

LINEKONG

藍港互動



LINEKONG

2015 FIRST QUARTERLY REPORT

藍港互動有限公司

Linekong Interactive Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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



Highlights

	For the three months ended March 31,	
	2015 <i>RMB'000</i> (Unaudited)	2014 <i>RMB'000</i> (Unaudited)
Revenue	113,375	169,591
(Loss)/profit for the period attributable to equity holders of the Company	(55,658)	72,413
Adjusted (loss)/profit	(23,316)	44,569

Note: Adjusted (loss)/profit refers to the (loss)/profit which excludes share-based compensation expenses, fair value gain of redeemable and convertible preferred shares and Listing-related expenses. Such redeemable and convertible preference shares were converted to ordinary shares on March 31, 2014 in accordance with the then applicable articles of association of the Company and were transferred to equity. This item is deemed as a compensation as stated in the consolidated statement of comprehensive profit and loss, which reflects the profitability and operating performance of the Group for the financial period indicated.

- Our revenue for the three months ended March 31, 2015 amounted to RMB113.4 million, representing a decrease of approximately 33.1% as compared to approximately RMB169.6 million for the corresponding period in 2014.
- Loss attributable to equity holders of the Company for the three months ended March 31, 2015 amounted to RMB55.7 million, as compared to a profit of approximately RMB72.4 million for the corresponding period in 2014.
- The adjusted loss attributable to equity holders of the Company for the three months ended March 31, 2015 amounted to RMB23.3 million, as compared to an adjusted net profit of approximately RMB44.6 million for the corresponding period in 2014.
- The Board does not recommend any payment of dividends for the three months ended March 31, 2015.

First quarterly results (unaudited)

The board of Directors (the “**Board**”) announces the unaudited consolidated quarterly results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months ended March 31, 2015 together with the comparative figures for the three months ended March 31, 2014. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors:

Condensed Consolidated Interim Statement of Comprehensive (Loss)/Income

For the three months ended March 31, 2015

	Note	Three months ended March 31,	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Revenue	3	113,375	169,591
Cost of revenue		(62,329)	(75,475)
Gross profit		51,046	94,116
Selling and marketing expenses		(65,442)	(27,787)
Administrative expenses		(22,894)	(14,855)
Research and development expenses		(32,273)	(15,965)
Other gains — net	5	4,178	379
Operating (loss)/profit		(65,385)	35,888
Finance income — net		126	760
Fair value gains of financial instruments	6	4,623	37,804
(Loss)/profit before income tax		(60,636)	74,452
Income tax credit/(expense)	7	4,978	(2,039)
(Loss)/profit for the period		(55,658)	72,413

Condensed Consolidated Interim Statement of Comprehensive (Loss)/Income (Continued)

For the three months ended March 31, 2015

	Note	Three months ended March 31,	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Other comprehensive income/(loss) for the period that will not be reclassified subsequently to profit or loss			
— Currency translation differences		3,068	(6,350)
Total comprehensive (loss)/income for the period		(52,590)	66,063
(Loss)/profit attributable to:			
Equity holders of the Company		(55,657)	72,413
Non-controlling interests		(1)	—
(Loss)/profit for the period		(55,658)	72,413
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(52,589)	66,063
Non-controlling interests		(1)	—
Total comprehensive (loss)/income for the period		(52,590)	66,063
Loss per share (expressed in RMB per share)			
— Basic	8(a)	(0.17)	N/A
— Diluted	8(b)	(0.17)	N/A
Dividends	9	—	—

Condensed Consolidated Interim Statement of Changes in Equity/(Deficit)

For the three months ended March 31, 2015

(Unaudited)	Attributable to owners of the Company							Total equity RMB'000
	Share capital RMB'000	Shares held			Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	
		Share premium RMB'000	for RSU Scheme RMB'000	Reserves 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								
Loss for the period	—	—	—	—	(55,657)	(55,657)	(1)	(55,658)
Other comprehensive income								
— currency translation differences	—	—	—	3,068	—	3,068	—	3,068
Total comprehensive income/(loss) for the period	—	—	—	3,068	(55,657)	(52,589)	(1)	(52,590)
Total contributions by and distributions to equity holders of the Company recognised directly in equity								
RSU Scheme:								
— Value of employee services	—	—	—	32,342	—	32,342	—	32,342
— Vesting of shares	—	(2)	2	—	—	—	—	—
Total contributions by and distributions to equity holders of the Company	—	(2)	2	32,342	—	32,342	—	32,342
Balance at March 31, 2015	59	1,726,826	(4)	241,592	(981,403)	987,070	(22)	987,048

Condensed Consolidated Interim Statement of Changes in Equity/(Deficit) (Continued)

For the three months ended March 31, 2015

(Unaudited)	Attributable to equity holders of the Company					Non-controlling interests	Total deficit
	Share capital	Shares held for RSU Scheme	Reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2014	18	—	86,909	(768,227)	(681,300)	(20)	(681,320)
Comprehensive income							
Profit for the period	—	—	—	72,413	72,413	—	72,413
Other comprehensive loss							
— currency translation differences	—	—	(6,350)	—	(6,350)	—	(6,350)
Total comprehensive (loss)/income for the period	—	—	(6,350)	72,413	66,063	—	66,063
Total contributions by and distributions to equity holders of the Company recognised directly in equity							
Issuance of shares held for RSU Scheme	6	—	—	—	6	—	6
Deemed contribution from shareholders for the shares issued for RSU Scheme	—	(6)	6	—	—	—	—
RSU Scheme:							
— Value of employee services	—	—	4,486	—	4,486	—	4,486
Total contributions by and distributions to equity holders of the Company	6	(6)	4,492	—	4,492	—	4,492
Balance at March 31, 2014	24	(6)	85,051	(695,814)	(610,745)	(20)	(610,765)

Notes to Condensed Consolidated Interim Financial Information

1. General information

Linekong Interactive Co., Ltd. (the “**Company**”), previously known as Linekong International Co., Ltd., was incorporated in 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 in the People’s Republic of China (the “**PRC**”), Hong Kong and other countries and regions.

The Company’s shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering (“**IPO**”). Upon the completion of the IPO on December 30, 2014, all of the Company’s 153,264,523 outstanding convertible preferred shares (“**Preferred Shares**”) were converted into ordinary shares on a one-to-one basis immediately as of the same date.

The Interim Financial Information is presented in Renminbi (“**RMB**”), unless otherwise stated.

The Interim Financial Information has been reviewed, not audited.

