee members.

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management (exclude executive Directors) by band for the year ended December 31, 2015 is set out below:

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

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in note 24 and note 35 to the consolidated financial statements in this annual report.

Corporate Governance Report

COMPANY SECRETARY

The Company Secretary of the Company is Ms. Leung Wing Han Sharon. Ms. Leung is a vice president of SW Corporate Services Group Limited engaged by the Company as its company secretary. Her primary contact person at the Company is Mr. Leung Oi Kin, the chief financial officer. The Company is of the view that Ms. Leung has compiled with Rule 5.15 of the GEM Listing Rules. During the year ended December 31, 2015, Ms. Leung undertook over 15 hours of relevant professional training to update her skill and knowledge in compliance with the Corporate Governance Code.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

INDEPENDENT AUDITORS' REMUNERATION

For the year ended 31 December 2015, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were approximately RMB5.5 million.

PricewaterhouseCoopers did not provide non-audit services to the Group for the year ended December 31, 2015.

INTERNAL CONTROL

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

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

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

For the year ended December 31, 2015 and up to the date of this annual report, the Audit Committee reviewed and considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The findings of the Audit Committee have been reported to the Board.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the year ended December 31, 2015.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS

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

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

Directors' Report

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a mobile game developer and publisher in the PRC. The principal activities and other particulars of the Company's subsidiaries are set out in note 9 to the financial statement. There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2015.

Further discussion and analysis of the business review required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the section of "Management Discussion and Analysis" set out on pages 9 to 20 of this annual report. This discussion forms part of this "Directors' Report".

RESULTS AND DIVIDENDS

The Group's results for the year ended December 31, 2015 are set out in the consolidated statement of comprehensive income/(loss) on page 63 of this annual report. The Board did not recommend the payment of a final dividend for the year ended December 31, 2015.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on Friday, June 10, 2016. A notice convening the annual general meeting will be despatched to the shareholders of the Company in due course.

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, June 7, 2016 to Friday, June 10, 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfers of shares, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, June 6, 2016.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Group's share capital and share options are set out in note 17 and note 19 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, is set out on page 132 in this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group are set out note 18 and note 34 to the financial statements. At December 31, 2015, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HKD1,558.3 million. This includes the Company's share premium in the amount of approximately HKD2,055.8 million at December 31, 2015, which may be distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Directors' Report

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

For the sales of in-game virtual items, the Group concluded that the Group takes the primary responsibilities in rendering services to paying players, and therefore, the paying players are the Group's customers. In 2015, no single paying player contributed more than 1% of the Group's revenue.

For the revenue generated from license fee and technical support fee, the Group's five largest third-party licensees accounted for approximately 3.6% of the Group's total revenue from the year and the single largest third-party licensee included therein accounted to approximately 1.2%.

Purchases from the Group's five largest suppliers accounted for approximately 38.1% of the Group's total purchases for the year and purchase from the largest supplier included therein amounted to approximately 12.0%.

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

DIRECTORS

The Directors for the year ended December 31, 2015 were as follows:

Executive directors

Mr. Wang Feng *(Chairman and chief executive officer)*	(appointed on May 24, 2007)
Ms. Liao Mingxiang *(President)*	(appointed on May 24, 2007)
Mr. Mei Song	(appointed on June 11, 2015)
Mr. Zhao Jun	(appointed on June 11, 2015)
Mr. Mao Zhihai	(resigned on June 11, 2015)

Non-executive director

Mr. Qian Zhonghua	(appointed on June 11, 2015)

Independent non-executive directors

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

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

Pursuant to the provision A.1.8 of the Code, the Company should arrange appropriate insurance to cover potential legal actions against its directors. To comply with code provision, the Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising from corporate activities for the year ended December 31, 2015.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 5 to 8 of this annual report.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals of the Group are set out in notes 24 and note 35 to the financial statements.

DIRECTORS' INTEREST IN SIGNIFICANT TRANSACTION, ARRANGEMENT OR CONTRACTS

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

MANAGEMENT CONTRACTS

As of December 31, 2015, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

INTERESTS OF THE COMPLIANCE ADVISOR

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" below and the disclosure on share incentive schemes and the Share Option Scheme in note 19 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Directors' Report

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

As of December 31, 2015, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance ("**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

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

Notes:

(1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 2,213,000 shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 shares subject to vesting. As of December 31, 2015, approximately 65.00% of the RSUs have been vested and the remaining RSU are subject to vesting.

(2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 106,500 shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 shares subject to vesting. As of December 31, 2015, approximately 65.01% of the RSUs have been vested and the remaining RSU are subject to vesting.

(3) Mr. Mei Song holds 9,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of December 31, 2015,approximately 65.01% of the RSUs have been vested and the remaining RSUs are subject to vesting.

(4) Mr. Zhao Jun holds 28,000 shares and is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 shares, and as of December 31,2015, approximately 65.01% of the RSUs have been vested and the remaining RSUs are subject to vesting.

(5) As of December 31, 2015, the Company issued 368,868,464 shares.

Directors' Report

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

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

Save as disclosed above, as of December 31, 2015, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as of December 31, 2015, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

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

Directors' Report

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

So far as is known to the Directors or chief executives of the Company, as of December 31, 2015, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long and short positions in the Shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company *(Note 8)*
Wangfeng Management Limited *(Note 1)*	Beneficial owner	66,576,160	18.05%
Zhu Li *(Note 2)*	Interest of spouse	77,222,468	20.93%
China Momentum Fund, L.P.	Interest of controlled corporation	52,318,760	14.18%
Fosun China Momentum Fund GP, Ltd.	Interest of controlled corporation	52,318,760	14.18%
Fosun Financial Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun International Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun International Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun Momentum Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Guo Guangchang	Interest of controlled corporation	52,318,760	14.18%
Starwish Global Limited *(Note 3)*	Beneficial owner	52,318,760	14.18%
The Core Trust Company Limited *(Note 4)*	Trustee of a trust	41,810,041	11.33%
Premier Selection Limited *(Note 4)*	Nominee for another person	41,810,041	11.33%
Ho Chi Sing	Interest of controlled corporation	29,922,996	8.11%
IDG-Accel China Growth Fund Associates, L.P. *(note 5,6)*	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund GP Associates Ltd. *(note 5,6)*	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund L.P. *(note 5,6)*	Beneficial owner	23,061,443	6.25%

Directors' Report

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

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

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company *(Note 8)*
Zhou Quan	Interest of controlled corporation	27,774,323	7.53%
Fubon Financial Holding Co., Ltd. *(Note 7)*	Interest of controlled corporation	23,739,000	6.44%
Fubon Life Insurance Co., Ltd. *(Note 7)*	Beneficial owner	23,739,000	6.44%

Notes:

1. Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited.

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

3. Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P. Fosun China Momentum Fund GP, Ltd. is in turn wholly owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). As of December 31, 2015, Fosun International Limited is 71.37% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of September 30, 2015, Mr. Guo Guangchang owns 64.45% equity interest in Fosun International Holdings Ltd..

4. The Core Trust Company Limited, being the RSU Trustee (as defined on page 39 of this annual report), directly holds the entire issued share capital of Premier Selection Limited (the RSU Nominee), which originally held 42,161,541 underlying shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of December 31, 2015, 351,500 relevant shares have been sold to the RSUs participants and the RSU Nominee currently holds 41,810,041shares, including a total of 18,274,000 underlying shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, (iii) the 4,217,154RSUs granted to Mr. Mei Song, and (iv) the 2,811,769 RSUs granted to Mr. Zhao Jun.

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

6. As of December 31, 2015, IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., pursuant to the stock borrowing agreement entered into on December 22, 2014, lent an aggregate of 11,095,000 shares to the stabilising manager, Citigroup Global Markets Asia Limited, which were used to cover the over-allocations in the international offering of the Company's shares. On January 9, 2015, the stabilising manager returned all the borrowed shares to the above respective funds. On the same date, the above funds disposal an aggregate of 10,375,000 shares at the average price of HKD9.80.

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

8. As of December 31, 2015, the Company issued 368,868,464 shares.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

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

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

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

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

Directors' Report

SHARE INCENTIVE SCHEME AND SHARE OPTION SCHEME

Share Incentive Scheme

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

The key terms of the RSU Scheme are as follow.

(a) Purposes of the RSU Scheme

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

(b) Participants in the RSU Scheme

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

(c) Term of the RSU Scheme

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

(d) Maximum number of Shares pursuant to RSUs

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

(e) Appointment of the RSU Trustee

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

Directors' Report

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

Share Incentive Scheme *(Continued)*

(f) Exercise of RSUs

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

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

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

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

On October 9, 2015, the Company granted 20,000 RSUs to one employee pursuant to the RSU Scheme. The underlying shares involved by the grant of RSUs will be settled by existing shares held by the trustee of the RSU Scheme.

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

Directors' Report

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

Share Option Scheme

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

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

(a) Purpose

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

(b) Who may participate

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

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

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

(d) Maximum entitlement of each individual

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

(e) Acceptance of an offer of options

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

Directors' Report

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

Share Option Scheme *(Continued)*

(f) Exercise price

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

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

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

(iii) the nominal value of the shares.

(g) Duration of Share Option Scheme

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

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

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

Directors' Report

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

Share Option Scheme *(Continued)*

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

Notes:

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

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

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

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

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

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

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

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

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

(6) For details of the accounting policy adopted for the share options and value of share options granted, please refer to note 19 to the financial statements.

Directors' Report

INTERESTS IN COMPETING BUSINESS

Prior to the completion of the disposal, Mr. Wang Feng held approximately 4.02% of the total equity interest in Beijing Locojoy Technology Co., Ltd ("**Locojoy**"), an Internet company operating in the PRC, which is primarily engaged in developing and publishing online games. Mr. Wang did not hold any directorship, nor was he entitled to any special shareholder's rights (such as information right or management right) in Locojoy. There was no overlapping management between Locojoy and our Company. On September 21, 2015, Mr. Wang Feng completed the disposal of all his equity interests in Locojoy. As of December 31, 2015, Mr. Wang Feng did not hold any equity interests in Locojoy.

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

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

NON-COMPETITION UNDERTAKINGS IN DIRECTORS' SERVICE CONTRACT

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

CONTRACTUAL ARRANGEMENTS

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

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

Major terms of the contracts under the Contractual Arrangements

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

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

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

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

i. Linekong Entertainment agreed to engage Beijing Linekong Online as its exclusive technology consultant and service provider. The technology advices and services which Beijing Linekong Online shall provide to Linekong Entertainment include, but are not limited to, (i) research and development of technologies necessary for the operations of Linekong Entertainment, (ii) application and implementation of technologies relevant to the operations of Linekong Entertainment, (iii) technical services related to advertisement design, software design, and webpage production with respect to Linekong Entertainment's advertising business, and provide management advices and recommendations, and (iv) daily maintenance, supervision, commissioning and troubleshooting of Linekong Entertainment's computer network equipment and other technical services;

ii. Linekong Entertainment shall pay to Beijing Linekong Online a service fee that equals to the profit before taxation of Linekong Entertainment, including all profits attributable to Linekong Entertainment of, and any other distributions received by Linekong Entertainment from, any of its subsidiaries in any given year but without taking into account the service fee payable under the agreement and after offsetting the prior-year loss (if any) and deducting such amounts as required for working capital expenses and tax of each of Linekong Entertainment and its subsidiaries (as the case may be) in any given year; and

iii. Beijing Linekong Online shall enjoy all economic benefits of, and bear all risks arising from, the conduct of Principal Business by Linekong Entertainment. In the event that Linekong Entertainment incurs significant operating loss or experienced serious difficulties in its operations, Beijing Linekong Online shall provide financial support to Linekong Entertainment and shall have the right to request Linekong Entertainment to cease in operation.

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

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

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

(b) Amended and Restated Exclusive Call Option Agreement

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

i. the Registered Shareholders jointly and severally granted to Beijing Linekong Online (exercisable by itself or any direct or indirect shareholder of Beijing Linekong Online and a direct or indirect subsidiary of such shareholder (i.e. being any member of our Group) or an authorized director (being a PRC citizen) of any such member of our Group as designated by Beijing Linekong Online) irrevocable options to (i) purchase, to the extent permitted by PRC laws and regulations, their equity interests in Linekong Entertainment, entirely or partially, at the minimum purchase price permitted under PRC laws and regulations or (ii) acquire to the extent permitted by PRC laws and regulations, all or part of the assets (including all intellectual properties) of Linekong Entertainment at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations;

ii. Beijing Linekong Online (by itself or any of its designees) may exercise such options at any time until it has acquired all equity interests and/or assets (including all intellectual properties) of Linekong Entertainment, subject to applicable PRC laws and regulations; and

iii. Beijing Linekong Online shall have the right to forthwith exercise the option granted under the Amended and Restated Exclusive Call Option Agreement when relevant PRC laws and regulations permit the equity interests of Linekong Entertainment to be directly held by Beijing Linekong Online while Linekong Entertainment continues to operation the Principal Business.

