

# LINEKONG

藍 港 互 動

Linekong Interactive Group Co., Ltd.

藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

## QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

### CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

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

## HIGHLIGHTS

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	<b>115,919</b>	176,261	<b>416,869</b>	539,079
Loss for the period attributable to owners of the Company	<b>(18,206)</b>	(117,462)	<b>(8,378)</b>	(196,341)
Adjusted (loss)/net profit (unaudited)	<b>(8,368)</b>	46,649	<b>43,337</b>	139,034

- Adjusted (loss)/net profit refers to the (loss)/profit which excludes share-based compensation and fair value loss of redeemable and convertible preferred shares. Such redeemable and convertible preferred shares were converted to ordinary shares on December 30, 2014 in accordance with the then applicable articles of association of the Company and were transferred to equity. This item is deemed as useful supplemental information as stated in the statement of comprehensive profit and loss, which reflects the profitability and operating performance of the Group for the financial period indicated.
- Revenue of the Group for the nine months ended September 30, 2015 amounted to approximately RMB416.9 million, representing a decrease of 22.7% as compared to approximately RMB539.1 million for the corresponding period in 2014. Revenue for the three months ended September 30, 2015 amounted to approximately RMB116.0 million, representing a decrease of 34.2% as compared to approximately RMB176.3 million for the three months ended September 30, 2014.
- The Group's loss attributable to owners of the Company for the nine months ended September 30, 2015 amounted to approximately RMB8.4 million, as compared to the Group's loss attributable to owners of the Company of approximately RMB196.3 million for the nine months ended September 30, 2014.
- The adjusted net profit for the nine months ended September 30, 2015 amounted to approximately RMB43.3 million, representing a decrease of approximately 68.8% compared to the adjusted net profit of approximately RMB139.0 million for the nine months ended September 30, 2014.
- The Directors do not recommend any payment of dividends for the nine months ended September 30, 2015.

### **THIRD QUARTERLY RESULTS (UNAUDITED)**

The board of Directors announces the unaudited consolidated quarterly results of the Group for the nine months ended September 30, 2015 together with the comparative figures for the corresponding period of 2014. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Directors with one of the independent non-executive Directors as the chairman of the audit committee.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2015	2014	2015	2014
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	3	115,919	176,261	416,869	539,079
Cost of revenue		(75,201)	(94,441)	(255,346)	(270,771)
<b>Gross profit</b>		<b>40,718</b>	<b>81,820</b>	<b>161,523</b>	<b>268,308</b>
Selling and marketing expenses		(16,978)	(14,664)	(134,081)	(65,647)
Administrative expenses		(19,945)	(39,401)	(57,044)	(87,510)
Research and development expenses		(30,517)	(32,991)	(85,285)	(80,164)
Other gains – net	6	8,940	1,074	98,578	2,288
<b>Operating (loss)/profit</b>		<b>(17,782)</b>	<b>(4,162)</b>	<b>(16,309)</b>	<b>37,275</b>
Finance income – net		4,233	441	6,197	1,825
Fair value loss of preferred shares	7	–	(113,289)	–	(230,106)
Share of loss of associates		(2,253)	–	(2,927)	–
<b>Loss before income tax</b>		<b>(15,802)</b>	<b>(117,010)</b>	<b>(13,039)</b>	<b>(191,006)</b>
Income tax (expense)/credit	8	(3,180)	(453)	3,883	(5,336)
<b>Loss for the period</b>		<b>(18,982)</b>	<b>(117,463)</b>	<b>(9,156)</b>	<b>(196,342)</b>
<b>Other comprehensive income/(loss)</b>					
Items that may be subsequently reclassified to profit or loss:					
– Change in value of available-for-sale financial assets, net of tax		639	–	639	–
– Share of other comprehensive income of investments accounted for using the equity method, net of tax		1,105	–	1,105	–
Items that will not be reclassified to profit or loss:					
– Currency translation differences		31,104	255	30,615	(6,626)
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>32,848</b>	<b>255</b>	<b>32,359</b>	<b>(6,626)</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>13,866</b>	<b>(117,208)</b>	<b>23,203</b>	<b>(202,968)</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) (CONTINUED)