2. Basis of preparation and summary of significant accounting policies

The accounting policies applied in the preparation of the unaudited Interim Financial Information are consistent with those used in annual financial statements for the year ended December 31, 2014 as set out in the 2014 annual report of the Company, which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”). The Interim Financial Information have been prepared under the historical cost convention, as modified by the revaluation of assets and liabilities carried at fair value, such as available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

3. Revenue and segment information

	Three months ended March 31,	
	2015 <i>RMB'000</i> (Unaudited)	2014 <i>RMB'000</i> (Unaudited)
Development and operations of online games:		
— Sales of in-game virtual items	103,947	155,193
— License fee and technical support fee	9,428	14,398
	113,375	169,591

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 during each of the three months ended March 31, 2015 and 2014 is as follows:

	Three months ended March 31,	
	2015 <i>RMB'000</i> (Unaudited)	2014 <i>RMB'000</i> (Unaudited)
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	100,150	141,732
— Web-based games	5,161	11,379
— Client-based games	8,064	16,480
	113,375	169,591

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

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue during each of the three months ended March 31, 2015 and 2014.

Almost all the Group's non-current assets were located in the PRC at March 31, 2015. Revenue from overseas customers was only generated by the entities located in the PRC before March 31, 2014 and generated by both the entities located in the PRC 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 three months ended March 31, 2015.

4. Reserves

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share-based compensation reserve RMB'000	Other Reserves RMB'000	Total RMB'000
Balance at January 1, 2015	(7,831)	26,503	9,557	177,947	6	206,182
RSU scheme:						
— Value of employee services	—	—	—	32,342	—	32,342
Currency translation differences	—	3,068	—	—	—	3,068
Balance at March 31, 2015	(7,831)	29,571	9,557	210,289	6	241,592
Balance at January 1, 2014	(7,831)	29,026	6,620	59,094	—	86,909
RSU scheme:						
— Value of employee services	—	—	—	4,486	—	4,486
Deemed contribution from shareholders for the shares issued for RSU Scheme	—	—	—	—	6	6
Currency translation differences	—	(6,350)	—	—	—	(6,350)
Balance at March 31, 2014	(7,831)	22,676	6,620	63,580	6	85,051

5. Other gains — net

	Three months ended March 31,	
	2015 <i>RMB'000</i> (Unaudited)	2014 <i>RMB'000</i> (Unaudited)
Government subsidies	1,034	134
Gain arising from disposal of subsidiaries	—	6
Foreign exchange gains, net	524	209
Return on short-term investments (<i>Note (a)</i>)	769	—
Others	1,851	30
	<u>4,178</u>	<u>379</u>

Note:

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

6. Fair value gains of financial instruments

	Three months ended March 31,	
	2015 <i>RMB'000</i> (Unaudited)	2014 <i>RMB'000</i> (Unaudited)
Fair value gain of Preferred Shares (<i>Note (a)</i>)	—	37,804
Fair value gain of derivatives (<i>Note (b)</i>)	4,623	—
	<u>4,623</u>	<u>37,804</u>

Note:

- (a) The Company issued Preferred Shares in prior years, which were measured as financial liability at the fair value through profit or loss. Upon completion of the IPO on December 30, 2014, all the Preferred Shares were automatically converted into ordinary shares on an one-to-one basis.
- (b) On March 12, 2015, the Company entered into a subscription agreement with SMI Holdings Group Limited ("**SMI**"), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, to subscribe SMI's 139,582,733 ordinary shares with total consideration of USD5,000,000. As of March 31, 2015, the consideration has been prepaid by the Company but the shares have not been issued by SMI. The subscription agreement is therefore accounted for as a forward contract which has been fair valued by taking reference of share price of SMI quoted in the active market.

7. Income tax (credit)/expense

The income tax (credit)/expense of the Group for each of the three months ended March 31, 2015 and 2014 are analysed as follows:

	Three months ended March 31,	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Current income tax	905	853
Deferred income tax	<u>(5,883)</u>	<u>1,186</u>
Income tax (credit)/expense	<u><u>(4,978)</u></u>	<u><u>2,039</u></u>

(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 each of the three months ended March 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 three months ended March 31, 2015 and 2014, based on the existing legislation, interpretations and practices in respect thereof. Linekong Online (Beijing) Internet Technology Co., Ltd. (“**Beijing Linekong Online**”), Linekong Entertainment Technology Co., Ltd. (“**Linekong Entertainment**”), Shouyoutong (Beijing) Technology Co., Ltd. (“**Shouyoutong**”) and Tianjin Baba Liusi Network Technology Co., Ltd. (“**Tianjin 8864**”) obtained the Software Enterprise Certificates and were accredited as software enterprises under the relevant PRC laws, regulations and rules. Accordingly, Beijing Linekong Online, Linekong Entertainment, Shouyoutong and Tianjin 8864 are exempt from EIT for two years, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years, commencing from the first year of profitable operation and before 2017, provided that it continues to be qualified as software enterprise during such period. Beijing Linekong Online obtained the Software Enterprise Certificate in May 2014, and the specific periods when the tax exemption and reduction being applicable are yet to commence. The applicable schedules of preferential income tax rate for Linekong Entertainment, Shouyoutong and Tianjin 8864 are as follows:

	Three months ended March 31,	
	2015	2014
Linekong Entertainment	25%	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 engaged in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining its tax assessable profits for that year ("**Super Deduction**").

(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 March 31, 2015 and December 31, 2014, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of March 31, 2015 and December 31, 2014, the entities located in the PRC did not have available undistributed profit to be remitted to the Company.



The tax on the Group's (loss)/profit 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:

	Three months ended March 31,	
	2015 RMB'000 (Unaudited)	2014 <i>RMB'000</i> (Unaudited)
(Loss)/profit before income tax	(60,636)	74,452
Tax calculated at statutory income tax rates applicable to (loss)/profit before income tax of the consolidated entities in their respective jurisdictions (<i>Note (i)</i>)	(16,187)	9,979
Tax effects of:		
Preferential income tax rates applicable to subsidiaries	(859)	(14,327)
Expenses not deductible for tax purposes:		
— Share-based compensation	8,086	1,122
— Others	881	2,607
Unrecognised temporary difference (<i>Note (ii)</i>)	2,234	1,196
Income tax paid outside the territory which is not deducted from resident enterprise income tax payable	209	977
Write-off of unutilised deferred income tax arising in prior periods	—	485
Others	658	—
Income tax (credit)/expense	(4,978)	2,039

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 changes in profit or loss, are not subject to any income tax.
- (ii) The Group has assessed the realization of deductible temporary differences and unused tax losses for each entity as of March 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.