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

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

(c) Amended and Restated Equity Pledge Agreement

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

i. each of the Registered Shareholders agreed to pledge all of their respective equity interests in Linekong Entertainment to Beijing Linekong Online to secure performance of all their obligations and the obligations of Linekong Entertainment under the Contractual Arrangements. If any Registered Shareholder breaches or fails to fulfil the obligations, Beijing Linekong Online, as the pledgee, will be entitled to foreclose the pledged equity interests, entirely or partially;

ii. each Registered Shareholder has undertaken to Beijing Linekong Online, among other things, not to transfer or otherwise dispose his/her equity interests in Linekong Entertainment and not to create or allow any pledge thereon that may affect the rights and interest of Beijing Linekong Online without its prior written consent;

iii. appropriate arrangements have been made to protect Beijing Linekong Online's interests in the event of death, incapacity, bankruptcy or divorce of the Registered Shareholders or any other circumstances that may affect their exercise of the shareholders' rights to avoid any practical difficulties in enforcing the Amended and Restated Equity Pledge Agreement; and

iv. if Linekong Entertainment declares any dividend or distribute any income during the term of the pledge, Beijing Linekong Online is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests.

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

(d) Loan Agreement

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

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

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

(e) Power of Attorney

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

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

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

Risks associated with the Contractual Arrangements

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

Measures adopted by our Group

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

Directors' Report

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

(e) Power of Attorney *(Continued)*

Revenue and assets subject to the Contractual Arrangements

For the year ended December 31, 2015, the revenue and net loss subject to the Contractual Arrangements are RMB512.7 million and RMB92.0 million (amounted to approximately 94.8% and 171.0% of the total revenue and net loss of the Group), respectively.

As at December 31, 2015, the total assets subject to the Contractual Arrangements is RMB296.6 million, amounted to approximately 23.1% of the total assets of the Group.

Change of circumstances

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

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

Appointment of Financial Consultant

On June 11, 2015, the Company entered into a consultancy agreement (the "**Consultancy Agreement**") with Mr. Mao Zhihai ("**Mr. Mao**"), the former executive Director and chief financial officer of the Company, pursuant to which the Company appointed Mr. Mao as its financial consultant from June 11, 2015 to July 11, 2015 to assist the newly-appointed chief financial officer to ensure smooth transition of the financial management of the Group. Mr. Mao will receive nil consultancy fees under the Consultancy Agreement.

Being a financial consultant of the Group, Mr. Mao continues to be an eligible participant under the RSU Scheme. Such appointment would, in effect, entitle Mr. Mao to receive an aggregate of 235,230 RSUs that have originally been granted to him under the RSU Scheme to be vested on July 1, 2015 and July 10, 2015. Based on the closing price of the shares traded on the Stock Exchange on June 11, 2015, the market value of the subject RSUs is HKD3,575,496.

Mr. Mao is a former executive Director and his resignation takes effect from June 11, 2015. Mr. Mao remains as a connected person of the Company under the GEM Listing Rules within 12 months after his resignation as an executive Director. As such, the Consultancy Agreement and the transactions contemplated thereunder constitute connected transaction under Chapter 20 of the GEM Listing Rules. The said connected transaction is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' requirements under Chapter 20 of the GEM Listing Rules.

Details of the appointment of financial consultant are set out in the announcement of the Company dated June 11, 2015.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

Purchase of Series B+ Preferred Shares

Series B+ Framework Agreement

On September 2, 2015, the Company entered into a series B+ framework agreement (the "**Series B+ Framework Agreement**") with Fuze, pursuant to which Fuze agrees to issue and sell to the Company, and the Company agrees to purchase 25,227,273 series B+ preferred shares (the "**Series B+ Preferred Shares**") in Fuze with par value of USD0.000025 each (the "**Purchased Shares**"), at a price of USD0.3667 per share, amounting to an aggregate purchase price of USD9,250,000 (the "**Purchase of Series B+ Preferred Shares**") to be paid in cash. The Purchase of Series B+ Preferred Shares will be funded by the internal resources of the Group.

Series B+ Preferred Share Purchase Agreement

In addition to the Series B+ Framework Agreement, the Company entered into a series B+ preferred share purchase agreement (the "**Series B+ Preferred Share Purchase Agreement**") with various parties including Fuze, on September 23, 2015. The principal terms of the Series B+ Preferred Share Purchase Agreement are set out below:

The Purchase of Series B+ Preferred Shares	Subject to the terms and conditions set forth in the Series B+ Preferred Share Purchase Agreement, Fuze agrees to issue and sell to the Company, and the Company agrees to purchase 25,227,273 Series B+ Preferred Shares in Fuze with par value of USD0.000025 each, at a price of USD0.3667 per share, amounting to an aggregate purchase price of USD9,250,000, which will be paid in cash. The Purchase of Series B+ Preferred Shares will be funded by the internal resources of the Group other than the proceeds from the initial public offering of the Company.
Rights of the Company as Holder of Series B+ Preferred Shares	According to second amended and restated shareholders agreement to be duly executed by all the shareholders of Fuze, the Company has, among others, certain rights under the Series B+ Preferred Share Purchase Agreement, including but not limited to Information and Inspection Rights, Right of Participation, Right of First Refusal, Co-sale Right and Drag Along Right.

The Purchase of Series B+ Preferred Shares was completed on December 17, 2015.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

Purchase of Series B+ Preferred Shares *(Continued)*

Connected Parties

The Purchase of Series B+ Preferred Shares does not constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. However, the Company voluntarily complies with the requirements which would otherwise apply to a connected transaction under Chapter 20 of the GEM Listing Rules after considering the relationships of the parties to the Series B+ Preferred Share Purchase Agreement.

The said relationships are summarised as follows:

As at the date of the Series B+ Preferred Share Purchase Agreement, Fuze is owned by the Company as to approximately 24.98%, taking into account all the issued and outstanding ordinary shares, series A preferred shares (the "**Series A Preferred Shares**") and series B preferred shares of Fuze.

Rainbow Chaser Limited has purchased certain amount of Series A Preferred Shares and series B preferred shares in Fuze and is a substantial shareholder of Fuze. Rainbow Chaser Limited is an indirect wholly-owned subsidiary of Fosun International Limited, and also a fellow subsidiary of Starwish Global Limited, being one of the substantial shareholders of the Company. The shareholding structure details of Starwish Global Limited and its relationship with Fosun International Limited is set out in Note 3 on page 37 of this annual report. As such, Rainbow Chaser Limited is an associate of Starwish Global Limited and is a connected person of the Company for the purpose of Chapter 20 of the GEM Listing Rules. Although Rainbow Chaser Limited is a substantial shareholder of Fuze but its shareholding in Fuze is less than 30%. As such, Fuze is not a connected person of the Company under Chapter 20 of the GEM Listing Rules by virtue of being an associate of a substantial shareholder of the Company. Further, while the Company is acquiring interests in a company which a connected person has shareholding interests, neither Rainbow Chaser Limited nor its holding companies is a controller of the Company as defined in Rule 20.26 of the GEM Listing Rules.

Certain shareholders of Fuze, being Wise Orient Investments Limited, IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P., IDG-Accel China Investors L.P., and Northern Light Venture Capital IV, Ltd., and/or their respective associates, also hold, directly or indirectly, less than 10% shareholding in the Company, respectively.

Details of the Purchase of Series B+ Preferred Shares are set out in the announcement of the Company dated September 2, 2015 and the circular of the Company dated November 17, 2015.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

Continuing Connected Transactions

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

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

As at December 31, 2015, there was no transaction conducted under the Contractual Arrangements.

Independent non-executive Directors' confirmation

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

(1) no transactions were carried out for the financial year ended December 31, 2015;

(2) no dividends or other distributions have been made by Linekong Entertainment to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and

(3) there were no new contracts entered into, renewed or reproduced between our Group and Linekong Entertainment for the financial year ended December 31, 2015.

Directors' Report

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

There were no continuing connected transactions between the Group and its connected person (as defined under the GEM Listing Rules) which are subject to reporting, announcement and independent shareholders' approval requirement under the GEM Listing Rules from the Listing Date and up to December 31, 2015.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in Note 31 to the consolidated financial statements in this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the GEM Listing Rules, except for those described in the paragraph headed "Connected and Continuing Connected Transactions" above, in respect of which the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules have been complied with or waived by the Stock Exchange.

OUR INVESTMENTS DURING THE REPORTING PERIOD

Investment in Newbility

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

Investment in Fuze

On March 6, 2015, the Company entered into a secured convertible note purchase agreement with, among others, Fuze, to purchase the convertible promissory notes in the principal sum of USD5,000,000 (approximately HKD39,000,000) with interests accrued on the outstanding principal amount (the "**Convertible Promissory Notes**").

To make further investment in Fuze, on June 8, 2015, the Company entered into a series A preferred share purchase agreement with, among others, Fuze, pursuant to which the Company conditionally agreed to cancel the Convertible Promissory Notes and purchase 61,818,182 Series A Preferred Shares in Fuze at the aggregate consideration of USD17,000,000 (being approximately USD0.275 per each Series A Preferred Share, and in aggregate, equivalent to approximately HKD132,600,000), which is payable by (i)approximately USD5,078,333 (equivalent to approximately HKD39,610,997) resulting from the cancellation of indebtedness owed by Fuze to the Company under the Convertible Promissory Notes and (ii) the cash payment of approximately USD11,921,667 (equivalent to approximately HKD92,989,000). In addition, the Company entered into the Series B+ Framework Agreement with Fuze on September 2, 2015 and entered into the Series B+ Preferred Share Purchase Agreement with Fuze on September 23, 2015, pursuant to which the Company agreed to purchase 25,227,273 Series B+ Preferred Shares in Fuze at the aggregate consideration of USD9,250,000 (being approximately USD0.3667 per each Series B+ Preferred Share). An extraordinary general meeting was held on December 2, 2015 approving the Purchase of Series B+ Preferred Shares by the Company. The Purchase of Series B+ Preferred Shares by the Company was completed on December 17, 2015. As of December 31, 2015, the Company holds approximately 31.92% equity interests of Fuze, taking into account all issued and outstanding ordinary shares, Series A Preferred Shares, series B preferred shares and Series B+ Preferred Shares of Fuze.

On July 7, 2015, a loan agreement was also entered into between the Company as the lender *(*the "**Lender**"), and Fuze as the borrower *(*the "**Borrower**"). The Company granted an unsecured loan in the amount of USD9,000,000 (or its equivalent in other currencies) to the Borrower for a period of 12 months from the date of issuance of the loan. Fuze shall repay the principal of the loan and the interests accrued under the loan in full on the final repayment date, and shall be subject to the default in repayment (Note 1) and the acceleration of repayment (Note 2). As agreed between the Company and Fuze, the loan comprises USD4,500,000 and a sum of RMB equivalent to USD4,500,000.

The loan was fully issued to Fuze by several instalments in July 2015 in the currency of USD and RMB. The interest rate applicable in USD and was RMB is 3% per annum and 4.85% per annum respectively.

Directors' Report

OUR INVESTMENTS DURING THE REPORTING PERIOD *(Continued)*

Investment in Fuze *(Continued)*

Details of the investments in Fuze are set out in the announcements of the Company dated March 10, 2015, June 8, 2015, July 7, 2015, July 14, 2015, July 16, 2015, September 2, 2015,September 11, 2015, October 16, 2015, November 6, 2015, November 17, 2015 and December 2, 2015, and the circular of the Company dated November 17, 2015.

The part of the loan in the sum of USD4,500,000 had been fully repaid by the Borrower to the Lender on December 15, 2015. The rest part of the loan in the sum of RMB equivalent to USD4,500,000 had been fully repaid by the Borrower to the Lender on December 31, 2015

Notes:

1. If the Borrower fails to repay the principal of the loan and the interests accrued, the Lender is entitled to charge a daily interest of 0.05% on the outstanding amount until full repayment.

2. The following events will trigger acceleration of repayment by the Borrower:

   (1) the Borrower fails to comply with the obligations and/or undertaking under the loan agreement, and/or any of the representation made by the borrower under the loan agreement is untrue or inaccurate;

   (2) the occurrence of an event which severely affects the Borrower's repayment under the loan agreement, such as serious deterioration of business operations, litigation involving a large sum of money and the risks of liquidation;

   (3) the Borrower sells, transfers, assigns or disposes all or almost all businesses, capital, fixed assets, intellectual property rights, equity shareholding of the Borrower/any corresponding subsidiary/other related entities; and

   (4) the deregistration and liquidation of the Borrower.

Subscription and Disposals of Shares in SMI

On March 12, 2015 (after trading hours), the Company as the subscriber entered into a subscription agreement (the "**Subscription Agreement**") with SMI as the target company, pursuant to which the Company has conditionally agreed to subscribe and SMI has conditionally agreed to issue 139,582,733 SMI shares (the "**Subscription Shares**") at the total consideration of USD5,000,000 (equivalent to approximately HKD38,804,000), equivalent to approximately HKD0.278 per Subscription Share (together referred to as the "Subscription").