	<i>Note</i>	Three months ended September 30,		Nine months ended September 30,	
		2015	2014	2015	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Loss attributable to:</b>					
Owners of the Company		(18,206)	(117,462)	(8,378)	(196,341)
Non-controlling interests		(776)	(1)	(778)	(1)
		<u>(18,982)</u>	<u>(117,463)</u>	<u>(9,156)</u>	<u>(196,342)</u>
<b>Loss for the period</b>		<u>(18,982)</u>	<u>(117,463)</u>	<u>(9,156)</u>	<u>(196,342)</u>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company		14,642	(117,207)	23,981	(202,967)
Non-controlling interests		(776)	(1)	(778)	(1)
		<u>13,866</u>	<u>(117,208)</u>	<u>23,203</u>	<u>(202,968)</u>
<b>Total comprehensive income/(loss) for the period</b>		<u>13,866</u>	<u>(117,208)</u>	<u>23,203</u>	<u>(202,968)</u>
<b>Loss per share (expressed in RMB per share)</b>					
– Basic	9(a)	<u>(0.05)</u>	<u>(1.17)</u>	<u>(0.02)</u>	<u>(4.33)</u>
– Diluted	9(b)	<u>(0.05)</u>	<u>(1.17)</u>	<u>(0.02)</u>	<u>(4.33)</u>
<b>Dividends</b>	10	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

		Attributable to owners of the Company							
(Unaudited)	Note	Share	Share	Shares		Accumulated		Non-	Total
		capital	premium	held for RSU	Reserves	losses	Total	controlling interests	equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 period		-	-	-	-	(8,378)	(8,378)	(778)	(9,156)
Other comprehensive income									
– Change in value of available-for-sale financial assets, net of tax		-	-	-	993	-	993	-	993
– Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	-	-	(354)	-	(354)	-	(354)
– Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	1,105	-	1,105	-	1,105
– Currency translation differences		-	-	-	30,615	-	30,615	-	30,615
Total comprehensive income/(loss) for the period		-	-	-	32,359	(8,378)	23,981	(778)	23,203
Total contributions by and distributions to owners of the Company recognised directly in equity									
Employee share option and RSU Scheme:									
– Value of employee services		-	-	-	52,493	-	52,493	-	52,493
– Vesting of shares		-	(3)	3	-	-	-	-	-
Buy-back of shares	4	-	(1,824)	-	-	-	(1,824)	-	(1,824)
Total contributions by and distributions to owners of the Company		-	(1,827)	3	52,493	-	50,669	-	50,669
Balance at September 30, 2015		59	1,725,001	(3)	291,034	(934,124)	1,081,967	(799)	1,081,168

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT) (CONTINUED)

(Unaudited)	Attributable to owners of the Company					Non-controlling interests	Total deficit
	Share capital	Shares held		Accumulated losses	Total		
		for RSU Scheme	Reserves				
	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 loss							
Loss for the period	–	–	–	(196,341)	(196,341)	(1)	(196,342)
Other comprehensive loss							
– Currency translation differences	–	–	(6,626)	–	(6,626)	–	(6,626)
Total comprehensive loss for the period	–	–	(6,626)	(196,341)	(202,967)	(1)	(202,968)
Total contributions by and distributions to owners 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	–	–	82,753	–	82,753	–	82,753
Total contributions by and distributions to owners of the Company	6	(6)	82,759	–	82,759	–	82,759
Balance at September 30, 2014	24	(6)	163,042	(964,568)	(801,508)	(21)	(801,529)

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 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 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 an 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 by the audit committee of the Company.