8. (Loss)/earnings per share

The Company's ordinary shareholders had not paid the par value of the ordinary shares until June 2014, therefore were not entitled to dividends for the three months ended March 31, 2014. The calculation of earnings per share for this period is not applicable accordingly.

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**"). For the purpose of computing basic and diluted (loss)/earnings per share, the number of ordinary shares outstanding during each of the three months ended March 31, 2015 and 2014 have been adjusted retroactively in the computation of both basic and diluted (loss)/earnings per share for the relevant periods to reflect the proportional changes in the number of ordinary shares outstanding as a result of the Share Split.



(a) Basic

Basic loss per share for the three months ended March 31, 2015 is calculated by dividing the loss of the Group attributable to the equity holders of the Company of the period by the weighted average number of ordinary shares in issue during the three months ended March 31, 2015.

	Three months ended March 31, 2015 (Unaudited)
Loss attributable to equity holders of the Company (RMB'000)	(55,657)
Weighted average number of ordinary shares in issue (thousand shares) (Note (i))	332,971
Basic loss per share (expressed in RMB per share)	<u>(0.17)</u>

Note:

- (i) Had all ordinary shares fully paid upon issuance, the weighted average number of ordinary shares in issue for the three months ended March 31, 2014 for purpose of computing the basic earnings per share would be 100,444,400, and the basic earnings per share would be RMB0.72 for the three months ended March 31, 2014.

(b) Diluted

Diluted loss/(earnings) 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 three months ended March 31, 2015, the Company had the potential ordinary shares of the restricted share units ("RSUs"). As the Group incurred loss for the three months ended March 31, 2015, 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 three months ended March 31, 2015 is the same as basic loss per share.

For the three months ended March 31, 2014, the Company had two categories of potential ordinary shares, the Preferred Shares and RSUs. Preferred Shares are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the fair value gain of the Preferred Shares. RSUs which are issuable contingently upon the occurrence of the listing were not considered as dilutive potential ordinary shares and therefore had not been included in the calculation of diluted earnings per share.

Had all ordinary shares fully paid upon issuance, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average fair value of the Company's ordinary shares) for the RSUs which are not issuable on contingent basis.

	Three months ended March 31, 2014 (Unaudited)
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	72,413
Fair value change of the Preferred Shares (<i>RMB'000</i>)	<u>(37,804)</u>
Profit used to determine diluted earnings per share (<i>RMB'000</i>)	<u>34,609</u>
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	100,444
Adjustment for conversion of series A Preferred Shares (<i>thousand shares</i>)	71,111
Adjustment for conversion of series B Preferred Shares (<i>thousand shares</i>)	42,454
Adjustment for conversion of series C Preferred Shares (<i>thousand shares</i>)	17,434
Adjustment for RSUs (<i>thousand shares</i>)	<u>855</u>
Weighted average number of ordinary shares for calculating diluted earnings per share (<i>thousand shares</i>)	<u>232,298</u>
Diluted earnings per share (<i>expressed in RMB per share</i>)	<u><u>0.15</u></u>

9. Dividends

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

10. Events after the balance sheet date

- (a) 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. The Group is changing the title of its game Excalibur of which Chinese name is 王者之劍 to mitigate impact of any potential infringement claim. The Group has considered that this subsequent event does not have any impact on the financial statements for the three months ended March 31, 2015.
- (b) On April 13, 2015, Linekong Entertainment and Strawbear Technology Co., Ltd. (“**Strawbear Technology**”) have agreed to establish a limited liability company (the “**New Company**”) in Beijing, PRC. The New Company will conduct research and development as well as promotion of a new mobile game named *Wars of Shushan*. The expected registered capital of the New Company will be RMB12,500,000, and will be contributed as to RMB10,000,000 by Linekong Entertainment and RMB2,500,000 by Strawbear Technology in cash. Linekong Entertainment and Strawbear Technology will own 80% and 20% equity interests of the New Company, respectively, upon its establishment.
- (c) On April 13, 2015, the subscribed 139,582,733 shares of SMI were issued by SMI to the Company. Among which, 46,348,000 shares have been sold by the Company in the open market till May 11, 2015.
- (d) On April 30, 2015, Linekong Entertainment entered into an agreement to acquire 6% of the equity interests in Guizhou Zhiqu Network Technology Co., Ltd. (“**Guizhou Zhiqu**”) with a consideration of RMB5,714,300. Guizhou Zhiqu is a limited liability company registered in Guizhou, PRC and is primarily engaged in the development of online games trading platforms.

Management Discussion and Analysis

Business Review and Prospects

Overview

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

It was the first financial quarter since the listing of the Group on the GEM of the Stock Exchange on December 30, 2014 (the “**Listing**”). During the period, the Group has continued to develop new mobile games as well as to publish new and high-quality licensed games from third-party game developers, which further expanded our player base and diversified our revenue sources. Revenue from mobile games accounted for approximately 88.3% of our total revenue during the first quarter of 2015, comparing to approximately 83.6% for the first quarter of 2014. In addition to working with about 150 third party game distribution channels in the PRC, the Group has endeavoured to strengthen our own game distribution platform, 8864.com and diligently promoted game operation system in order to attract more players. As of March 31, 2015, the 8864.com platform had approximately 87.5 million registered users, compared to approximately 76.6 million registered users as of March 31, 2014.

In line with the overall corporate strategy, the Group will synergise the self-developing and publishing business, vigorously promote the “pan-entertainment” strategy, and proactively proceed with the construction of intellectual property (“**IP**”) ecological system. Meanwhile, we will strengthen the layout of our “pan-entertainment” and IP ecological system through strategic investment.

Investments in Yongle and SMI

During the period, the Group made investments of RMB23 million to Beijing Chunqiu Yongle Culture and Communication Co., Ltd. (“**Yongle**”) and US\$5 million to SMI, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 198). The Group will cooperate bilaterally with Yongle and SMI in terms of IP licensing projects in games, movies, TV dramas and stage performances and will carry out marketing and brand building activities by utilising marketing resources of both Yongle and SMI.

Approval from the State Administration of Press, Publication, Radio, Film and Television of the People’s Republic of China (“GAPP”) for Blade of God

Reference is made to the prospectus of the Company dated 9 December 2014 (the “**Prospectus**”). Pursuant to the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games, we are required to complete the publishing and filing procedures with GAPP and obtain GAPP approvals for online games operated by us before they are commercialised. The application for Blade of God (神之刃) at GAPP for the GAPP approval was still pending at the time of listing application. In March 2015, we have received the confirmation from GAPP that such an approval has already been obtained.