On April 13, 2015, the Subscription had been completed and the Subscription Shares had been issued to the Company.

On July 10, 2015, the Company disposed an aggregate of 114,240,000 SMI shares at an aggregate consideration of approximately HKD109,194,825 (the "**Disposals**"). As of December 31, 2015, the Company holds 25,342,733 SMI shares, representing approximately 0.20% of the then issued share capital of SMI.

The Company recognised an unaudited gain from the Disposals in the amount of approximately HKD77,436,105, which was calculated on the basis of (i) total purchase cost of USD4,092,196 (equivalent to approximately HKD31,758,720) for 114,240,000 SMI shares of approximately HKD0.278 per SMI share, and (ii) the aggregated consideration of the Disposals amounted to HKD109,194,825. The amount of the actual gain or loss from the Disposals is subject to audit report.

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

Details of the Subscription and the Disposals were set out in the announcements of the Company dated March 12, 2015, March 26, 2015, April 13, 2015 and July 10, 2015.

Directors' Report

OUR INVESTMENTS DURING THE REPORTING PERIOD *(Continued)*

Investment in Yongle

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

Cooperation with Strawbear Technology

On April 13, 2015, Linekong Entertainment and Strawbear Technology Co., Ltd. ("**Strawbear Technology**"), a company controlled by Mr. Wu Qilong (a Taiwanese singer and actor), have agreed to establish a new company in Beijing, PRC. The new company, Feng& Long, has been established to conduct research and development as well as to promote a mobile game called The ***Wars of Shushan*** (蜀山戰紀). The registered capital of Feng &Long is RMB12,500,000, and contributed as to RMB10,000,000 by Linekong Entertainment and RMB2,500,000 by Strawbear Technology in cash. As of the date of this annual report, Linekong Entertainment and Strawbear Technology own 80% and 20% equity interest in Feng & Long, respectively.

Details of the cooperation with Strawbear Technology are set out in the announcement of the Company dated April 14, 2015.

Investment in Guizhou Zhiqu

On April 30, 2015, Linekong Entertainment entered into an investment agreement (the"**First Investment Agreement**") with Guizhou Zhiqu Network Technology Co., Ltd. ("**Guizhou Zhiqu**"), the existing shareholders of the Guizhou Zhiqu and the investors, pursuant to which Linekong Entertainment agreed to acquire 6% of the then shareholding of Guizhou Zhiqu at the consideration of RMB5,714,300. Guizhou Zhiqu is a company established in the PRC with limited liability and is primarily engaged in the development of online trading platforms, including Taoshouyou (http://www.taoshouyou.com/). Taoshouyou is a third party mobile games trading platform which primarily focuses on the trading of gaming accounts.

Details of the First Investment Agreement are set out in the announcement of the Company dated April 30, 2015.

On September 10, 2015, Linekong Entertainment entered into an investment agreement with Guizhou Zhiqu, the existing shareholders of the Guizhou Zhiqu and the investors, pursuant to which Linekong Entertainment agreed to acquire a further 2% of the then shareholding of Guizhou Zhiqu at the consideration of RMB1,904,762.

Investment in Beijing Tianqu

On July 1, 2015, Linekong Entertainment entered into a share purchase agreement to acquire 5% of the then equity interests in Beijing Tianqu Hudong Technology Development Co., Ltd. ("**Beijing Tianqu**") at a consideration of RMB3,500,000. Beijing Tianqu is a limited liability company registered in Beijing, the PRC and is primarily engaged in game research and development.

Investment in Hehe Fund

On July 23, 2015, Linekong Entertainment entered into an assets management agreement of Hehe Black Ant Film Fund Special Asset Management Plan ("**Hehe Fund**") and pursuant to which, it invested in Hehe Fund an amount of RMB10,000,000, representing approximately 5.00% of the then equity interests of Hehe Fund.

Investment in Coyote

On August 6, 2015, Linekong Entertainment entered into a share purchase agreement to acquire 5.5% of the then equity interests in Coyote Games Information Technology Co., Ltd. ("**Coyote**") at a consideration of RMB1,925,000. Coyote is a limited liability company registered in Beijing, PRC and is primarily engaged in game research and development.

Directors' Report

OUR INVESTMENTS DURING THE REPORTING PERIOD *(Continued)*

Investment in MicroFunPlus

On August 19, 2015, the Company entered into a share purchase agreement with MicroFunPlus to acquire 2.5% of the then equity interests in MicroFunPlus at a consideration of RMB10 million. MicroFunPlus is a company established in the PRC with limited liability which is primarily engaged in developing casual mobile games. Its Jelly Blast, a tile-matching game for leisure, hitting a DAU of 5 million users and ranking among the top 60 on the most popular apps list for six consecutive months as of December 31, 2015.

Investment in Chuizi Technology

On November 12, 2015, Linekong Entertainment entered into a share purchase agreement with Chuizi Technology (Beijing) Co., Ltd. ("**Chuizi Technology**") and Suzhou Zi Hui Rui Wang Undertaking Investment Partnership Enterprise (limited liability partnership) to acquire 0.45% of the then equity interests in Chuizi Technology at a consideration of RMB12,000,000. Chuizi Technology is a limited liability company registered in Beijing, PRC and is primarily engaged in intelligence mobile phone, intelligence mobile phone operation system and its relating products.

Investment in Ji Ke Bang

On November 30, 2015, Linekong Entertainment entered into an investment agreement to acquire approximately 29.09% of the then equity interests in Ji Ke Bang Fund of Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise ("**Ji Ke Bang**") at the consideration of RMB30,000,000. Ji Ke Bang is a limited liability partnership registered in Suzhou, PRC and is primarily engaged in industrial investment in game & entertainment, cloud tools & services, mobile SaaS, and smart hardware.

Investment in Gameone

On December 28, 2015, the Company entered into a cornerstone investment agreement with Gameone Holdings Limited ("**Gameone**") and China Everbright Securities (HK) Limited, pursuant to which the Company agreed to subscribe for 0.75% of the then equity interests in Gameone at the consideration of HKD1,500,000. Gameone is a limited liability company registered in Cayman Islands, being listed on the Stock Exchange on January 13, 2016 (GEM Stock Code: 8282), and is primarily engaged in integrated game development, operation and publication with focus in the markets of Hong Kong and Taiwan.

PARTIAL EXERCISE OF OVER-ALLOTMENT OPTION

On January 9, 2015, the over-allotment option described in the Prospectus was partially exercised by the joint global coordinators (for themselves and on behalf of the international underwriters) in respect of an aggregate of 10,375,000 Shares, representing approximately 14.03% of the offer shares initially available under the Listing before exercise of any over-allotment option, to cover over-allocations under the Listing. The over-allotment shares were sold by the over-allotment option grantors at HKD9.80 per share, being the offer price per share under the Listing. As the over-allotment option was granted by the over-allotment option grantors (and not the Company), the Company did not receive any proceeds from the exercise of the over-allotment option. Therefore, the amount of the net proceeds received by the Company from the Listing was not affected by the exercise of the over-allotment option.

UPDATE ON TRADEMARK DISPUTE

On April 30, 2015, the Group received a notice from the Trademark Office of the State Administration For Industry and Commerce of the PRC (the "**SAIC Trademark Office**") dated April 8, 2015, stating that the application to register the trademark "王者之劍" by another company, Shishou Ditanke Electronics Business Department (石首市低碳客電子經營部) was approved and the objection to this application filed by the Group in March 2013 was rejected. On May 12, 2015, the Group has changed the Chinese name of ***Excalibur*** from "王者之劍" to "王者戰魂" to mitigate impact of any potential infringement claim on the Group.

Directors' Report

CHANGE OF COMPANY NAME

On May 11, 2015, the Board proposed to change the name of the Company from "Linekong Interactive Co., Ltd. 藍港互動有限公司" to "Linekong Interactive Group Co., Ltd. 藍港互動集團有限公司" (the "**Change of Company Name**").

The Change of Company Name was duly passed as a special resolution at the annual general meeting on June 11, 2015. The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on June 19, 2015, certifying the Change of Company Name. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Hong Kong Companies Registry on July 21, 2015, confirming the registration of the Company's new name in Hong Kong.

Details of the Change of Name are set out in the announcements of the Company dated May 11, 2015, June 25, 2015, July 30, 2015 and the supplemental circular of the Company dated May 20, 2015.

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT, AND UPDATE ON DIRECTOR'S INFORMATION

Mr. Mao Zhihai, an executive Director, has resigned as an executive Director, the chief financial officer, the joint company secretary, the authorised representative, the compliance officer and the secretary to the Board with effect from June 11, 2015.

Mr. Chen Tong, an independent non-executive Director, has retired as an independent on-executive Director, member of the Audit Committee, Nomination Committee and Remuneration Committee, all with effect from June 11, 2015.

Mr. Wang Feng, an executive Director, will assume the role as an authorised representative of the Company, and Ms. Liao Mingxiang, an executive Director, will assume the role of compliance officer of the Company, all with effect from June 11, 2015.

Mr. Mei Song and Mr. Zhao Jun were appointed as executive Directors, and Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as independent non-executive Directors, all with effect from June 11, 2015.

Mr. Ma Ji, an independent non-executive Director, has served as the chief financial officer at Autonavi Holdings Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: AMAP) from August 2013 to October 2014 before it was delisted as a result of an acquisition in July 2014 by Alibaba Group Holding Limited ("**Alibaba**"), a company listed on the New York Stock Exchange (NYSE: BABA). Mr. Ma ceased to hold any position in Alibaba group since July 30, 2015. He formally joined JD Group in February 2016 and has been serving as the secretary to the board of directors of JD Finance Group.

With regards to the Board committees, Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as members of the Audit Committee. Mr. Zhao Jun, Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as members of the Remuneration Committee. Ms. Liao Mingxiang, Mr. Mei Song, Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as members of the Nomination Committee, all with effect from June 11, 2015.

Mr. Leung Hoi Kin has been appointed as the chief financial officer of the Company with effect from June 11, 2015.

Details of the changes in directors and senior management are set out in the announcements of the Company dated March 25, 2015, April 24, 2015 and June 11, 2015. The biographical details of the Directors and senior management are set out in "Biographical Details of the Directors and Senior Management" on pages 5 to 8 of this annual report.

CHANGE OF COMPANY SECRETARY

Ms. Lam Wai Yee Sophie has resigned as the company secretary of the Company (the "**Company Secretary**") and authorised representative of the Company for acceptance of service of process and notice under the Companies Ordinance (Cap. 622) of the Laws of Hong Kong (the "**Authorised Representative**") with effect from June 30, 2015.

Directors' Report

CHANGE OF COMPANY SECRETARY *(Continued)*

Ms. Leung Wing Han Sharon has been appointed as the Company Secretary and Authorised Representative of the Company with effect from June 30,2015.

Details of the Change of Company Secretary are set out in the announcement of the Company dated June 30, 2015.

EVENTS AFTER THE REPORTING PERIOD

Change of Logo of the Company

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

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

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting the underwriting fees, capitalised professional service fees and related expenses) amounted to approximately HKD686.2 million. As at the date of this annual report, the net proceeds from our Listing generally had hardly been utilized and all of the net proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group which will be used for the suggested purposes as set out in the "Change in Use of Proceeds" announcement dated March 29, 2016.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 21 to 30 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Directors' Report

INDEPENDENT AUDITOR

The financial statements of the Company for the year ended December 31, 2015 were audited by PricewaterhouseCoopers. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as auditor of the Company.

ON BEHALF OF THE BOARD
Wang Feng
Chairman

March 29, 2016

Independent Auditor's Report

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Linekong Interactive Group Co., Ltd. (the "Company", formerly known as Linekong Interactive Co., Ltd.) and its subsidiaries set out on pages 61 to 131, which comprise the consolidated balance sheet as of December 31, 2015, and the consolidated statement of comprehensive income/(loss), the consolidated statement of changes in equity/(deficit) and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as of December 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2016

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888

Consolidated Balance Sheet

		As of December 31,	
		2015	2014
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**14,468**	11,367
Intangible assets	7	**29,343**	37,127
Investments in associates	10	**180,183**	–
Available-for-sale financial assets	11	**44,370**	–
Financial assets at fair value through profit or loss	12	**41,409**	–
Deferred income tax assets — net	13	**7,490**	5,358
Prepayments and other receivables	15	**20,465**	5,110
		337,728	58,962
Current assets			
Trade receivables	14	**45,079**	62,829
Prepayments and other receivables	15	**89,675**	51,917
Financial assets at fair value through profit or loss	12	**19,543**	–
Cash and cash equivalents	16	**794,461**	1,086,532
		948,758	1,201,278
Total assets		**1,286,486**	1,260,240

Consolidated Balance Sheet *(continued)*

		As of December 31,	
		2015	2014
	Note	***RMB'000***	*RMB'000*
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	17	**59**	59
Share premium	17	**1,722,308**	1,726,828
Shares held for RSU Scheme	17	**(3)**	(6)
Reserves	18	**325,713**	206,182
Accumulated losses		**(977,657)**	(925,746)
		1,070,420	1,007,317
Non-controlling interests		**(1,907)**	(21)
Total equity		**1,068,513**	1,007,296
Liabilities			
Non-current liabilities			
Deferred revenue	21	**3,267**	9,048
		3,267	9,048
Current liabilities			
Trade and other payables	20	**107,472**	151,466
Current income tax liabilities		**3,885**	3,769
Deferred revenue	21	**103,349**	88,661
		214,706	243,896
Total liabilities		**217,973**	252,944
Total equity and liabilities		**1,286,486**	1,260,240

The notes on pages 67 to 131 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 61 to 131 were approved by the Board of Directors on March 29, 2016 and were signed on its behalf.