## 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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Development and operations of online games:				
– Sales of in-game virtual items	110,071	162,560	395,611	498,513
– License fee and technical support fee	5,848	13,701	21,258	40,566
	<u>115,919</u>	<u>176,261</u>	<u>416,869</u>	<u>539,079</u>

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 the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of in-game virtual items, license fee and technical support fee:				
– Mobile games	108,136	159,967	387,028	473,865
– Web-based games	2,244	5,836	10,119	25,560
– Client-based games	5,539	10,458	19,722	39,654
	<u>115,919</u>	<u>176,261</u>	<u>416,869</u>	<u>539,079</u>

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 the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014.

Almost all the Group's non-current assets were located in the PRC as at September 30, 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 overseas entities since April 2014. The revenue generated by the Group's overseas entities represents less than 10% of the total revenue of the Group for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015.

#### **4. Share capital and share premium**

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 301,000 shares on the open market for an aggregate consideration of HKD2,274,205 (equivalent to RMB1,824,000) through July to August, and the amount paid has been deducted from the shareholder's equity. These repurchased shares have been cancelled as of September 30, 2015.

## 5. Reserves

(Unaudited)	Capital reserve <i>RMB'000</i>	Currency translation differences <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Other Reserves <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Balance at July 1, 2015</b>	<u>(7,831)</u>	<u>26,014</u>	<u>9,557</u>	<u>219,825</u>	<u>6</u>	<u>247,571</u>
Change in value of available-for-sale financial assets, net of tax	-	-	-	-	993	993
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(354)	(354)
Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	-	1,105	1,105
Employee share option and RSU Scheme:						
– Value of employee services	-	-	-	10,615	-	10,615
Currency translation differences	<u>-</u>	<u>31,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,104</u>
<b>Balance at September 30, 2015</b>	<u><u>(7,831)</u></u>	<u><u>57,118</u></u>	<u><u>9,557</u></u>	<u><u>230,440</u></u>	<u><u>1,750</u></u>	<u><u>291,034</u></u>
<b>Balance at July 1, 2014</b>	<u>(7,831)</u>	<u>22,145</u>	<u>6,620</u>	<u>102,648</u>	<u>6</u>	<u>123,588</u>
RSU scheme:						
– Value of employee services	-	-	-	39,199	-	39,199
Currency translation differences	<u>-</u>	<u>255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>255</u>
<b>Balance at September 30, 2014</b>	<u><u>(7,831)</u></u>	<u><u>22,400</u></u>	<u><u>6,620</u></u>	<u><u>141,847</u></u>	<u><u>6</u></u>	<u><u>163,042</u></u>

(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
<b>Balance at January 1, 2015</b>	<u>(7,831)</u>	<u>26,503</u>	<u>9,557</u>	<u>177,947</u>	<u>6</u>	<u>206,182</u>
Change in value of available-for-sale financial assets, net of tax	–	–	–	–	993	993
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	–	–	–	–	(354)	(354)
Share of other comprehensive income of investments accounted for using the equity method, net of tax	–	–	–	–	1,105	1,105
Employee share option and RSU Scheme:						
– Value of employee services	–	–	–	52,493	–	52,493
Currency translation differences	<u>–</u>	<u>30,615</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>30,615</u>
<b>Balance at September 30, 2015</b>	<u><u>(7,831)</u></u>	<u><u>57,118</u></u>	<u><u>9,557</u></u>	<u><u>230,440</u></u>	<u><u>1,750</u></u>	<u><u>291,034</u></u>
<b>Balance at January 1, 2014</b>	<u>(7,831)</u>	<u>29,026</u>	<u>6,620</u>	<u>59,094</u>	<u>–</u>	<u>86,909</u>
RSU scheme:						
– Value of employee services	–	–	–	82,753	–	82,753
Deemed contribution from shareholders for the shares issued for RSU Scheme	–	–	–	–	6	6
Currency translation differences	<u>–</u>	<u>(6,626)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(6,626)</u>
<b>Balance at September 30, 2014</b>	<u><u>(7,831)</u></u>	<u><u>22,400</u></u>	<u><u>6,620</u></u>	<u><u>141,847</u></u>	<u><u>6</u></u>	<u><u>163,042</u></u>