Ruling from the SAIC Trademark Office regarding objection to third-party trademark registration application

Reference is made to the Prospectus which disclosed that we have filed trademark registration application for *Excalibur* in class 41 in March 2012 but subsequently found out that a third-party filed an application to register the same trademark in the same class only a few days before us. At the material time, we have one of our employees filed an objection to the third party’s application in March 2013 which was accepted by the SAIC Trademark Office in June 2013.

On April 30, 2015, we received a ruling from the SAIC Trademark Office stating that our case of objection was not established and therefore the third party’s application for trademark registration was allowed. As the SAIC Trademark Office did not grant a ruling in favour of us on our objection to the third party’s application, we are considering if further action shall be taken in this relation.

Based on the disclosure in the Prospectus, we are of the view that we had legal rights to continue to use *Excalibur* until the third party's trademark registration application is approved by the SAIC Trademark Office. Upon receiving such ruling, we have started making arrangement to change the Chinese title of the game from 王者之劍 to 王者戰魂 in order to mitigate the impact of any potential infringement claim, and all update on our gaming platform will be completed in May 2015. In addition, we are not aware that the third-party has applied trademark in dispute on any gaming products similar to those offered by us, or any gaming products at all.

In light of the aforesaid, and given the fact that we will continue to commercialise more mobile games and the contribution of *Excalibur* to the Group is declining, the Directors are of the view that the SAIC Trademark Office's ruling and the change of title of *Excalibur* will not cause material adverse effect to our business, financial condition and results of operations.

Our games

During the period, the Group commercialised one licensed games, namely *One Hundred Thousand Bad Jokes* (十萬個冷笑話). It was launched on all major platforms on March 18, 2015 and achieved remarkable results, with over 1,000,000 daily active players after its launch. *One Hundred Thousand Bad Jokes* (十萬個冷笑話) is a 3-dimensional role playing and turn-based strategic collectible card game, which was adapted from an original and highly popular online funny comic in the PRC. Such comic has been played over 2 billion times online accumulatively.

Prospects

In order to intensify the efforts in nurturing talents, consolidate the resources and adapt to the business development strategy, the Group has established the business model of "two research teams and two publication centres" (two gaming research and design teams and two publication centres in Beijing and Shanghai) in April 2015. We aim to capture the trend for diversified development when the market starts to grow and secure the market share for our specialised products and explore new products in segmental markets through the layout of "two research teams and two publication centres". This also represents our different directions for product development, giving us higher flexibility and a wider range of products so as to minimise the risks in segmental markets.

In 2015, entertaining contents, platform-based businesses and internationalised markets will be the focuses of the Group's development.

After the release of *One Hundred Thousand Bad Jokes* (十萬個冷笑話), the Group plans to launch various popular IP supported games, in particular, *The Legend of Zhen Huan* (後宮•甄嬪傳), *The White Haired Witch* (白髮魔女傳), *Wars of Shushan* (蜀山戰紀) and *The Legend of MiYue* (半月傳), in 2015. *The Legend of Zhen Huan* (後宮•甄嬪傳) is a turn-based collectible card game, which was adapted from *The Legend of Zhen Huan* (後宮•甄嬪傳), a popular novel/TV show in the PRC. *The White Haired Witch* (白髮魔女傳) is a 3-dimensional massively multiplayer online role players game adapted from a famous Kung Fu novel with the same name in the PRC. *The Wars of Shushan* (蜀山戰紀) is a 3-dimensional massively multiplayer online action role playing game adapted from a TV show with the same name.

The Group will further explore, innovate and seek development, continue to increase investment in research and development, and carefully select the licensed games to attract and satisfy players with high quality and diversified games, and retain appropriate players by conducting comprehensive market survey as well as responding promptly and accurately to changes in the industry. The games which will soon be commercialised range from our popular IP supported games to *I Am Playboy* (穿越之大官人) themed by time leaps, and from *Rumble Jungle* (星球崛起) themed by interstellar adventure to *Eternal Wars* (永恆戰記) themed by virtual magic. Such full-coverage will become another highlight of the Group's "pan-entertainment" strategy.

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

We will allocate more resources to and increase our efforts in operating 8864.com, the Group's own distribution platform. We will also establish large groups of active players on 8864.com and actively encourage players within the groups to interact and exchange ideas with one another through a number of ways. Meanwhile, due to growing popularity of mid-core and hard-core mobile games, trading platforms for the mobile games of our business partners have become increasingly important in the mobile gaming industry. In this regard, the Group has planned to invest in TaoShouYou, a platform of its business partner primarily focusing on trading mobile gaming accounts in a bid to stimulate the synergy between the development of mobile games and online trading platforms.

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

The Group also plans to set up more subsidiaries in different countries and regions in 2015 and strive to improve our operation capacity in high growth markets and expand the localisation capacity of our games to cater for different markets and cultures. At the same time, we will strengthen our local business layout, better serve our customers so as to increase our market shares in targeted regions, and gradually set up a comprehensive global research and development and distribution system, promoting extensive self-developed and licensed games in more countries and districts.

The following table sets forth the breakdown of our revenue by (i) game forms, (ii) self-developed games and licensed games, and (iii) development and operations of online games for the three months ended March 31, 2014 and March 31, 2015, respectively:

For the three months ended March 31,

	2015		2014	
	<i>RMB'000</i>	<i>approximate %</i>	<i>RMB'000</i>	<i>approximate %</i>
Mobile games	100,150	88.3	141,732	83.6
Web-based games	5,161	4.6	11,379	6.7
Client-based games	8,064	7.1	16,480	9.7
Total	113,375	100	169,591	100

For the three months ended March 31,

	2015		2014	
	<i>RMB'000</i>	<i>approximate %</i>	<i>RMB'000</i>	<i>approximate %</i>
Self-developed games	69,455	61.3	145,530	85.8
Licensed games	43,920	38.7	24,061	14.2
Total	113,375	100	169,591	100

For the three months ended March 31,

	2015		2014	
	RMB'000	approximate %	RMB'000	approximate %
Sales of in-game virtual items	103,947	91.7	155,193	91.5
License fee and technical support fee	9,428	8.3	14,398	8.5
Total	113,375	100	169,591	100

Our payment collection channels

We have also continued to expand our business relationships with an increasing number of payment collection channels as our business continued to expand during the first quarter of 2015. Third-party distribution channels continued to be our largest type of payment collection channels in terms of revenue contribution, representing a growth from approximately 79.5% to 86.9% to the total revenue compared with the first quarter of 2014. We saw decrease in the percentage to total revenue with respect to revenue through third-party payment vendors and prepayment cards, accounting for approximately 11.2% and 1.9% of revenue generated from sales in-game virtual items in the first quarter of 2015 compared with that of approximately 17.2% and 3.3% respectively in the first quarter of 2014, which was in line with payment preference change of game players. The following table sets forth a breakdown of revenue through our payment collection channels in absolute amounts and as percentages of our total revenue for the period presented, together with the change (expressed in percentages) from the first quarter of 2014 to the first quarter of 2015:



For the three months ended March 31,

	2015		2014		Change (approximate %)
	RMB'000	approximate %	RMB'000	approximate %	
Third-party distribution channels	90,299	86.9	123,374	79.5	(26.8)
Third-party payment vendors	11,680	11.2	26,625	17.2	(56.1)
Prepayment cards	1,968	1.9	5,194	3.3	(62.1)
Sales of in-game virtual items	103,947	100	155,193	100	(33.0)

International markets

We have traditionally licensed our games, including our self-developed games and licensed games for which we have global exclusive licenses, to third-party publishers in the international markets. For three months ended March 31, 2015, our games were cumulatively published in 41 countries and regions outside mainland China in aggregate. In 2014, the Group set up two subsidiaries in Hong Kong and Korea, and has started publishing the Korean version of *Sword of Heaven* (蒼穹之劍) in Korea. In the first quarter of 2015, the Group continued to publish the Korean version of *Blade of God* (神之刃) and *Sword of Heroes* (英雄之劍) in Korea. Revenue generated from overseas markets reached approximately RMB14.6 million in the first quarter of 2015, representing a growth rate of approximately 7.4% compared to approximately RMB13.6 million in the first quarter of 2014.

Our players

The total registered players of our games increased from approximately 146.1 million as at March 31, 2014 to over 187.5 million as at March 31, 2015. Driven by the success of our games, the numbers of average monthly paying player increased significantly, and active players of our mobile games well exceed those of our client-based games and web-based games.

The table below sets forth the operating information relating to our mobile games, web-based games and client-based games for the three months ended March 31, 2015 and March 31, 2014, respectively.

	For the three months ended March 31,		
	2015	2014	Changes in (approximate %)
Monthly Active Players (“MAUs”) <i>(in thousands)</i>			
Mobile games	3,686.6	4,996.4	(26.2)
Web-based games	44.9	221.6	(79.7)
Client-based games	300.6	424.6	(29.2)
Total	4,032.1	5,642.6	(28.5)
Daily Active Players (“DAUs”) <i>(in thousands)</i>			
Mobile games	477.0	570.4	(16.4)
Web-based games	11.9	51.3	(76.8)
Client-based games	91.6	136.6	(32.9)
Total	580.5	758.3	(23.4)
Average Monthly Paying Players			
Mobile games	260,788	230,891	12.9
Web-based games	1,550	5,349	(71.0)
Client-based games	4,972	11,869	(58.1)
Total	267,310	248,109	7.7
Monthly average revenue per paying player <i>(in RMB'000)</i>			
Mobile games	128.0	204.6	(37.4)
Web-based games	1,109.9	709.1	56.5
Client-based games	540.6	462.8	16.8
All games	141.4	227.8	(37.9)
Revenue <i>(in RMB'000)</i>			
Mobile games	100,150	141,732	(29.3)
Web-based games	5,161	11,379	(54.6)
Client-based games	8,064	16,480	(51.1)
Total	113,375	169,591	(33.1)

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by approximately 33.1% from approximately RMB169.6 million for three months ended March 31, 2014 to approximately RMB113.4 million for the three months ended March 31, 2015. The decrease in revenue was mainly due to the strategic move made by the Group to exert more time and resources for research and development. Such move has caused adjustments to the release time for certain self-developed or licensed mobile games, and in turn affect the revenue generated. At the same time, a decrease in revenue was recorded in the games currently operated by the Group, which resulted in a lower-than-expected revenue for the first quarter of 2015.

Revenue by game forms and sources

The following table sets out the breakdown of revenue by game forms and sources for each of the three months ended March 31, 2014 and 2015, respectively:

	For the three months ended March 31,			
	2015		2014	
	RMB'000	approximate %	RMB'000	approximate %
Mobile games	100,150	88.3	141,732	83.6
Web-based games	5,161	4.6	11,379	6.7
Client-based games	8,064	7.1	16,480	9.7
Total	113,375	100	169,591	100

	For the three months ended March 31,			
	2015		2014	
	RMB'000	approximate %	RMB'000	approximate %
Self-developed games	69,455	61.3	145,530	85.8
Licensed games	43,920	38.7	24,061	14.2
Total	113,375	100	169,591	100

Revenue by games

The following table sets forth a breakdown of revenue by games for each of the three months ended March 31, 2014 and March 31, 2015, respectively:

	For the three months ended March 31,			
	2015		2014	
	RMB'000	approximate %	RMB'000	approximate %
<i>Sword of Heaven</i>	21,680	19.1	79,107	46.7
<i>Blade of God</i>	25,685	22.7	11,689	6.9
<i>Excalibur</i>	14,378	12.7	50,921	30.0
<i>Sword of Heroes</i>	22,783	20.1	—	—
<i>One Hundred Thousand</i>				
<i>Bad Jokes</i>	8,007	7.0	—	—
<i>Three Kingdoms</i>	3,588	3.2	10,522	6.2
<i>Daybreak</i>	2,815	2.5	6,859	4.0
<i>Others</i>	14,439	12.7	10,493	6.2
Total	113,375	100	169,591	100

Cost of revenue

The Group's cost of revenue for the three months ended March 31, 2015 was approximately RMB62.3 million, representing a decrease of approximately 17.4% from approximately RMB75.5 million for the corresponding period in 2014. After adjustment, the Group's cost of revenue, excluding share-based compensation expenses amounting to approximately RMB2.4 million for the three months ended March 31, 2015, was approximately RMB59.9 million, representing a decrease of approximately 20.5% from approximately RMB75.3 million (after adjustment) for the corresponding period in 2014. The decrease in cost of revenue of the Group as compared to the corresponding period of last year was mainly due to the decrease in revenue generated from gaming products. The increase in the percentage of the adjusted cost of revenue to the total revenue as compared to the corresponding period of last year was mainly due to the increase in content fees to third party developers which was resulted by the increase in the percentage of licensed games to revenue for the period as compared to the corresponding period in 2014 and service fees to third-party distribution channels for mobile games.

Gross profit and gross profit margin

The Group's gross profit for the three months ended March 31, 2015 was approximately RMB51.0 million, representing a decrease of approximately 45.8% from approximately RMB94.1 million for the three months ended March 31, 2014. The Group's gross profit, excluding share-based compensation expenses for the three months ended March 31, 2015 was approximately RMB53.4 million, representing a decrease of approximately 43.4% from approximately RMB94.3 million for the three months ended March 31, 2014. The decrease in the Group's gross profit was primarily due to the decrease in the overall revenue generated from gaming products.