Wang Feng
Director

Liao Mingxiang
Director

Consolidated Statement of Comprehensive Income/(Loss)

	Note	Year ended December 31, 2015 RMB'000	2014 RMB'000
Revenue	5	**540,828**	678,684
Cost of revenue	23	**(323,828)**	(347,359)
Gross profit		**217,000**	331,325
Selling and marketing expenses	23	**(180,060)**	(81,252)
Administrative expenses	23	**(83,224)**	(141,389)
Research and development expenses	23	**(120,562)**	(112,290)
Other gains — net	25	**104,018**	6,347
Operating (loss)/profit		**(62,828)**	2,741
Finance income — net	26	**16,373**	2,261
Fair value loss of preferred shares	22	**–**	(156,949)
Share of loss of associates	10	**(5,430)**	–
Loss before income tax		**(51,885)**	(151,947)
Income tax expense	27	**(1,912)**	(2,636)
Loss for the year		**(53,797)**	(154,583)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		**8,399**	–
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		**(1,534)**	–
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		**2,430**	–
Items that will not be reclassified to profit or loss:			
— Currency translation differences		**47,354**	(2,523)
Other comprehensive income/(loss) for the year, net of tax		**56,649**	(2,523)
Total comprehensive income/(loss) for the year		**2,852**	(157,106)
Loss attributable to:			
Owners of the Company		**(51,911)**	(154,582)
Non-controlling interests		**(1,886)**	(1)
Loss for the year		**(53,797)**	(154,583)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**4,738**	(157,105)
Non-controlling interests		**(1,886)**	(1)
Total comprehensive income/(loss) for the year		**2,852**	(157,106)
Loss per share (expressed in RMB per share)			
— Basic	28(a)	**(0.15)**	(2.56)
— Diluted	28(b)	**(0.15)**	(2.56)

The notes on pages 67 to 131 are integral parts of these consolidated financial statements.

Consolidated Statement of Changes in Equity/(Deficit)

		Attributable to owners of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for RSU Scheme *RMB'000*	Reserves *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total (deficit)/ equity *RMB'000*
Balance at January 1, 2014		18	–	–	86,909	(768,227)	(681,300)	(20)	(681,320)
Comprehensive loss									
Loss for the year		–	–	–	–	(154,582)	(154,582)	(1)	(154,583)
Other comprehensive loss									
— Currency translation differences		–	–	–	(2,523)	–	(2,523)	–	(2,523)
Total comprehensive loss for the year		–	–	–	(2,523)	(154,582)	(157,105)	(1)	(157,106)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Issuance of shares held for RSU Scheme	19	6	–	–	–	–	6	–	6
Deemed contribution from shareholders for the shares issued for RSU Scheme	19	–	–	(6)	6	–	–	–	–
RSU Scheme:									
— Value of employee services	19	–	–	–	118,853	–	118,853	–	118,853
Conversion of preferred shares to ordinary shares	17	23	1,185,304	–	–	–	1,185,327	–	1,185,327
Issuance of ordinary shares relating to initial public offering, net off underwriting commissions and other issuance costs	17	12	541,524	–	–	–	541,536	–	541,536
Appropriation to statutory reserves		–	–	–	2,937	(2,937)	–	–	–
Total contributions by and distributions to owners of the Company for the year		41	1,726,828	(6)	121,796	(2,937)	1,845,722	–	1,845,722
Balance at December 31, 2014		59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296

Consolidated Statement of Changes in Equity/(Deficit) *(continued)*

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2015		59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296
Comprehensive (loss)/income									
Loss for the year		–	–	–	–	(51,911)	(51,911)	(1,886)	(53,797)
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax		–	–	–	8,399	–	8,399	–	8,399
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		–	–	–	(1,534)	–	(1,534)	–	(1,534)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		–	–	–	2,430	–	2,430	–	2,430
— Currency translation differences		–	–	–	47,354	–	47,354	–	47,354
Total comprehensive income/(loss) for the year		–	–	–	56,649	(51,911)	4,738	(1,886)	2,852
Total contributions by and distributions to owners of the Company recognised directly in equity		–	–	–	–	–	–	–	–
Employee share option and RSU Scheme:									
— Value of employee services	19	–	–	–	62,882	–	62,882	–	62,882
— Vesting of shares		–	(3)	3	–	–	–	–	–
Repurchase of shares		–	(4,517)	–	–	–	(4,517)	–	(4,517)
Total contributions by and distributions to owners of the Company for the year		–	(4,520)	3	62,882	–	58,365	–	58,365
Balance at December 31, 2015		59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513

The notes on pages 67 to 131 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	30	**(105,090)**	115,473
Income tax paid		**(3,928)**	(11,844)
Net cash (used in)/generated from operating activities		**(109,018)**	103,629
Cash flows from investing activities			
Purchase of property, plant and equipment		**(10,395)**	(8,962)
Purchase of intangible assets		**(22,408)**	(10,908)
Purchase of a convertible note	10	**(30,767)**	–
Net cash received from disposal of property, plant and equipment		**103**	61
Cash consideration paid for investment in an associate	10	**(132,744)**	–
Purchase of available-for-sale financial assets	11	**(494,644)**	–
Proceeds from disposal of available-for-sale financial assets	11	**460,103**	–
Purchase of financial assets at fair value through profit or loss	12	**(65,796)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	12	**87,156**	–
Loan granted to a related party		**(55,460)**	–
Loan granted to a third party		**(10,000)**	–
Loan repayments received from a related party		**58,187**	–
Purchase of short-term investments		**(230,000)**	(337,000)
Proceeds from matured short-term investments		**230,000**	337,000
Proceeds from disposal of intangible assets		**2,629**	–
Return on short-term investment received		**821**	1,890
Decrease in short-term bank deposits		**–**	35,198
Net cash (used in)/generated from investing activities		**(213,215)**	17,279
Cash flows from financing activities			
Proceeds from issuance of convertible preference shares	22	**–**	306,906
Subscription received on par value of ordinary shares		**–**	15
Contribution received on par value of the shares held for RSU Scheme		**–**	6
Proceeds from issuance of ordinary shares relating to IPO		**–**	572,059
Payments for issuance costs of ordinary shares relating to IPO		**(6,087)**	(24,436)
Payments for issuance costs of convertible preferred shares		**–**	(300)
Payments for repurchase of shares		**(4,517)**	–
Net cash (used in)/generated from financing activities		**(10,604)**	854,250
Net (decrease)/increase in cash and cash equivalents		**(332,837)**	975,158
Cash and cash equivalents at beginning of year		**1,086,532**	111,777
Exchange gain/(loss) on cash and cash equivalents		**40,766**	(403)
Cash and cash equivalents at end of the year		**794,461**	1,086,532

The notes on pages 67 to 131 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Linekong Interactive Group Co., Ltd. (the "**Company**", formerly known as Linekong Interactive Co., Ltd.), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Floor 4, Willow House, Cricket Square, P.O.Box 2804, Grand Cayman KY1-1112, Cayman Islands.

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

On March 30, 2007, Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd., "**Linekong Entertainment**") was established to carry out the Group's Game Business in the PRC by Mr. Wang Lei and another individual. Through a series of subsequent equity interests transfers, Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Zhang Yuyu, Mr. Wang Lei and Mr. Wang Wei (the "**Original Founders**") became the five shareholders of Linekong Entertainment in May 2007. Several domestic operating companies have been established by Linekong Entertainment as its subsidiaries since 2007 and these operating companies together with Linekong Entertainment are collectively defined as the "**PRC Operational Entities**".

For the purpose of introduction of overseas investors and preparation for a listing of the Company's shares on the overseas capital markets, the Group underwent a group reorganisation (the "**Reorganisation**") in April 2008. A series of contractual agreements were signed on April 22, 2008 (the "**Contractual Agreements**") among Linekong Entertainment, the Original Founders and Linekong Online (Beijing) Internet Technology Co., Ltd. ("**Beijing Linekong Online**"), which is a wholly owned subsidiary of the Company. Pursuant to the Contractual Agreements, both the PRC Operational Entities and the business carried out by them are under the effective control of Beijing Linekong Online, and ultimately the Company. Upon completion of the Reorganisation, the Company became the ultimate holding company of the Group.

The Company's shares have been listed on the Growth Enterprise Market (the "**GEM**") of the Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering ("**IPO**"). Upon the completion of the IPO on December 30, 2014, all of the Company's 153,264,523 outstanding convertible preferred shares were converted into ordinary shares on an one-to-one basis immediately as of the same date. The net proceeds to the Company from the IPO, after deducting underwriting commissions and other issuance costs paid and payable, were approximately 541,536,000 (Note 17).

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchanges control promulgated by the PRC government. As of December 31, 2015 and 2014, other than the restrictions from exchange control regulations, there is no significant restriction on the Group's ability to access or use the assets and settle the liabilities of the Group.

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

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

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

Amendments from annual improvements 2012 to:

— IAS24	— "Related party disclosures"

Amendments from annual improvements 2013 to:

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

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

(b) New amendments early adopted by the Group

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

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

Notes to the Consolidated Financial Statements

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

2.1 Basis of preparation *(Continued)*

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

(c) New standards and amendments not yet adopted

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

		Effective for annual periods beginning on or after
IFRS 14	"Regulatory Deferral Accounts"	January 1, 2016
Amendment to IFRS 11	"Accounting for acquisitions of interests in joint operations"	January 1, 2016
Amendments to IAS 16 and IAS 38	"Clarification of acceptable methods of depreciation and amortisation"	January 1, 2016
Amendments to IAS 16 and IAS 41	"Agriculture: bearer plants"	January 1, 2016
Amendments to IFRS 10 and IAS 28	"Sale or contribution of assets between an investor and its associate or joint venture"	January 1, 2016
Amendments from annual improvements 2014 to:		January 1, 2016
— IFRS 5	— "Non-current assets held for sale and discontinued operations"	
— IFRS 7	— "Financial instruments: Disclosures"	
— IAS 19	— "Employee benefits"	
— IAS 34	— "Interim financial reporting"	
Amendments to IFRS 10, IFRS 12 and IAS 28	"Investment entities: applying the consolidation exception"	January 1, 2016
Amendment to IAS 1	"Disclosure initiative"	January 1, 2016
IFRS 15	"Revenue from Contracts with Customers"	January 1, 2018
IFRS 9	"Financial Instruments"	January 1, 2018
IFRS16	"Leases"	January 1, 2019

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

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the current financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

2.2 Consolidation

(a) Subsidiaries

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

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

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

(i) Subsidiaries arising from Reorganisation

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

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

The Group does not have any equity interest in Linekong Entertainment. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Linekong Entertainment and has the ability to affect those returns through its power over Linekong Entertainment and is considered to control Linekong Entertainment. Consequently, the Company regards Linekong Entertainment as an indirect subsidiary under IFRSs. The Group has consolidated the financial position and results of operations of Linekong Entertainment in the consolidated financial statements of the Group during the year ended December 31, 2015 and 2014.

Notes to the Consolidated Financial Statements

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

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

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

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

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

(c) Disposal of subsidiaries

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

2.3 Separate financial statements

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

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

2.4 Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition net of any accumulated impairment losses. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

Notes to the Consolidated Financial Statements

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

2.4 Associates *(Continued)*

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

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

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

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

2.5 Joint arrangements

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

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

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

2.6 Segment reporting

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

Notes to the Consolidated Financial Statements

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

2.7 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

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

- assets and liabilities for each balance sheet date presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statements of comprehensive income/(loss) are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income/(loss) as currency translation differences.

Notes to the Consolidated Financial Statements

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

2.8 Property, plant and equipment

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

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

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

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

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

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

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

2.9 Intangible assets

(a) Computer software

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

(b) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the game product so that it will be available for use or sell; (2) management intends to complete the game product and use or sell it; (3) there is an ability to use or sell the game product; (4) it can be demonstrated how the game product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (6) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. During the years ended December 31, 2015 and 2014, there were no development costs meeting these criteria and capitalised as intangible assets.

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

Notes to the Consolidated Financial Statements

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

2.9 Intangible assets *(Continued)*

(c) Trademarks and licences

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

Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 31 months and 3 to 7 years, respectively.