## 6. Other gains – net

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Government subsidies	21	134	6,081	403
Gain arising from disposal of subsidiaries	–	–	–	6
Foreign exchange gains/(losses), net	(410)	(204)	554	604
Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	(3,763)	–	61,045	–
Gain on disposal of available-for- sale financial assets	404	–	404	–
Realised fair value gains on derivatives ( <i>Note (a)</i> )	–	–	14,540	–
Return on short-term investments	–	–	821	–
Dilution gains arising from deemed disposal of investments ( <i>Note (b)</i> )	12,725	–	12,725	–
Others	(37)	1,144	2,408	1,275
	<u>8,940</u>	<u>1,074</u>	<u>98,578</u>	<u>2,288</u>

### Notes:

- (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, equivalent to approximately HKD0.278 per share, representing 1.35% of SMI’s issued shares as enlarged by the issue and allotment of the subscribed shares. The subscription agreement is therefore accounted for as a forward contract which has been 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 subscription agreement and the date of the issuance of the subscribed shares was charged to profit or loss. On April 13, 2015, the subscribed 139,582,733 shares of SMI were issued by SMI to the Company.
- (b) In August 2015, Fuze Entertainment Co., Ltd. (“**Fuze**”) issued series B preferred shares to several investors with a consideration 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 recognised for the nine months ended September 30, 2015. The dilution gain represents the difference between the attributable carrying value of the 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.

## 7. Fair value loss of preferred shares

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Fair value loss of Preferred Shares				
(Note (a))	<u>-</u>	<u>113,289</u>	<u>-</u>	<u>230,106</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.

## 8. Income tax expense/(credit)

The income tax expense/(credit) of the Group for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 are analysed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax	322	329	2,626	3,877
Deferred income tax	<u>2,858</u>	<u>124</u>	<u>(6,509)</u>	<u>1,459</u>
Income tax expense/(credit)	<u>3,180</u>	<u>453</u>	<u>(3,883)</u>	<u>5,336</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 the 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 three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 on their 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 the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Linekong Entertainment	25%	50% reduction	25%	50% reduction
Shouyoutong	50% reduction	50% reduction	50% reduction	50% reduction
Tianjin 8864	50% reduction	EIT exemption	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 September 30, 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 September 30, 2015 and December 31, 2014, the entities located in the PRC did not have available undistributed profit to be remitted to the Company.

**9. Loss per share**

For the purpose of computing basic and diluted loss per share, the number of ordinary shares outstanding during the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 have been adjusted retroactively in the computation of both basic and diluted loss 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 September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (RMB'000)	(18,206)	(117,462)	(8,378)	(196,341)
Weighted average number of ordinary shares in issue (thousand shares)	343,981	100,444	340,203	45,374
Basic loss per share (expressed in RMB per share)	<u>(0.05)</u>	<u>(1.17)</u>	<u>(0.02)</u>	<u>(4.33)</u>

**(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 three months ended September 30, 2015 and the nine months ended September 30, 2015, the Company had two categories of potential ordinary shares, RSUs and share options granted to employee. For the three months ended September 30, 2014 and the nine months ended September 30, 2014, the Company had two categories of potential ordinary shares, the Preferred Shares and RSUs. RSUs that were issuable contingently upon the occurrence of the listing were not considered as dilutive potential ordinary shares. As the Group incurred loss for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 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 loss per share for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 is the same as basic loss per share of the period.

## **10. Dividends**

No dividends have been paid or declared by the Company during the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014.

## **11. Events after the balance sheet date**

- (a) On October 9, 2015, the Group offered to grant a total of 6,010,000 share options to certain employees of the Group to subscribe for a total of 6,010,000 ordinary shares with an exercise price of HKD7.18 under the pre-IPO share option scheme adopted by the Company on November 20, 2014. The Group granted 20,000 RSUs to one employee at the same date.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospect

#### *Review*

We have been a leading mobile game developer and publisher in China and we were listed on GEM of the Hong Kong Stock Exchange on December 30, 2014. As of September 30, 2015, we have commercialized 19 games in total, including 11 self-developed games and 8 licensed games. Among the 6 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 18 to 30 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 coverage 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.