The Group's gross profit margin for the three months ended March 31, 2015 was approximately 45.0%, representing a decrease of approximately 10.5 percentage points compared to approximately 55.5% for the three months ended March 31, 2014. The Group's gross profit margin, excluding share-based compensation expenses for the three months ended March 31, 2015 was approximately 47.1%, representing a decrease of approximately 8.5 percentage points compared to approximately 55.6% for the three months ended March 31, 2014. The decrease in the Group's gross profit margin for the period was primarily due to the increase in content fees to third party developers.

Selling and marketing expenses

The Group's selling and marketing expenses for the three months ended March 31, 2015 were approximately RMB65.4 million, representing an increase of approximately 135.3% from approximately RMB27.8 million for the three months ended March 31, 2014. The Group's selling and marketing expenses, excluding share-based compensation expenses for the three months ended March 31, 2015 were approximately RMB63.4 million, representing an increase of approximately 129.7% from approximately RMB27.6 million for the three months ended March 31, 2014. The increase was primarily due to the significant increase in the pre-launch promotion and marketing expenses on *One Hundred Thousand Bad Jokes* (十萬個冷笑話), a licensed mobile game recently launched on 18 March 2015.

Administrative expenses

The Group's administrative expenses for the three months ended March 31, 2015 were approximately RMB22.9 million, representing an increase of approximately 54.1% from approximately RMB14.9 million for the three months ended March 31, 2014. The Group's administrative expenses, excluding share-based compensation expenses for the three months ended March 31, 2015 were approximately RMB8.1 million, representing an increase of approximately 14.1% from approximately RMB7.1 million for the three months ended March 31, 2014. The increase in the Group's administrative expenses was primarily due to the increase in the headcount of administrative staffs and their salary increment.

Research and development expenses

The Group's research and development expenses for the three months ended March 31, 2015 were approximately RMB32.3 million, representing an increase of approximately 102.1% from approximately RMB16.0 million for the three months ended March 31, 2014. The Group's research and development expenses, excluding share-based compensation expenses for the three months ended March 31, 2015 were approximately RMB19.2 million, representing an increase of approximately 35.2% from approximately RMB14.2 million for the three months ended March 31, 2014. The increase in the Group's research and development expenses was primarily due to the enhancement of overall capability on research and development and the increase in the headcount of research and development staffs as well as their salary and welfare expenses.

Other gains — net

The Group's other income gains for the three months ended March 31, 2015 was approximately RMB4.2 million, compared to approximately RMB0.4 million for the corresponding period in 2014. The increase in the Group's other income gains was primarily due to the investment income generated from the purchase of short-term wealth products issued by banks.

Finance income — net

Our finance income decreased from approximately RMB0.8 million in the first quarter of 2014 to approximately RMB0.1 million in the first quarter of 2015 as a result of the decrease in interest income over decreased current cash balance which was resulted from purchase of short-term investment and wealth products issued by banks in 2015. No interest was capitalised during the three months ended March 31, 2015 (2014 corresponding period: Nil).

Fair value gains of financial instruments

Fair value gain of the Preferred Shares decreased to nil for the three months ended March 31, 2015 from approximately RMB37.8 million for the three months ended March 31, 2014. The decrease was mainly due to the automatic conversion of all Preferred Shares into ordinary Shares upon Listing on December 30, 2014 and there was no further fair value change recorded for the Preferred Shares for the three months ended March 31, 2015. It is expected that such cost would not recur in the forthcoming financial year.

Fair value gain arising from the subscription of SMI's shares was approximately RMB4.6 million for the three months ended March 31, 2015.

Income tax (credit)/expense

The Group's income tax credit for the three months ended March 31, 2015 was approximately RMB5.0 million whilst the income tax expenses were approximately RMB2.0 million for the three months ended March 31, 2014. The decrease in the Group's income tax expenses was primarily due to the decrease in current income tax expense resulting from the decrease in (loss)/profit before income tax, and the increase in deferred income tax assets recorded by certain of the Group's subsidiaries for temporary differences relating to deferred online game revenue.

Loss for the quarter

As a result of the foregoing, the loss attributable to equity holders of Company was approximately RMB55.7 million for the three months ended March 31, 2015, as compared to a profit of approximately RMB72.4 million for the corresponding period in 2014.

To supplement our unaudited consolidated financial statements which are presented in accordance with International Financial Reporting Standards, we also use adjusted (loss)/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 quarter excluding share-based compensation expenses, fair value gain of the Preferred Shares and Listing-related expenses. The adjusted (loss)/net profit is an unaudited figure.

The table below sets out the reconciliation between the adjusted net (loss)/profit and the unaudited (loss)/profits for the three months ended March 31, 2015 and March 31, 2014 calculated in accordance with the International Financial Reporting Standards (IFRS):

	For the three months ended March 31,		
	2015 RMB'000	2014 RMB'000	Change <i>approximate %</i>
(Loss)/profit for the quarter	(55,658)	72,413	N/A
Add:			
Share-based compensation expenses	32,342	4,486	621.0
Listing-related expenses	—	5,474	(100.0)
Fair value gain of the Preferred Shares	—	(37,804)	N/A
Adjusted (loss)/net profit (unaudited)	(23,316)	44,569	N/A

The Group's adjusted loss for the three months ended March 31, 2015 was approximately RMB23.3 million, as compared to an adjusted net profit of approximately RMB44.6 million for the three months ended March 31, 2014. The decrease in our adjusted loss is generally in line with the decrease in our revenue, and also affected by the increased amount of selling and marketing expenses. We have presented adjusted loss for the three months ended March 31, 2015 in this quarterly report as we believe that the adjusted loss for the quarter is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses, fair value gain of the Preferred Shares and Listing-related expenses, which were converted to ordinary shares of the Company 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 loss for the period should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss for the quarter presented in this quarterly report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

LIQUIDITY AND FINANCIAL RESOURCES

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

Cash and cash equivalents

As of March 31, 2015, we had cash and cash equivalents of approximately RMB908.0 million (December 31, 2014: approximately RMB1,086.5 million), which primarily consisted of cash at bank and in hand and which were mainly denominated in Renminbi (as to approximately 16.3%), Hong Kong dollars (as to approximately 60.8%), U.S. dollars (as to approximately 22.6%) 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 HK\$686.2 million. As at the date of this report, the net proceeds from our Listing had not yet been utilised and all of the net proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group. In 2015, we will start utilising the net proceeds from our Listing and for purposes consistent with those set out in the section headed "Statement of Business Objectives and Use of Proceeds" in the Prospectus.