2.10 Impairment of non-financial assets

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

2.11 Financial assets

2.11.1 Classification

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

Notes to the Consolidated Financial Statements

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

2.11 Financial assets *(Continued)*

2.11.2 Recognition and measurement

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

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

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

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

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

2.11.3 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

Notes to the Consolidated Financial Statements

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

2.11 Financial assets *(Continued)*

2.11.3 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost *(Continued)*

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

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

(b) Assets classified as available for sale

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

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

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

Notes to the Consolidated Financial Statements

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

2.12 Offsetting financial instruments

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

2.13 Derivative financial instruments and hedging activities

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

2.14 Trade and other receivables

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

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

2.15 Cash and cash equivalents

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

2.16 Term deposits

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

2.17 Share capital

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

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

Notes to the Consolidated Financial Statements

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

2.18 Trade and other payables

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

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

2.19 Convertible preferred shares

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

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

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

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

All convertible preference shares of the Company had been converted into ordinary shares of the Company upon its IPO on December 30, 2014 (see Note 22).

Notes to the Consolidated Financial Statements

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

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

Notes to the Consolidated Financial Statements

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

2.21 Employee benefits

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

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

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

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

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

(b) Share-based payment transactions among group entities

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

Notes to the Consolidated Financial Statements

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

2.23 Revenue recognition

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

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

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

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

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

Principal Agent Consideration

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

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

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

Notes to the Consolidated Financial Statements

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

2.23 Revenue recognition *(Continued)*

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

Recognition of revenue generated from sales of in game virtual items

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

2.23 Revenue recognition *(Continued)*

(b) Revenue generated from licensing and technical support fees

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

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

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

2.24 Interest income

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

2.25 Government grants

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

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

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

2.26 Operating leases

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

2.27 Dividend distribution

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HKD. If HKD had strengthened/weakened by 5% against USD with all other variables held constant, the post-tax loss would have been approximately RMB28,991,000 lower/higher for the year ended December 31, 2015 (2014: RMB27,620,000), as a result of net foreign exchange gains/losses on translation of cash and cash equivalents denominated in HKD.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognised assets in the Group's PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. For the Group's PRC subsidiaries whose functional currency is RMB, if USD had strengthened/ weakened by 5% against RMB with all other variables held constant, the post-tax loss would have been approximately RMB712,000 lower/higher for the year ended December 31, 2015 (2014: RMB877,000), as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. The Group does not hedge against any fluctuation in foreign currency.

(ii) Interest rate risk

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

(iii) Price risk

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

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Price risk *(Continued)*

The Group's available-for-sale financial assets are held for capital appreciation and business strategic purposes. The Group does not actively trade these investments. The sensitivity analysis is determined based on the exposure to equity price risks of available-for-sale financial assets at the end of the reporting period. If equity prices of the respective instruments held by the Group had been 5% (2014: 5%) higher/lower as at December 31, 2015, the other comprehensive income would have been approximately RMB1,542,000 (2014: nil) higher/lower.

The Group's fair value through profit or loss financial assets are held for trading or host equity instruments with redemption features designated in this category. The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 5% higher/lower, the post-tax loss for the year ended December 31, 2015 would have been approximately RMB2,726,000 (2014: nil) lower/higher.

(b) Credit risk

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Concentration risk

There are no customers whose revenues individually represent greater than 10% of the total revenues of the Group for the years ended December 31, 2015 and 2014.

Revenues generated from sales of in-game virtual items through Game Distribution Channels representing over 10% of the total revenues of the Group for the years ended December 31, 2015 and 2014 are as follows:

	Year ended December 31,	
	2015	2014
Game Distribution Channel A	**23.6%**	20.8%
Game Distribution Channel B	**13.7%**	9.8%
	37.3%	30.6%

The trade receivables from Game Distribution Channels represented over 10% of trade receivables balances of the Group as of December 31, 2015 and 2014 were as follows:

	As of December 31,	
	2015	2014
Game Distribution Channel A	**25.4%**	20.2%

(d) Liquidity risk

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

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors *(Continued)*

(d) Liquidity risk *(Continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At December 31, 2014				
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	98,865	–	–	98,865
At December 31, 2015				
Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	**73,293**	**–**	**–**	**73,293**

3.2 Capital risk management

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

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

3.3 Fair value estimation

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

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2015				
Assets				
Financial assets at fair value through profit or loss				
— Listed securities	19,543	–	–	19,543
— Unlisted securities	–	–	41,409	41,409
Available-for-sale financial assets	–	–	44,370	44,370
	19,543	–	85,779	105,322

The Group did not have any financial assets or liabilities that were measured at fair value as of December 31, 2014.

There were no transfers among level 1, 2 and 3 during the year ended December 31, 2015.

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

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

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

Specific valuation techniques used to value financial instruments include:

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

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

There were no changes in valuation techniques used during the year ended December 31, 2015.

For the fair value measurements categorised within level 3 of the fair value hierarchy, the significant assumptions and inputs utilised in the valuation using discounted cash flow method by the Company for the year ended December 31, 2015 were as follows:

Discount rate:	23%–28%
Terminal growth rate:	3%
Discount for lack of marketability:	11%–25%
Volatility:	49%–60%

The changes in level 3 instruments for the years ended December 31, 2015 and 2014 are presented in Notes 11 and 12.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Estimates of sales discounts

Pre-paid game cards selling discounts

As described in Note 2.23(a), the Group sells pre-paid game cards to third party pre-paid cards distributors on a wholesale basis, typically at a discount of 10% off the face value of the cards, and requires the distributors to make full payments in cash of the discounted purchase prices before delivering the cards. Although the Group is determined to be the principal in the arrangement in the delivery of game experience to the Paying Players, the Group gives certain latitude to its primary third-party pre-paid game cards distributors to set the selling price of the pre-paid game cards to their sub-distributors or the Paying Players. The sub-distributors also have limited discretion to determine the final price paid by the Paying Players. Due to multilayers of distributor network involved and wide range of selling price offered to the Paying Players by third-party pre-paid game cards distributors, the discounts eventually offered to the Paying Players by the distributors cannot be captured directly by the Group. The Group makes estimate of the discounts offered to the Paying Players to be the maximum discount that it offered to distributors, as such the Group records revenue related to sales of pre-paid cards based on the amount received from its primary third-party pre-paid card distributors, which equals to the amount of face value of the pre-paid game cards minus the maximum discount that the Group offered to distributors.

Notes to the Consolidated Financial Statements

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(a) Estimates of sales discounts *(Continued)*

Discounts offered by Game Distribution Channels

As described in Note 2.23(a), the Group distributed its online games through its own distribution platform as well as Game Distribution Channels. Some of these Game Distribution Channels offered volume discounts occasionally to Paying Players during the years ended December 31,2015 and 2014. Since the Group's system cannot capture the actual amounts paid by the Paying Players when volume discounts are offered by Game Distribution Channels, the Group estimates such discounts offered by those Game Distribution Channels and deducted them from revenue. Such estimates are based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to revaluation on a quarterly basis.

(b) Estimates of the Player Relationship Period

As described in Note 2.23(a), the Group recognises revenue from permanent ownership virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual or quarterly basis. Any adjustments arising from changes in the Player Relationship Period as a result of updated information will be accounted for prospectively as a change in accounting estimate.

(c) Recognition of share-based compensation expenses

The fair values of RSUs and share options granted as mentioned in Note 19 are measured on the respective grant dates based on the fair value of the underlying shares. In addition, the Group is required to estimate the expected percentage of grantees that will remain in employment with the Group or, where applicable, if the performance conditions for vesting will be met at the end of the vesting period. The Group only recognises an expense for those RSUs and share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of RSUs and share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based compensation expenses.

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

Based on the fair value of the share-based awards, the expected turnover rate of grantees and the probability that the performance conditions for vesting are met, the corresponding share-based compensation expenses recognised by the Group in respect of the services rendered for the year ended December 31, 2015 were RMB62,882,000, which would have been RMB2,907,000 lower/RMB3,269,000 higher should the discount rate used in discount cash flow analysis was higher/lower by 100 basis points from management's estimates.

Notes to the Consolidated Financial Statements

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(d) Current and deferred income taxes

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

(e) Estimated impairment of goodwill in associates

The Group tests annually whether goodwill in associates have suffered impairment, in accordance with the accounting policy states in Note 2.4. The recoverable amounts of the associates have been determined using the discounted cash flow analysis. Significant estimates on assumptions, such as the forecast of the associate's future performance and the discount rate used in the analysis, are required to be made by the Company in the analysis. Based on the Group's testing result, the goodwill in associates did not suffer impairment as of December 31, 2015, and no impairment loss was recognised consequently.

4.2 Critical judgments in applying the Group's accounting policies

(a) Revenue deferred of certain games

As mentioned in Note 2.23, in the case the Group does not possess relevant data and information to differentiate revenues attributable to permanent ownership and consumable virtual items of a specific game, revenues from both permanent ownership and consumable virtual items are deferred and recognised ratably over the expected Player Relationship Period of the specific game.

(b) Critical judgment in recognition of associates

The Company has assessed the level of influence that the Group has on new equity investment in Fuze Entertainment Co., Ltd. ("**Fuze**") undertaken during the year ended December 31, 2015 (Note10). According to the shareholders agreements of Fuze, the Group has been entitled the right to appoint certain directors of the board of directors of Fuze since the completion of issuance of series A preferred shares by Fuze in June 2015. The directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in Fuze' operational and financial policy-making processes and representation in board of directors. The Company also assessed that and the risk and reward characteristics of the preferred shares held by the Company are substantially similar to Fuze's ordinary shares, therefore the investment in Fuze has been classified as an investment in associates.

Notes to the Consolidated Financial Statements

5. REVENUE AND SEGMENT INFORMATION

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

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

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

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

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue for the years ended December 31, 2015 and 2014.

Almost all the Group's non-current assets were located in the PRC as at December 31, 2015 and 2014. Revenue from overseas customers was only generated by PRC Operational Entities before March 31, 2014 and generated by both PRC Operational Entities and the Group's oversea entities since April 2014. The revenue generated by the Group's oversea entities represents less than 10% of the total revenue of the Group for the year ended December 31, 2015.

Notes to the Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and office equipment RMB'000	Server and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2014					
Cost	5,126	21,351	1,220	3,433	31,130
Accumulated depreciation	(3,789)	(14,751)	(607)	(2,197)	(21,344)
Net book amount	1,337	6,600	613	1,236	9,786
Year ended December 31, 2014					
Opening net book amount	1,337	6,600	613	1,236	9,786
Additions	2,795	1,902	2,434	1,636	8,767
Depreciation	(979)	(4,271)	(468)	(1,400)	(7,118)
Disposals	(30)	(38)	–	–	(68)
Closing net book amount	3,123	4,193	2,579	1,472	11,367
At December 31, 2014					
Cost	7,434	22,556	3,654	5,069	38,713
Accumulated depreciation	(4,311)	(18,363)	(1,075)	(3,597)	(27,346)
Net book amount	3,123	4,193	2,579	1,472	11,367
Year ended December 31, 2015					
Opening net book amount	**3,123**	**4,193**	**2,579**	**1,472**	**11,367**
Additions	**3,224**	**1,831**	**670**	**4,666**	**10,391**
Depreciation	**(1,801)**	**(3,028)**	**(619)**	**(1,691)**	**(7,139)**
Disposals	**(7)**	**(5)**	**(139)**	**–**	**(151)**
Closing net book amount	**4,539**	**2,991**	**2,491**	**4,447**	**14,468**
At December 31, 2015					
Cost	**10,215**	**23,963**	**4,065**	**9,735**	**47,978**
Accumulated depreciation	**(5,676)**	**(20,972)**	**(1,574)**	**(5,288)**	**(33,510)**
Net book amount	**4,539**	**2,991**	**2,491**	**4,447**	**14,468**

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

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Cost of revenue	**3,712**	4,782
Administrative expenses	**1,642**	927
Selling and marketing expenses	**460**	323
Research and development expenses	**1,325**	1,086
	7,139	7,118

Notes to the Consolidated Financial Statements

7. INTANGIBLE ASSETS

	Trademarks and licenses RMB'000	Computer software RMB'000	Total RMB'000
At January 1, 2014			
Cost	8,656	2,130	10,786
Accumulated amortisation	(3,025)	(1,062)	(4,087)
Net book amount	5,631	1,068	6,699
Year ended December 31, 2014			
Opening net book amount	5,631	1,068	6,699
Additions	33,941	607	34,548
Amortisation	(3,499)	(621)	(4,120)
Closing net book amount	36,073	1,054	37,127
At December 31, 2014			
Cost	42,240	2,737	44,977
Accumulated amortisation	(6,167)	(1,683)	(7,850)
Net book amount	36,073	1,054	37,127
Year ended December 31, 2015			
Opening net book amount	**36,073**	**1,054**	**37,127**
Additions	**22,024**	**393**	**22,417**
Amortisation	**(11,845)**	**(596)**	**(12,441)**
Disposals	**(15,245)**	**–**	**(15,245)**
Impairment	**(2,515)**	**–**	**(2,515)**
Closing net book amount	**28,492**	**851**	**29,343**
At December 31, 2015			
Cost	**46,296**	**3,130**	**49,426**
Accumulated impairment	**(2,515)**	**–**	**(2,515)**
Accumulated amortisation	**(15,289)**	**(2,279)**	**(17,568)**
Net book amount	**28,492**	**851**	**29,343**