***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), a massive 3D role-playing and turn-based card game, was successfully commercialized on March 18, 2015. 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 intellectual proprieties (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 commenced the open beta testing for ***The Legend of Zhen Huan*** (甄嬛傳) on September 16, 2015, and launched the online game on all platforms on October 10, 2015. ***The Legend of Zhen Huan*** (甄嬛傳) is a 3D-MMO card game for mobiles based on the novel of the same title with the same voiceover as the original TV serial which vividly presents the turns and twists in Zhen Huan’s journey of fierce vying to rise through the imperial hierarchy. The mobile game ranked the 1<sup>st</sup> place in the top paid apps for iOS devices within 24 hours upon its official commercialization and 20<sup>th</sup> place in the most popular apps for iOS devices within one week.

For the nine months ended September 30, 2015, the Group has continued to put effort on research and development of new exquisite mobile games as well as to publish high-quality licensed games from third-party game developers, resulting in the expansion of our player base and leading to diversification of our revenue sources. Furthermore, the Group focused on elaborating, the “pan-entertaining” and internationalization for the development of the Group.

In 2015, the trend of “Pan-Entertainment” has become more evident and the Company will gradually instill entertainment contents. For the nine months ended September 30, 2015, the Group has invested RMB23 million in Beijing Chunqiu Yongle Culture and Communication Co., Ltd. (“**Yongle**”) and US\$5 million to SMI Holdings Group Limited (“**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 and Beijing Strawbear Technology Co., Ltd. (“**Strawbear Technology**”), a company controlled by Mr. Wu Qilong, a famous artist, established Beijing Feng & Long Culture Limited. Both parties will develop and promote the mobile game adapted from *The Wars of Shushan* (蜀山戰紀), a TV drama series produced by a film company under Mr. Wu.

For the nine months ended September 30, 2015, the Group completed the investment of over RMB7.62 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. On June 25, 2015, *Sword of Heroes* (英雄之劍), an existing mobile game of the Group, was successfully transformed to console version and officially launched on four major gaming platforms, namely Letv (樂視), Xiaomi (小米), Alibaba (阿里) and eGame platform of China Telecom (電信愛遊戲). Through this move, the Group has become one of the first mainstream gaming developers in China launching console games, and formally establishing a foothold in the console gaming market.

In order to coordinate with the market internationalization development strategy, for the nine months ended September 30, 2015, the Group successfully published the *Blade of God* (神之刃) and *Sword of Heroes* (英雄之劍) in South Korea and also established a subsidiary in San Francisco, the US, and formed a US local research & development (“**R&D**”) and publishing team to collaborate with the team in China for further expansion of the R&D and publishing international products of the Group in the US and worldwide. Such moves were 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 represented the direction of our diversified products which maximizes our agility and sharpens our tactile towards product categories to manage risks in the market elaboration.

Meanwhile, the Group completed the Series A financing of US\$17 million in Fuze Entertainment Co., Ltd. (“**Fuze**”) and held 37.78% of its equity interest. The Group has also granted unsecured loans with an aggregate amount of US\$9 million by tranches. On September 2, 2015, the Group entered into the Series B+ Framework Agreement with Fuze to acquire series B+ preferred shares of US\$9.25 million in aggregate. As of the date of this announcement, the purchase of Series B+ preferred shares by the Group was yet to be completed. 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 and Internet services through collaborating with well-known game products both domestic and international and integrating a gaming operating model tailored to the Chinese market based on console gaming platforms.

For the nine months ended September 30, 2015, the Group completed an investment in MicroFunPlus Co., Ltd. (北京檸檬微趣科技有限公司) (“**MicroFunPlus**”), a developer focusing on exquisite casual mobile games and also the developer of *Jelly Blast* (糖果萌萌消). *Jelly Blast* (糖果萌萌消) is a casual puzzle game. As of 30 September, 2015, the game achieved a daily active user (“**DAU**”) of 4 million users and has been ranking top 50 on the Grand List of iOS Free Games for 8 consecutive weeks. 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.