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the three months ended March 31, 2015, our total capital expenditure amounted to RMB14.2 million (2014 corresponding period: approximately RMB3.3 million), including the purchase of furniture and office equipment of approximately RMB0.6 million (2014 corresponding period: approximately RMB0.5 million), server and other equipment of approximately RMB0.1 million (2014 corresponding period: approximately RMB0.5 million), leasehold improvements of approximately RMB0.7 million (2014 corresponding period: nil), trademarks and licenses approximately RMB12.4 million (2014 corresponding period: approximately RMB2.0 million) and computer software of approximately RMB0.4 million (2014 corresponding period: approximately RMB0.3 million). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

The shares of the Company (the “**Shares**”) have been listed on GEM of the Stock Exchange since December 30, 2014. The capital structure of the Group comprised ordinary shares.

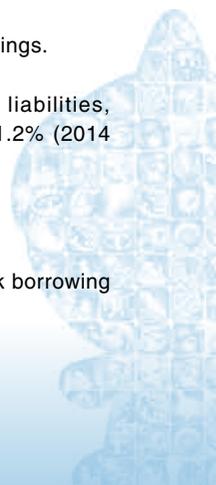
BORROWING AND GEARING RATIO

As at March 31, 2015, we did not have any short-term or long-term bank borrowings.

As at March 31, 2015, the gearing ratio of the Group, calculated as total liabilities, excluding the Preferred Shares, divided by total assets, was approximately 21.2% (2014 corresponding period: approximately 20.1%).

Charge on group assets

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



INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of March 31, 2015, the Group had 565 employees (March 31, 2014: 435), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at March 31, 2015 and March 31, 2014, respectively:

Function	As at March 31,			
	2015		2014	
	Number of Employees	approximate %	Number of Employees	approximate %
Research and development	330	58.4	245	56.3
Game publishing	173	30.6	146	33.6
— Game licensing	33	5.8	22	5.1
— Customer service	61	10.8	51	11.7
— Sales and marketing	79	14.0	73	16.8
General and administrative	62	11.0	44	10.1
Total	<u>565</u>	<u>100.0</u>	<u>435</u>	<u>100.0</u>

The total remuneration of the employees of the Group was approximately RMB60.7 million for the three months ended March 31, 2015 (2014 corresponding period: approximately RMB24.6 million).

The Group has established the remuneration committee of the Company (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 Group has adopted a share option scheme as incentive to the Directors and eligible persons.

In addition, the Group has adopted a restricted unit share scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based compensation expenses in connection with the RSU Scheme for the three months ended March 31, 2015 were approximately RMB32.3 million, representing an increase of approximately 621.0% from approximately RMB4.5 million for corresponding period in 2014. The increase was primarily due to the grant of 31,371,494 restricted share units (the “**RSUs**”) by the Group until March 21, 2014. There was a significant increase in share-based compensation during the first quarter of 2015.

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 Group is able to provide its employees with ample career development choices and opportunities of advancement. The Group 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 Group also provides various incentives to motivate its employees. In addition to providing performance-based bonuses and share-based awards, the Group offers unsecured, interest-free housing loans to employees with good performance.

DIVIDEND

The Board did not recommend the payment of dividend for the three months ended March 31, 2015.

INTERESTS OF THE COMPLIANCE ADVISOR

As confirmed by the Group’s compliance advisor, REORIENT Financial Markets Limited (the “**Compliance Advisor**”), save as the compliance advisor agreement entered into between the Company and the Compliance Advisor dated August 20, 2014, none of the Compliance Advisor 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at March 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
Mr. Wang Feng ^(Note 1)	Interest of controlled corporation Beneficial owner	66,576,160 8,433,308	20.28%
Ms. Liao Mingxiang ^(Note 2)	Interest of controlled corporation Beneficial owner	12,168,720 2,811,769	4.05%
Mr. Mao Zhihai ^(Note 3)	Beneficial owner	2,811,769	0.76%
Mr. Qian Zhonghua	Beneficial owner	5,000	0.01%

Notes:

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng is interested in 8,433,308 RSUs granted to him under the RSU Scheme entitling him to receive 8,433,308 Shares, and as at March 31, 2015, approximately 54.99% of the RSUs have been vested and the remaining RSUs are subject to vesting.

- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liaomingxiang 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 Liaomingxiang Holdings Limited. In addition, Ms. Liao Mingxiang is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares, and as at March 31, 2015, approximately 54.98% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (3) Mr. Mao Zhihai is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 Shares, and as at March 31, 2015, approximately 33.32% of the RSUs have been vested and the remaining RSUs are subject to vesting

Save as disclosed above, as at March 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 at March 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	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Entertainment	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Entertainment	Mr. Zhang Yuyu	RMB1,091,000	10.91%

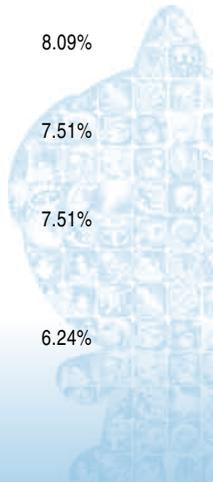
SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors or chief executives of the Company, as at March 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
Wangfeng Management Limited <i>(Note 1)</i>	Beneficial owner	66,576,160	18.00%
Zhu Li <i>(Note 2)</i>	Interest of spouse	75,009,468	20.28%
China Momentum Fund, L.P.	Interest of controlled corporation	52,318,760	14.15%
Fosun China Momentum Fund GP, Ltd.	Interest of controlled corporation	52,318,760	14.15%
Fosun Financial Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun Holdings Limited	Interest of controlled corporation	52,318,760	14.15%

Name of Shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company
Fosun International Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun International Limited	Interest of controlled corporation	52,318,760	14.15%
Fosun Momentum Holdings Limited	Interest of controlled corporation	52,318,760	14.15%
Guo Guangchang	Interest of controlled corporation	52,318,760	14.15%
Starwish Global Limited ^(Note 3)	Beneficial owner	52,318,760	14.15%
The Core Trust Company Limited ^(Note 4)	Trustee of a trust	42,161,541	11.40%
Premier Selection Limited ^(Note 4)	Nominee for another person	42,161,541	11.40%
Ho Chi Sing	Interest of controlled corporation	29,922,996(L)	8.09%
IDG-Accel China Growth Fund Associates, L.P. ^(Note 5,6)	Interest of controlled corporation	27,774,323(L)	7.51%
IDG-Accel China Growth Fund GP Associates Ltd. ^(Note 5,6)	Interest of controlled corporation	27,774,323(L)	7.51%
IDG-Accel China Growth Fund L.P. ^(Note 5,6)	Beneficial owner	23,061,443(L)	6.24%