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

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Cost of revenue	**4,913**	840
Administrative expenses	**158**	83
Selling and marketing expenses	**42**	33
Research and development expenses	**7,328**	3,164
	12,441	4,120

Notes to the Consolidated Financial Statements

8. FINANCIAL INSTRUMENTS BY CATEGORY

	As of December 31, 2015 RMB'000	2014 RMB'000
Assets as per balance sheet		
Loans and receivables		
— Trade receivables	**45,079**	62,829
— Other receivables (excluding prepayments)	**36,901**	12,205
— Cash and cash equivalents	**794,461**	1,086,532
Available-for-sale financial assets	**44,370**	–
Financial assets at fair value through profit or loss	**60,952**	–
	981,763	1,161,566
Liabilities as per balance sheet		
Financial liabilities at amortised cost		
— Trade and other payables (excluding advances, salary and staff welfare payables and other taxes payables)	**73,293**	98,865
	73,293	98,865

9. SUBSIDIARIES

The following is a list of the principal subsidiaries (including structured entities) as of December 31, 2015:

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

Notes to the Consolidated Financial Statements

9. SUBSIDIARIES *(Continued)*

Company Name	Kind of legal entity	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Equity Interest Held	Principal activities and place of operation
(c) Controlled by the Company pursuant to the Contractual Agreements:					
Linekong Entertainment Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB10,000,000	100%	Game operation and game research and development/PRC
Duobianxing (Beijing) Technology Co., Ltd.	Limited liability company	PRC/March 30, 2007	RMB30,000	100%	Game research and development/PRC
Beijing Sanqiren Technology Co., Ltd.	Limited liability company	PRC/December 7, 2007	RMB100,000	100%	Game research and development/PRC
Linekong Xingyun (Beijing) Technology Co., Ltd.	Limited liability company	PRC/January 16, 2008	RMB100,000	100%	Game research and development/PRC
Zhuhai Linekong Online Technology Co., Ltd.	Limited liability company	PRC/October 30, 2008	RMB10,000,000	97%	Game research and development/PRC
Shouyoutong (Beijing) Technology Co., Ltd. ("**Shouyoutong**", previously known as Beijing Huoying Shidai Network Technology Co., Ltd.)	Limited liability company	PRC/August 26, 2011	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Technology Co., Ltd.	Limited liability company	PRC/June 13, 2012	RMB1,000,000	100%	Game research and development/PRC
Tianjin Baba Liusi Network Technology Co., Ltd. ("**Tianjin 8864**")	Limited liability company	PRC/December 26, 2012	RMB10,000,000	100%	Game operation/PRC
Beijing Zhixun Tiantong Information Technology Co., Limited	Limited liability company	PRC/May 20, 2014	RMB2,000,000	100%	Game research and development/PRC
Beijing Lanhujing Technology Co., Limited	Limited liability company	PRC/May 29, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Quweizhijian Network Technology Co., Limited	Limited liability company	PRC/July 25, 2014	RMB10,000,000	100%	Game research and development/PRC
Beijing Feng and Long Interactive Culture Co., Limited	Limited liability company	PRC/June 5, 2015	RMB10,000,000 (paid-in capital)/ RMB12,500,000 (registered capital)	80%	Game operation and game research and development/PRC
Linekong Interactive Pictures (Tianjin) Co., Limited	Limited liability company	PRC/December 4, 2015	RMB10,000,000	100%	Film and television drama series production and distribution/PRC

Notes to the Consolidated Financial Statements

10. INVESTMENTS IN ASSOCIATES

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Beginning of the year	–	–
Addition of the year	163,791	–
Share of loss	(5,430)	–
Dilution gain	12,725	–
Other comprehensive income	2,430	–
Currency translation difference	6,667	–
End of the year	180,183	–

Name	Principal activities/country of incorporation	% Interest held as of December 31, 2015	2014	Nature of the relationship	Measurement method
Fuze	Gaming hardware development and sale/ Cayman Islands	31.92%	–	*Note*	Equity

Note:

On March 6, 2015, the Company entered into a secured convertible note purchase agreement with, among others, Fuze to purchase convertible promissory note ("**Note**") issued by Fuze in the principal amount of USD5,000,000 with interest rate of 6% per annum and a maturity period of one year ending on March 6, 2016.

On June 8, 2015, the Company entered into a series A preferred share purchase agreement with, among others, Fuze, to subscribe 61,818,182 series A preferred shares newly issued by Fuze with a consideration of USD17,000,000 (equivalent to RMB103,931,000), which accounted for 37.78% equity shares of Fuze, on a fully diluted basis. The consideration of series A preferred shares was settled by the Company on June 9, 2015 with the carrying amount of the Note of USD5,078,333 (equivalent to RMB31,047,000) and cash of USD11,921,667 (equivalent to RMB72,884,000).

In August 2015, Fuze issued series B preferred shares to several investors with total proceeds of USD30,750,000, which accounted for 33.88% equity shares of Fuze, on a fully diluted basis. As a result, the Group's equity shares in Fuze was diluted from 37.78% to 24.98%, which resulted in a dilution gain of approximately RMB12,725,000. The dilution gain represents the difference between the attributable carrying value of the Group's investment deemed disposed immediately prior to the issuance of these new shares and the Group's share of the proceeds received for the new shares issued.

In September 2015, the Company entered into series B+ preferred share framework agreement with Fuze, pursuant to which the Company agreed to purchase 25,227,273 series B+ preferred shares in Fuze with a consideration of USD9,250,000, which accounted for 9.25% equity shares of Fuze, on a fully diluted basis. This transaction was approved by the extraordinary general meeting of the Company on December 2, 2015 and completed on December 17, 2015. As a result, the Group's equity shares in Fuze increased from 24.98% to 31.92%.

As disclosed in Note 4.2(b), the directors of the Company consider that the Group has significant influence exercised on Fuze, therefore the investment in Fuze was accounted for using equity accounting method consistently during the year ended December 31, 2015.

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

Notes to the Consolidated Financial Statements

10. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information for associates

Set out below is the summarised financial information of Fuze which is accounted for using the equity method.

Summarised balance sheet

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Current assets	**359,625**	–
Non-current assets	**39,966**	–
Current liabilities	**(6,516)**	–
Non-current liabilities	**(30,000)**	–
Net assets	**363,075**	–

Summarised statement of comprehensive loss

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Revenue	**–**	–
Loss from continuing operations	**(19,024)**	–
Post-tax loss from continuing operations	**(19,024)**	–
Other comprehensive income	**7,614**	–
Total comprehensive loss	**(11,410)**	–
Total comprehensive loss, the Group's share	**(2,586)**	–
Amortisation of fair value adjustments	**(414)**	–
Total comprehensive loss after adjustment, the Group's share	**(3,000)**	–

Reconciliation of summarised financial information

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

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Net assets of the associate	**363,075**	–
Net assets of the associate, the Group's share	**113,800**	–
Adjustment of fair values	**3,146**	–
Net assets after adjustment, the Group's share	**116,946**	–
Goodwill	**63,237**	–
Carrying value	**180,183**	–

Notes to the Consolidated Financial Statements

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Included in non-current assets		
Unlisted equity investments *(Note (a))*	**44,370**	–

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Beginning of the year	**–**	–
Additions *(Note (a),(b),(c),(d))*	**494,644**	–
Net gains transfer to equity *(Note (d))*	**9,829**	–
Net gains transfer from equity *(Note (d))*	**(1,753)**	–
Disposals *(Note (d))*	**(458,350)**	–
End of the year *(Note (a), (b), (c))*	**44,370**	–

Note:

(a) During the year ended December 31, 2015, the Group acquired equity interests in a number of entities incorporated in the PRC at an aggregate cash consideration of RMB24,794,000. They are principally engaged in the provision of game research and development and other media and entertainment-related businesses. The equity interests held by the Group is less than 10% for each entity, and the Group does not have control nor significant influence over the operating and financial decisions of each of these invested entities respectively. Therefore, the Group classified each of these investments as an available-for-sale financial asset.

(b) During the year ended December 31, 2015, the Group made equity investments in two funds as a limited partner at an aggregate cash consideration of RMB11,500,000. These funds are engaged in investment in a portfolio of film and television industry in PRC, and derives its return through capital appreciation investment income. The Group is limited partner in the funds and the Group does not have control nor significant influence over the operating and financial decisions of each of these funds respectively. Therefore, the Group classified its investment in each of these funds as an available-for-sale financial asset.

(c) All these invested entities as mentioned in above (a) and (b) are private companies and there are no quoted market prices available for their shares. The Group had determined the fair value of these financial assets based on estimated future cash flows method as disclosed in Note 3.3. The fair values are within level 3 of the fair value hierarchy. Gains or losses arising from the changes in fair value of available-for-sale financial assets are recognised as other comprehensive income/(loss).

(d) The Group invested in certain wealth management products issued by commercial banks in the PRC. These wealth management products are return non-guaranteed and redeemable on demand or with a term less than three months. The Group has classified its investments in such wealth management products as available-for-sale financial assets. Fair values of these investments were estimated based on the statements provided by the banks. As of December 31, 2015, all these investments have been disposed. The related gains previously recognised in other comprehensive income have been reclassified to profit or loss.

Notes to the Consolidated Financial Statements

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Included in current assets		
Listed securities *(Note (a))*	19,543	–
Included in non-current assets		
Unlisted securities *(Note (b))*	41,409	–

The following table presents the changes of current financial assets at fair value through profit or loss for the years ended December 31, 2015 and 2014:

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Beginning of the year	–	–
Additions *(Note (a))*	45,336	–
Fair value gains recognised in profit or loss *(Note 25)*	60,787	–
Disposals *(Note 25)*	(87,156)	–
Currency translation differences	576	–
End of the year	19,543	–
Fair value gains for the year recognised in profit or loss under "other gains-net"	60,787	–

The following table presents the changes of non-current financial assets at fair value through profit or loss for the years ended December 31, 2015 and 2014:

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Beginning of the year	–	–
Additions *(Note (b))*	35,000	–
Fair value gains recognised in profit or loss *(Note 25)*	6,409	–
End of the year	41,409	–
Fair value gains for the year recognised in profit or loss under "other gains-net"	6,409	–

Note:

(a) On March 12, 2015, the Company entered into a share subscription agreement with SMI Holdings Group Limited ("**SMI**"), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company agreed to subscribe 139,582,733 shares of SMI for a total consideration of USD5,000,000, representing 1.35% of SMI's issued shares. The subscription agreement is therefore accounted for as a forward contract which was fair valued by taking reference to share price of SMI quoted in the active market. The fair value change of this forward contract of RMB14,540,000 between the date of the subscription agreement and the date of the issuance of the subscribed shares was charged to profit or loss (Note 25). On April 13, 2015, the subscribed 139,582,733 shares of SMI were issued by SMI to the Company, of which, 114,240,000 shares have been sold by the Company as of December 31, 2015.

Notes to the Consolidated Financial Statements

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Note: (Continued)

(b) During the year ended December 31, 2015, the Group acquired equity interests in two entities at a consideration of RMB23,000,000 and RMB12,000,0000 respectively. The equity interests held by the Group is less than 10% for each entity. The shares of each of the entities held by the Group are redeemable upon occurrence of certain future events which are at option of the Group. Therefore, the Group has designated each of these investments as a financial asset at fair value through profit or loss upon initial recognition.