### ***Prospect***

The market switched the focus from “channel-oriented” in the past to “product-oriented” nowadays, leading the Group to continue to expertise in the R&D of exquisite games for its products. 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. The Group has strengthened the capability of collaboration and management of the R&D department through the optimization of restructuring of the department. 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 standard 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. In addition to *Legend of Zhen Huan* (甄嬛傳) that has been put into online operation, the Group will also plan to launch popular IP supported games, in particular, *The Wars of Shushan* (蜀山戰紀), *The Legend of MiYue* (羋月傳) and *B.E.E.* (雛蜂) consecutively.

***The Legend of MiYue*** (羋月傳), a MMORPG mobile game based on the very popular TV serial of the same name, reproduces the exquisite images of the TV serial in a perfect way utilizing the top-level 3D technology. In the game, players will have an emotional bond with Miyue in the Warring States Period and dominate the seven states together with Miyue; with same clothes in the TV serial, “On Jade Gril” by Zhang Yi (張儀“玉女論”), Breaking the Jade of the He Family in a Skillful Way (羋月巧開和氏璧), War of the Yiqu King (義渠王戰), Smart Fight Against Sifang Hall (智鬥四方館) and other gameplays unfold a majestic and powerful picture scroll of the Warring States Period for players. ***The Wars of Shushan*** (蜀山戰紀), a MMORPG mobile game based on the TV serial of the same name, presents the love and chivalrous stories in the Chinese traditional mythical realm featured by Cultivating Immortality by Experiencing Inexorable Dooms (修仙渡劫), Flying on Sword (禦劍飛行), Fight with Magic Weapons (法寶鬥法) and Good Versus Evil (正邪對抗). Instantaneous fights, user-friendly operation, cool effects and AOE killing will allow players to have an experience of exposure to the mythical realm. It is noteworthy that another high quality 3D MMORPG work *B.E.E* (雛蜂) adapted from the famous comics of the same title is round the corner and currently under development by the research and development team of Excalibur of Linekong.

In addition, the Group will further publish innovative games to target the opportunities of high average revenue per paying user (“ARPPU”) products such as the ball-bouncing mobile game ***Warrior Crash*** (亂彈三國志) themed by the background of the Three Kingdoms of ancient China with Japanese cartoon style, series products of ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), ***Rushing Nezha*** (哪吒快跑) themed by parkour, ***Fight the Landlord with Zhen Huan*** (甄嬛鬥地主), ancillary game of ***The Legend of Zhen Huan*** (甄嬛傳). Such full-covered game types will become another highlight of “pan-entertainment” business of the Group.

Looking forward, the Company will further exploit the value of existing high-quality IPs by creating series of high quality products with diversified type and element for each IP. We aim to achieve multiple utilization and value superposition of IPs through maximization of movie-game interaction, comic-game interaction. Besides, the Company will optimize the categories of game products and expand player base to promote the brand of the Company. In the future, we intend to consecutively launch series products as well as auxiliary products for ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), ***The Legend of Zhen Huan*** (甄嬛傳), ***The Legend of MiYue*** (羋月傳) and ***The Wars of Shushan*** (蜀山戰紀), etc.

In the fourth quarter of 2015, the Group will cooperate with various entertainment resources in succession. Following the establishment of the joint venture with Strawbear Technology, 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 IP to develop games that the Group has expertise in.



As an important initiative of its platform-based strategy, the Group made an investment in Fuze, a game hardware developer, which subsidiary, Shenzhen Fuze Technology Co., Ltd. (hereinafter “**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 world’s excellent TV games 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.