Name of Shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company
Zhou Quan	Interest of controlled corporation	27,774,323(L)	7.51%
Fubon Financial Holding Co., Ltd. <i>(Note 7)</i>	Interest of controlled corporation	23,739,000	6.42%
Fubon Life Insurance Co., Ltd. <i>(Note 7)</i>	Beneficial owner	23,739,000	6.42%

Notes:

- Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng is interested in 8,433,308 RSUs granted to him under the RSU Scheme entitling him to receive 8,436,308 Shares, and as at March 31, 2015, approximately 54.99% of the RSUs have been vested and the remaining RSUs are subject to vesting
- 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.
- Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P.. Fosun China Momentum Fund GP, Ltd. is in turn wholly owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). Fosun International Limited is 79.60% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. Mr. Guo Guangchang owns approximately 58% in the issued share capital of Fosun International Holdings Ltd.

4. The Core Trust Company Limited, being the RSU Trustee, directly holds the entire issued share capital of the RSU Nominee, Premier Selection Limited, which holds 42,161,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. The 42,161,541 underlying Shares in respect of the RSUs held by the RSU Nominee includes a total of 14,056,846 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, and (iii) the 2,811,769 RSUs granted to Mr. Mao Zhihai.
5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Zhou Quan and Mr. Ho Chi Sing; and (ii) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Ho Chi Sing.
6. On December 30, 2014, IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., pursuant to the stock borrowing agreement entered into on December 22, 2014, lent an aggregate of 11,095,000 Shares to the stabilising manager, Citigroup Global Markets Asia Limited, which were used to cover the over-allocations in the international offering of the Shares. On January 9, 2015, the stabilising manager returned all the borrowed Shares to the above respective funds. On the same date, the above funds disposal an aggregate of 10,375,000 Shares at the average price of HK\$9.80.
7. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..

GRANT OF RSUS

On January 21, 2015, the Company granted 2,275,000 RSUs to employees and directors 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 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.

SUBSCRIPTION OF SHARES IN SMI HOLDINGS GROUP LIMITED

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 (the “**Target**”), pursuant to which the Company has conditionally agreed to subscribe and the Target has conditionally agreed to issue 139,582,733 Target’s shares (the “**Subscription Shares**”) for the total consideration of US\$5,000,000 (equivalent to approximately HK\$38,804,000), equivalent to approximately HK\$0.278 per Subscription Share (together the “**Subscription**”).

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

On April 13, 2015, the Subscription had been completed and the Subscription Shares had been issued to the Company. As at the date of this report, 45,348,000 Target’s Shares have been sold by the Company in the open market, and the Company currently holds 94,234,733 Target’s Shares.

For details of the Subscription, please refer to the announcements of the Company dated March 12, 2015, March 26, 2015 and April 13, 2015.

EVENT AFTER THE REPORTING PERIOD

Cooperation with Strawbear Technology

On April 13, 2015, Linekong Entertainment and Strawbear Technology have agreed to establish a new company in Beijing, PRC. The New Company will be established to conduct research and development as well as to promote mobile game called *Wars of Shushan* (「蜀山戰紀」). The expected registered capital of the New Company will be RMB12,500,000, and will be contributed as to RMB10,000,000 by Linekong Entertainment and RMB2,500,000 by Strawbear Technology in cash. Linekong Entertainment and Strawbear Technology will own 80% and 20% equity interest in the New Company, respectively, upon its establishment. As at the date of this report, the New Company is in the process of establishment.

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

Resignation of Executive Director, Chief Financial Officer and Joint Company Secretary, and Change of Authorised Representative and Compliance Officer

Mr. Mao Zhihai, an executive Director, has resigned as an executive Director, the joint company secretary, the authorised representative, the compliance officer and the secretary to the Board with effect from 11 June 2015 (being the date of the forthcoming annual general meeting (“**AGM**”) of the Company).

Mr. Mao will not offer himself for re-election as an executive Director in the forthcoming AGM, while Mr. Mao will remain at the office of the chief financial officer of the Company until 24 July 2015 (or otherwise mutually agreed by the Company and Mr. Mao).

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 in place of Mr. Mao with effect from 11 June 2015.

Details of the resignation of Mr. Mao are set out in the announcement of the Company dated 24 April 2015.

Investment in Guizhou Zhiqu

On April 30, 2015, Linekong Entertainment has entered into an investment agreement (the “**Investment Agreement**”) with Guizhou Zhiqu, the existing shareholders of the Guizhou Zhiqu and the investors, pursuant to which Linekong Entertainment agreed to acquire 6% of the 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 Investment Agreement are set out in the announcement of the Company dated April 30, 2015.



Proposed Change of Company Name

On 11 May 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”, subject to approval of the shareholders of the Company at the AGM and the Registrar of Companies in the Cayman Islands (the “**Change of Company Name**”).

An additional resolution will be proposed for the shareholders of the Company to consider and, if thought fit, approve the proposed Change of Company Name. A supplemental circular, containing, among other things, information relating to the proposed Change of Company Name together with a supplemental notice of the AGM, will be despatched to the Shareholders as soon as practicable.

Details of the proposed change of Company name are set out in the announcement of the Company dated 11 May 2015.

INTERESTS IN COMPETING BUSINESS

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

Mr. Qian Zhonghua, a non-executive Director, is a managing director of Fosun Equity Investment Management Ltd. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 656)) and its subsidiaries (together the “**Fosun Group**”). Fosun Group is an investment group taking roots in China with a global foothold. It has established four business engines comprising insurance, industrial operations, investment and asset management. The Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including listed companies, Perfect World Co., Ltd. (NASDAQ: PWRD) and DeNA Co., Ltd. (a company listed on the Tokyo Stock Exchange, Stock Code: 2432), and in private mobile game companies including Joyme.com, Shanghai Muyou Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies.

In addition, Fosun Group does not hold any board seat in the two listed online and mobile game portfolio companies. On the other hand, Fosun Group has the right to nominate one of its representatives to act as a non-executive director in each of the private portfolio companies and the Fosun Group does not control any of the board of directors of the private portfolio companies.

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

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

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the three months ended March 31, 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the three months ended March 31, 2015, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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 three months ended March 31, 2015, except for the deviation of code provision A.2.1. of the Code.



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

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

Beijing, PRC, May 11, 2015

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