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

13. DEFERRED INCOME TAX

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

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

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

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

Notes to the Consolidated Financial Statements

13. DEFERRED INCOME TAX *(Continued)*

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

Deferred income tax assets:

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

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

Deferred income tax liabilities:

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

Notes to the Consolidated Financial Statements

14. TRADE RECEIVABLES

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

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

	As of December 31, 2015 RMB'000	2014 RMB'000
0–60 days	**32,435**	45,935
61–90 days	**6,321**	6,570
91–180 days	**3,413**	7,003
181 days–365 days	**2,852**	2,386
over 1 year	**691**	2,015
	45,712	63,909

(b) As at December 31, 2015 and 2014, trade receivables of past due but not impaired were RMB19,553,000 and RMB26,541,000, respectively. These related to a number of third-party Game Distribution Channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of December 31, 2015 RMB'000	2014 RMB'000
Outstanding after due dates:		
0–60 days	**13,266**	16,218
61–90 days	**1,391**	3,030
91–180 days	**3,333**	4,236
181 days–365 days	**1,234**	1,953
over 1 year	**329**	1,104
	19,553	26,541

Notes to the Consolidated Financial Statements

14. TRADE RECEIVABLES *(Continued)*

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

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

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

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

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
RMB	**26,788**	41,109
USD	**17,486**	22,177
Others	**1,438**	623
	45,712	63,909

Notes to the Consolidated Financial Statements

15. PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

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

Note:

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

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

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

Notes to the Consolidated Financial Statements

16. CASH AND CASH EQUIVALENTS

	As of December 31, 2015 RMB'000	2014 RMB'000
Cash at bank and in hand	**786,618**	1,086,532
Cash at other financial institutions	**7,843**	–
	794,461	1,086,532

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2015 RMB'000	2014 RMB'000
RMB	**180,057**	247,848
USD	**21,839**	278,791
HKD	**590,401**	557,643
Others	**2,164**	2,250
	794,461	1,086,532

17. SHARE CAPITAL AND SHARE PREMIUM

	Note	**Number of ordinary shares** *('000)*	**Nominal value of ordinary shares** *USD'000*	**Number of preferred shares** *('000)*	**Nominal value of preferred shares** *USD'000*
Authorised:					
As of January 1, 2014		47,161	47	2,839	3
Reclassification and re-designation on issuance of Series C Preferred Shares	(a)	(623)	(1)	623	1
Share split	(b)	1,814,991	–	135,009	–
Reclassification and re-designation on issuance of Series D Preferred Shares	(c)	(14,794)	–	14,794	–
Cancellation and re-authorisation	(e)	153,265	4	(153,265)	(4)
As of December 31, 2014		2,000,000	50	–	–
Authorised:					
As of January 1, 2015 and December 31, 2015		**2,000,000**	**50**	**–**	**–**

Notes to the Consolidated Financial Statements

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

	Note	Number of ordinary shares ('000)	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Shares hold for RSU Scheme RMB'000
Issued:						
As of January 1, 2014		2,511	3	18	–	–
Share split	(b)	97,933	–	–	–	–
Issuance of shares held for RSU Scheme	19(a)	42,162	1	6	–	–
Shares transferred to RSU Scheme	19(a)	–	–	–	–	(6)
Issuance of new shares upon IPO	(d)	73,968	2	12	541,524	–
Conversion of Preferred Shares into ordinary shares	(e)	153,265	4	23	1,185,304	–
As of December 31, 2014		369,839	10	59	1,726,828	(6)

	Note	**Number of ordinary shares ('000)**	**Nominal value of ordinary shares USD'000**	**Equivalent nominal value of ordinary shares RMB'000**	**Share premium RMB'000**	**Shares hold for RSU Scheme RMB'000**
Issued:						
As of January 1, 2015		**369,839**	**10**	**59**	**1,726,828**	**(6)**
Vesting of shares held for RSU Scheme	19(a)	**–**	**–**	**–**	**(3)**	**3**
Repurchase of shares	(f)	**(970)**	**–**	**–**	**(4,517)**	**–**
As of December 31, 2015		**368,869**	**10**	**59**	**1,722,308**	**(3)**

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

18. RESERVES

	Capital reserve	Currency translation differences	Statutory surplus reserve fund	Share-based compensation reserve	Other reserves	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2014	(7,831)	29,026	6,620	59,094	–	86,909
Appropriation to statutory reserves	–	–	2,937	–	–	2,937
Deemed contribution from shareholders for the shares issued for RSU scheme *(Note 19(b))*	–	–	–	–	6	6
RSU Scheme:						
— Value of employee services	–	–	–	118,853	–	118,853
Currency translation differences	–	(2,523)	–	–	–	(2,523)
Balance at December 31, 2014	(7,831)	26,503	9,557	177,947	6	206,182
Balance at January 1, 2015	**(7,831)**	**26,503**	**9,557**	**177,947**	**6**	**206,182**
Changes in fair value of available-for-sale financial assets, net of tax *(Note 11)*	**–**	**–**	**–**	**–**	**8,399**	**8,399**
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax *(Note 25)*	**–**	**–**	**–**	**–**	**(1,534)**	**(1,534)**
Share of other comprehensive income of investments accounted for using the equity method, net of tax *(Note 10)*	**–**	**–**	**–**	**–**	**2,430**	**2,430**
Employee share option and RSU scheme:						
— Value of employee services *(Note 19)*	**–**	**–**	**–**	**62,882**	**–**	**62,882**
Currency translation differences	**–**	**47,354**	**–**	**–**	**–**	**47,354**
Balance at December 31, 2015	**(7,831)**	**73,857**	**9,557**	**240,829**	**9,301**	**325,713**

Notes to the Consolidated Financial Statements

18. RESERVES *(Continued)*

Note:

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

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

19. SHARE-BASED PAYMENTS

(a) RSUs

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

(i) Grant of the RSUs

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

19. SHARE-BASED PAYMENTS *(Continued)*

(a) RSUs *(Continued)*

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

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

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

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

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

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

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

Movements in the number of RSUs outstanding:

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

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

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

Notes to the Consolidated Financial Statements

19. SHARE-BASED PAYMENTS *(Continued)*

(a) RSUs *(Continued)*

(ii) Shares held for RSU Scheme

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company entered into a trust deed (the "**Trust Deed**") with The Core Trust Company Limited (the "**RSU Trustee**") and Premier Selection Limited (the "**RSU Nominee**") to assist with the administration of the RSU Scheme. On March 21, 2014, the Company issued 42,161,541 ordinary shares to the RSU Nominee at a par value of USD0.000025 each, totalling RMB6,488 funded by the Mr. Wang Feng. Accordingly, 42,161,541 ordinary shares of the Company underlying the RSUs were held by the RSU Nominee for the benefit of eligible participants pursuant to the RSU Scheme and the Trust Deed.

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to "other reserves" as deemed contribution from shareholders. As a result of the vesting of 19,412,664 RSUs during the year ended December 31, 2015 (see Note (a) above), costs of these vested RSUs totally approximately RMB2,983 was transferred out from treasury shares upon vesting of these RSUs.

(iii) Fair value of RSUs

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

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

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

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

(b) Share options

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

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

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

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

(iii) the nominal value of the shares.

Notes to the Consolidated Financial Statements

19. SHARE-BASED PAYMENTS *(Continued)*

(b) Share options *(Continued)*

(i) Grant of share options

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

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

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

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

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

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

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

(ii) Fair value of share options

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

Notes to the Consolidated Financial Statements

19. SHARE-BASED PAYMENTS *(Continued)*

(b) Share options *(Continued)*

(ii) Fair value of share options *(Continued)*

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

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

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

(c) RSUs of a subsidiary

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

(d) Expected retention rate of grantees

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

Notes to the Consolidated Financial Statements

20. TRADE AND OTHER PAYABLES

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

Note:

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

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

21. DEFERRED REVENUE

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

Notes to the Consolidated Financial Statements

21. DEFERRED REVENUE *(Continued)*

Note:

(i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of December 31, 2015 and 2014. In particularly, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the Player Relationship Period of the respective game or other similar types of games, as described in Note 2.23. Including in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB8,086,000 as of December 31, 2015 (2014: RMB7,883,000).

22. CONVERTIBLE PREFERRED SHARES

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

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

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

	Year ended December 31, *RMB'000*
At January 1, 2014	719,831
Issuance of Series C Preferred Shares and Series D Preferred Shares *(Note 17(a),(c))*	306,906
Changes in fair value	156,949
Currency translation differences	1,641
Conversion into ordinary shares	(1,185,327)
At December 31, 2014	–
Changes in fair value of the Preferred Shares for the year included in profit or loss	156,949

Notes to the Consolidated Financial Statements

23. EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analysed as follows:

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Service charges by Game Distribution Channels	**196,763**	237,396
Content fee to game developers	**71,285**	47,953
Bandwidth and server custody fees	**13,242**	10,806
Payment handling costs	**955**	2,002
Employee benefit expenses (excluding share-based compensation expenses) *(Note 24(a))*	**131,483**	97,961
Share-based compensation expenses	**62,882**	118,853
Depreciation of property, plant and equipment *(Note 6)*	**7,139**	7,118
Amortisation and impairment of intangible assets *(Note 7)*	**14,956**	4,120
Other receivables write-off	**–**	406
Trade receivables write-off	**–**	1,221
Impairment charges on trade and other receivables	**2,399**	160
Business tax and related surcharges *(Note (a))*	**1,109**	14,875
Promotion and advertising expenses	**156,608**	59,651
Traveling and entertainment expenses	**5,147**	7,205
Office rental expenses	**14,466**	8,848
Other professional service fees	**9,277**	6,413
Game development outsourcing costs	**7,233**	1,504
Utilities and office expenses	**1,888**	1,414
Auditors' remuneration		
— Audit services	**5,530**	2,405
Listing-related expenses	**–**	43,578
Others	**5,312**	8,401
Total	**707,674**	682,290

Note:

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

Category	**Tax rate**	**Basis of levies**
Business tax	5%	Revenue from sales of in-game virtual items, licensing and technical support except for which is subject to Value-added Tax ("**VAT**") as stated below
VAT	6%	Revenue from sales of in-game virtual items, licensing and technical support generated by Tianjin 8864, Linekong Entertainment and Shouyoutong is subject to VAT since June 1, 2014, January 1, 2015, and January 1, 2015, respectively. Such revenue is recognised net of VAT amount.
City construction tax	7%	Actual business tax and VAT payment
Educational surcharges	3%	Actual business tax and VAT payment
Local educational surcharges	2%	Actual business tax and VAT payment

Notes to the Consolidated Financial Statements

24. EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Wages, salaries and bonuses	**103,622**	84,109
Pension costs — defined contribution plans	**8,402**	6,450
Other social security costs, housing benefits and other employee benefits	**19,459**	7,402
Share-based compensation expenses	**62,882**	118,853
	194,365	216,814

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

(b) Five highest paid individuals

The 5 individuals whose emoluments were the highest in the Group for each of the years ended December 31, 2015 and 2014 include 4 and 2 directors whose emoluments are reflected in the analysis presented in Note 35(a), respectively. The aggregate amounts of emoluments for the remaining 1 and 3 individuals for each of the years ended December 31, 2015 and 2014 are set out below:

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Wages, salaries and bonuses	**1,285**	8,568
Pension costs — defined contribution plans	**44**	119
Other social security costs, housing benefits and other employee benefits	**54**	151
Share-based compensation expenses	**2,679**	34,414
	4,062	43,252

The emoluments payable to these individuals for the years ended December 31 , 2015 and 2014 fell within the following bands:

	Year ended December 31, 2015	2014
Emoluments band		
HKD4,500,001 to HKD5,000,000	**1**	–
HKD9,500,001 to HKD10,000,000	**–**	1
HKD19,000,001 to HKD19,500,000	**–**	1
HKD25,500,001 to HKD26,000,000	**–**	1
	1	3

For the years ended December 31, 2015 and 2014, neither directors nor the five highest paid individuals received any emolument from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

25. OTHER GAINS — NET

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Government subsidies *(Note (a))*	**7,739**	3,819
Foreign exchange gains, net	**529**	433
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	**67,196**	–
Gain on disposal of available-for-sale financial assets	**1,753**	–
Realised fair value gains on derivatives *(Note 12(a))*	**14,540**	–
Loss on disposals of property, plant and equipment	**(48)**	(7)
Loss on disposals of intangible assets	**(1,863)**	–
Return on short-term investments *(Note (b))*	**821**	1,890
Dilution gains arising from deemed disposal of investments *(Note 10)*	**12,725**	–
Others	**626**	212
	104,018	6,347

Note:

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

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

26. FINANCE INCOME- NET

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

27. INCOME TAX EXPENSE

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

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

Notes to the Consolidated Financial Statements

27. INCOME TAX EXPENSE *(Continued)*

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong profits tax

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the years ended December 31, 2015 and 2014 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

(c) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the years ended December 31, 2015 and 2014, based on the existing legislation, interpretations and practices in respect thereof. Beijing Linekong Online, Linekong Entertainment, Shouyoutong and Tianjin 8864 obtained the Software Enterprise Certificates and were accredited as software enterprises under the relevant PRC laws, regulations and rules. Accordingly, Beijing Linekong Online, Linekong Entertainment, Shouyoutong and Tianjin 8864 are exempt from EIT for two years, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years, commencing from the first year of profitable operation and before 2017, provided that they continue to be qualified as software enterprises during such periods. Beijing Linekong Online obtained the Software Enterprise Certificate in May 2014, and the specific periods when the tax exemption and reduction are applicable are yet to commence.

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

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

	2015	2014
Linekong Entertainment	**15%**	50% reduction
Shouyoutong	**50% reduction**	50% reduction
Tianjin 8864	**50% reduction**	EIT exemption

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining tax assessable profits for that year ("**Super Deduction**"). Linekong Entertainment have claimed such Super Deduction in ascertaining its tax assessable profits for the years ended December 31, 2015 and 2014.

Notes to the Consolidated Financial Statements

27. INCOME TAX EXPENSE *(Continued)*

(d) PRC withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

As of December 31, 2015, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of December 31, 2015 and December 31, 2014, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

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

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

Note:

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

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

Notes to the Consolidated Financial Statements

28. LOSS PER SHARE

For the purpose of computing basic and diluted loss per share, the number of ordinary shares outstanding during each year have been adjusted retroactively in the computation of both basic and diluted loss per share for the year ended December 31, 2015 and 2014 to reflect the proportional changes in the number of ordinary shares outstanding as a result of the share split described in Note 17(b).