Meanwhile, the Group will deeply promote the internationalization process and develop exquisite games with international standard by leveraging domestically self-developed mature-staged 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 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 four products in the pipeline this year, which include *Monster Strike*, a Western-style shooting and hitting mobile game, a dress-changing social game targeting fashionable female and *Raids of Glory*, an RTS instant strategy game developed by Nitro Games, a company in Finland. Meanwhile, our US subsidiary will negotiate with several enterprises of internationally-renowned IPs. 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 Korean subsidiary will also publish various games next year, which include, among others, *Warrior Crash* (亂彈三國志), *The Wars of Shushan* (蜀山戰紀) and *Thunder Armada* (雷霆艦隊).

The establishment of Linekong Media (藍港影業) by the Group has entered the final stage, and LineKong Media 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 film and game, and gradually accomplish business infiltration into pan-entertainment by thorough cooperation with the entertainment industry. Looking forward, Linekong’s gaming business will synergise with Linekong Media to become a pan-entertainment company with films and games as its focus.

The DNA of the Group remains to be R&D which is our core competitiveness. We have elaborating, “pan-entertaining” and internationalization as our overall strategy. In addition, the Group is in the process of establishing a fund company. Proactive efforts have been devoted to making strategic investments that are related to, derived from and influential in the future businesses of Linekong. The fund company may offer opportunities of re-financing to the Group as well. All of these will promote long-term sustainable development of the Group.

### ***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 develop during the third 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 83.6% to 89.3% to the revenue generated from the sales of in-game virtual items compared with the third quarter of 2014. We saw decrease in the percentage to revenue generated from the sales of in-game virtual items with respect to revenue through third party payment vendors and prepayment cards, accounting for approximately 9.4% and 1.3% of revenue generated from sales in-game virtual items compared with that of approximately 14.3% and 2.1% respectively in the third quarter of 2014, which was in line with the change in payment preference of game players.

### ***International markets***

We have generally granted licenses of 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 at September 30, 2015, our games have been published in 48 countries and regions outside mainland China in aggregate. The Group also set up subsidiaries in Hong Kong, Korea and the US, and has started publishing the Korean version of ***Sword of Heaven*** (蒼穹之劍), ***Sword of Heroes*** (英雄之劍) and ***Blade of God*** (神之刃) in Korea. For the nine months ended September 30, 2015, our revenue generated from oversea markets represented approximately 9.8% of our total revenue. For the nine months ended September 30, 2014, our revenue generated from overseas markets represented approximately 9.2% of our total revenue.

### ***Our players***

The total registered players of our games increased from approximately 166.1 million as at September 30, 2014 to over 196.8 million as at September 30, 2015. As of September 30, 2015, the monthly average user (MAU) reached 3,606,000 users and the daily average users (DAU) reached 657,000 users with average revenue per paying users (ARPPU) of RMB189.5.



## FINANCIAL REVIEW

### Revenue

Revenue of the Group decreased by approximately 22.7% from approximately RMB539.1 million for the nine months ended September 30, 2014 to approximately RMB416.9 million for the nine months ended September 30, 2015. The decrease in revenue was mainly 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 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.

### Revenue categorized by game forms and sources

The following table sets out the breakdown of revenue categorized by game forms and sources for three months ended September 30, 2014 and 2015 and nine months ended September 30, 2014 and 2015, respectively:

	For the three months ended September 30,				For the nine months ended September 30,			
	2015		2014		2015		2014	
	<i>approximate</i>		<i>approximate</i>		<i>approximate</i>		<i>approximate</i>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Mobile games	108,136	93.3	159,967	90.8	387,028	92.8	473,865	87.9
Web-based games	2,244	1.9	5,836	3.3	10,119	2.4	25,560	4.7
Client-based games	5,539	4.8	10,458	5.9	19,722	4.8	39,654	7.4
<b>Total</b>	<b>115,919</b>	<b>100</b>	<b>176,261</b>	<b>100</b>	<b>416,869</b>	<b>100</b>	<b>539,079</b>	<b>100</b>