(a) Basic

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

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

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended December 31, 2015, the Company had two categories of potential ordinary shares, RSUs and share options granted to employee. For the year ended December 31, 2014, the Company had two categories of potential ordinary shares, the RSUs and Preferred Shares before conversion to ordinary shares on December 30, 2014. RSUs that were issuable contingently upon the occurrence of the listing as described in Note 19(a) were not considered as dilutive potential ordinary shares. As the Group incurred loss for the years ended December 31, 2015 and 2014, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the years ended December 31, 2015 and 2014 are the same as basic loss per share of the years.

29. DIVIDENDS

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

Notes to the Consolidated Financial Statements

30. CASH (USED IN)/GENERATED FROM OPERATIONS

	Note	Year ended December 31, 2015 RMB'000	2014 RMB'000
Loss before income tax		**(51,885)**	(151,947)
Adjustments for:			
— Other receivables write-off	23	**–**	406
— Trade receivables write-off	23	**–**	1,221
— Impairment charges on trade and other receivables	23	**2,399**	160
— Depreciation of property, plant and equipment	6	**7,139**	7,118
— Amortisation of intangible assets	7	**12,441**	4,120
— Impairment charges on intangible assets	7	**2,515**	–
— Loss on disposals of property, plant and equipment	25	**48**	7
— Loss on disposals of intangible assets	25	**1,863**	–
— Share-based payments	24	**62,882**	118,853
— Share of loss of associates	10	**5,430**	–
— Dilution gains arising from deemed disposal of investments	10	**(12,725)**	–
— Gain on disposal of subsidiaries		**–**	(6)
— Return on short-term investment	25	**(821)**	(1,890)
— Interest income from loan to a third party	26	**(723)**	–
— Interest income from loan to a related party	26	**(953)**	–
— Realised/unrealised fair value gains on financial assets at fair value through profit or loss	25	**(67,196)**	–
— Gain on disposal of available-for-sale financial assets	25	**(1,753)**	–
— Realised fair value gains on derivatives	25	**(14,540)**	–
— Fair value change of Preferred Shares	22	**–**	156,949
— Issuance costs Preferred Shares	26	**–**	300
— Foreign exchange (gains)/losses, net	26	**(4,049)**	19
		(59,928)	135,310
Changes in working capital:			
— Trade receivables		**15,851**	(20,431)
— Prepayments and other receivables		**(42,890)**	(21,269)
— Trade and other payables		**(27,030)**	21,646
— Deferred revenue		**8,907**	217
Cash (used in)/generated from operations		**(105,090)**	115,473

Non-cash transactions

There's no significant non-cash transaction for the year ended December 31, 2015 and 2014.

Notes to the Consolidated Financial Statements

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the consolidated financial statements, the following significant transactions were carried out between the Group and its related parties during the years ended December 31, 2015 and 2014. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Related party transactions

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

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Chengdu Juli	–	58

(ii) A loan granted to related party

	Year ended December 31,	
	2015	2014
	RMB'000	*RMB'000*
Loan granted	**55,460**	–
Interest charged	**953**	–
	56,413	–

Note:

On July 7, 2015, the Company, as the lender, entered into a loan agreement with the borrower, Fuze. Pursuant to the agreement, the Company granted an unsecured loan to the borrower in the principal amount of USD9,000,000 (or its equivalent in other currencies). Maturity period of the loan is 12 months from the date of the issuance of the loan. The loan was fully issued to Fuze in instalments in July 2015 in the currency of USD and RMB. Interest rate on this USD and RMB loan is 3% per annum and 4.85% per annum respectively. The loan was fully repaid by Fuze in December 2015.

(b) Balances with related parties

(i) Amount due from related parties

The amount due from the related parties as of December 31, 2015 and 2014 was unsecured.

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Zhao Jun	**2,255**	–

Note:

The Group granted a housing loan with amount of RMB2,000,000 to a director in May 2015. The loan is unsecured, fully repayable on December 31, 2017 and with an interest rate of 5% per annum.

The Group granted a housing loan with amount of HKD500,000 (approximately equivalent to RMB410,000) to a director in September 2015. The loan is unsecured, fully repayable before September 23, 2016 and with a interest rate of 3.7% per annum.

Notes to the Consolidated Financial Statements

31. SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties *(Continued)*

(ii) Amount due to related parties

	As of December 31, 2015 RMB'000	2014 RMB'000
Fuze	**1,447**	–

(c) Key management personnel compensations

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

	Year ended December 31, 2015 RMB'000	2014 RMB'000
Wages, salaries and bonuses	**12,179**	16,551
Pension costs — defined contribution plans	**445**	357
Other social security costs, housing benefits and other employee benefits	**509**	452
Share-based compensation expenses	**42,944**	99,360
	56,077	116,720

32. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As of December 31, 2015 RMB'000	2014 RMB'000
Property, plant and equipment	**3,154**	–
Capital investment in investees	**31,757**	–
	34,911	–

Notes to the Consolidated Financial Statements

32. COMMITMENTS *(Continued)*

(b) Operating lease commitments — group company as lessee

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

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

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
Not later than 1 year	**14,221**	9,921
Later than 1 year and not later than 3 years	**10,562**	13,620
	24,783	23,541

33. EVENTS AFTER THE BALANCE SHEET DATE

(a) On December 28, 2015, the Company entered into an cornerstone investment agreement with Gameone Holding Limited ("**Gameone**"), and pursuant to which the Company committed to purchase 1,250,000 shares with a consideration of HKD1,500,000 (approximately equivalent to RMB1,257,000), representing 0.75% shares of Gameone. In January 2016, the purchase of the shares was completed. Gameone is an incorporated in the Cayman Islands and primarily engaged in game research and development.

(b) On November 30, 2015, the Linekong Entertainment entered into an agreement to set up an equity fund Suzhou Ji Ke Bang Undertaking Investment Partnership Enterprise (the "**Jikebang Fund**") as a limited partner with several independent third party investors, and pursuant to which committed to invest RMB30,000,000, representing approximately 29.09% equity interest in the Fund. On January 4, 2016, Linekong Entertainment has invested RMB15,000,000 to the Jikebang Fund. Jikebang Fund is engaged in investment in a portfolio of mobile internet companies, and derives its return through capital appreciation investment income.

Notes to the Consolidated Financial Statements

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As of December 31,	
	2015	2014
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Investments in associates	**180,183**	–
Investments in subsidiaries	**469,020**	284,623
	649,203	284,623
Current assets		
Prepayment and other receivables	**59,630**	1,312
Financial assets at fair value through profit or loss	**19,543**	–
Cash and cash equivalents	**583,669**	829,737
	662,842	831,049
Total assets	**1,312,045**	1,115,672
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**59**	59
Share premium	**1,722,308**	1,726,828
Shares held for RSU Scheme	**(3)**	(6)
Reserves *(Note (a))*	**312,807**	184,345
Accumulated losses *(Note (a))*	**(729,548)**	(814,999)
Total equity	**1,305,623**	1,096,227
Liabilities		
Current liabilities		
Other payables	**6,422**	19,445
Total liabilities	**6,422**	19,445
Total equity and liabilities	**1,312,045**	1,115,672

The balance sheet of the Company was approved by the Board of Directors on March 29, 2016 and was signed on its behalf.

Wang Feng	**Liao Mingxiang**
Director	*Director*

Notes to the Consolidated Financial Statements

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note:

(a) Reserves Movement of the Company

	Capital reserve	Currency translation differences	Share-based compensation reserve	Other Reserves	Total Reserve	Accumulated losses
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2014	–	13,856	54,143	–	67,999	(625,613)
Loss for the year	–	–	–	–	–	(189,386)
Deemed contribution from shareholders for the shares issued for RSU scheme *(Note 19(b))*	–	–	–	6	6	–
RSU Scheme:						
— Value of employee services	–	–	118,853	–	118,853	–
Currency translation differences	–	(2,513)	–	–	(2,513)	–
Balance at December 31, 2014	–	11,343	172,996	6	184,345	(814,999)
Balance at January 1, 2015	**–**	**11,343**	**172,996**	**6**	**184,345**	**(814,999)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**85,451**
Share of other comprehensive income of investments accounted for using the equity method, net of tax *(Note 10)*	**–**	**–**	**–**	**2,430**	**2,430**	**–**
Employee share option and RSU scheme:						
— Value of employee services	**–**	**–**	**62,882**	**–**	**62,882**	**–**
Currency translation differences	**–**	**63,150**	**–**	**–**	**63,150**	**–**
Balance at December 31, 2015	**–**	**74,493**	**235,878**	**2,436**	**312,807**	**(729,548)**

Notes to the Consolidated Financial Statements

35. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended December 31, 2014:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:								
Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits *(Note viii)*	Contributions to a defined contribution retirement benefit plan	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director and the chief executive officer ("CEO")									
Mr. Wang Feng (i)	–	1,287	960	–	34,832	40	–	–	37,119
Executive directors									
Ms. Liao Mingxiang (ii)	–	881	763	–	11,644	40	–	–	13,328
Mr. Mao Zhihai (iii)	–	1,212	508	–	5,046	40	–	–	6,806
Independent non-executive directors									
Mr. Ma Ji (v)	190	–	–	–	–	–	–	–	190
Mr. Zhang Xiangdong (v)	190	–	–	–	–	–	–	–	190
Mr. Chen Tong (v)	190	–	–	–	–	–	–	–	190
Non-executive director									
Mr. Qian Zhonghua (vii)	–	–	–	–	–	–	–	–	–

Notes to the Consolidated Financial Statements

35. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended December 31, 2015:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:								
Name	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (note viii)	Contributions to a defined contribution retirement benefit plan	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director and the CEO									
Mr. Wang Feng (i)	–	1,901	160	–	14,314	98	–	–	16,473
Executive directors									
Ms. Liao Mingxiang (ii)	–	1,537	130	–	4,776	98	–	–	6,541
Mr. Mao Zhihai (iii)	–	720	3	–	1,138	47	–	–	1,908
Mr. Zhao Jun (iv)	–	555	804	–	4,776	98	–	–	6,233
Mr. Mei Song (iv)	–	555	1,003	–	7,161	98	–	–	8,817
Independent non-executive directors									
Mr. Ma Ji (v)	286	–	–	–	–	–	–	–	286
Mr. Zhang Xiangdong (v)	286	–	–	–	–	–	–	–	286
Mr. Chen Tong (v)	133	–	–	–	–	–	–	–	133
Mr. Wang Xiaodong (vi)	154	–	–	–	–	–	–	–	154
Ms. Zhao Yifang (vi)	154	–	–	–	–	–	–	–	154
Non-executive director									
Mr. Qian Zhonghua (vii)	–	–	–	–	–	–	–	–	–

(i) Mr. Wang Feng was appointed on May 24, 2007, who was also the CEO of the Company.

(ii) Ms. Liao Mingxiang was appointed on May 24, 2007.

(iii) Mr. Mao Zhihai was appointed on January 10, 2014 as the chief financial officer and on January 27, 2014 as the Company's director. Mr. Mao Zhihai resigned on June 11, 2015, from his role as the Company's director and chief financial officer.

(iv) Mr. Zhao Jun and Mr. Mei Song were appointed on June 11, 2015, as the executive director of the Company.

(v) Mr. Ma Ji, Mr. Chen Tong and Mr. Zhang Xiangdong were appointed on April 24, 2014, as the independent non-executive directors of the Company. Mr. Chen Tong retired from the Company on June 11, 2015.

(vi) Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed on June 11, 2015.

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

(viii) Other benefits mainly represent share-based compensation expenses.

Notes to the Consolidated Financial Statements

35. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2014: Nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2014: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2014: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans entered into by the Company or subsidiary undertaking of the Company in favour of directors is as follows:

Name of director	Total amount payable	Outstanding amount at the beginning of the year	Outstanding amount at the end of the year	Maximum outstanding during the year	Amounts fallen due but not been paid	Provisions	Term	Interest rate	Security
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*			
As of December 31, 2015:									
Zhao Jun:									
Loan 1	2,067	–	2,067	2,067	–	–	Fully repayable on December 31, 2017	5%	Nil
Loan 2	414	–	188	414	–	–	Repayable 1 year	3.7%	Nil

During the year, except for the loans disclosed above, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2014: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2014: Nil).

Summary of Financial Information

	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**540,828**	678,684	514,997	265,633
Loss before income tax	**(51,885)**	(151,947)	(381,929)	(122,213)
Loss for the year	**(53,797)**	(154,583)	(399,420)	(123,024)
Total comprehensive income/(loss) for the year	**2,852**	(157,106)	(384,113)	(122,111)
Total assets	**1,286,486**	1,260,240	246,860	120,853
Total liabilities	**217,973**	252,944	928,180	450,970
Total equity and liabilities	**1,286,486**	1,260,240	246,860	120,853
Net current assets/(liabilities)	**734,052**	957,382	37,930	(50,433)
Total assets less current liabilities	**1,071,780**	1,016,344	57,939	(22,728)