	For the three months ended September 30,				For the nine months ended September 30,			
	2015		2014		2015		2014	
	<i>approximate</i>		<i>approximate</i>		<i>approximate</i>		<i>approximate</i>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Self-developed games	48,752	42.1	89,200	50.6	175,576	42.1	352,317	65.4
Licensed games	67,167	57.9	87,061	49.4	241,293	57.9	186,762	34.6
<b>Total</b>	<b>115,919</b>	<b>100</b>	<b>176,261</b>	<b>100</b>	<b>416,869</b>	<b>100</b>	<b>539,079</b>	<b>100</b>

## ***Cost***

The Group's cost for the nine months ended September 30, 2015 was approximately RMB255.3 million, representing a decrease of approximately 5.7% from approximately RMB270.8 million as compared to the corresponding period in 2014. After adjustment, the Group's cost for the nine months ended September 30, 2015, excluding share-based compensation expenses of approximately RMB4.5 million, was approximately RMB250.8 million, representing a decrease of approximately 5.7% from approximately RMB266.1 million (after adjustment) as compared to the corresponding period in 2014. The decrease in cost of the Group as compared to the corresponding period of last year was mainly due to the impact of overall sales drop, resulting in the corresponding decrease in commission paid to the third-party distributors, while the tax of principal business decreased correspondingly.

## ***Gross profit and gross profit margin***

The Group's gross profit for the nine months ended September 30, 2015 was approximately RMB161.6 million, representing a decrease of approximately 39.8% compared to approximately RMB268.3 million for the nine months ended September 30, 2014. The Group's gross profit, excluding share-based compensation expenses, for the nine months ended September 30, 2015 was approximately RMB166.1 million, representing a decrease of approximately 39.2% compared to approximately RMB273.0 million for the nine months ended September 30, 2014. The decrease in the Group's gross profit was primarily due to the decrease in the overall gross profit as a result of the increase in the proportion of revenue generated from licensed games comparing to our total revenue.

The Group's gross profit margin for the nine months ended September 30, 2015 was approximately 38.8%, representing a decrease of approximately 11.0 percentage points compared to approximately 49.8% for the nine months ended September 30, 2014. The Group's gross profit margin, excluding share-based compensation expenses, for the nine months ended September 30, 2015 was approximately 39.8%, representing a decrease of approximately 10.8 percentage points compared to approximately 50.6% for the nine months ended September 30, 2014. The decrease in the Group's gross profit margin was primarily due to the decrease in the overall gross profit as a result of the increase in the proportion of revenue generated from licensed games in our total revenue.

### ***Selling and marketing expenses***

The Group's selling and marketing expenses for the nine months ended September 30, 2015 were approximately RMB134.1 million, representing an increase of approximately 104.4% from approximately RMB65.6 million for the nine months ended September 30, 2014. The Group's selling and marketing expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2015 were approximately RMB130.3 million, representing an increase of approximately 111.5% from approximately RMB61.6 million for the nine months ended September 30, 2014. The increase in the Group's selling and marketing expenses for the period was primarily due to the significant increase in pre-launch advertisement and marketing expenses in ***One Hundred Thousand Bad Jokes*** (十萬個冷笑話), a licensed game which was launched on March 18, 2015.

### ***Administrative expenses***

The Group's administrative expenses for the nine months ended September 30, 2015 were approximately RMB57.0 million, representing a decrease of approximately 34.9% from approximately RMB87.5 million for the nine months ended September 30, 2014. The Group's administrative expenses, excluding share-based compensation expenses and listing-related expenses, for the nine months ended September 30, 2015 were approximately RMB35.7 million, representing an increase of approximately 52.6% from approximately RMB23.4 million for the nine months ended September 30, 2014. The increase in the Group's administrative expenses for the period was primarily due to the significant increase in number of administration staff and remuneration, as well as the increase in professional fees including compliance fees after the listing.

### ***Research and development expenses***

The Group's research and development expenses for the nine months ended September 30, 2015 were approximately RMB85.3 million, representing an increase of approximately 6.4% from approximately RMB80.2 million for the nine months ended September 30, 2014. The Group's research and development expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2015 were approximately RMB62.4 million, representing an increase of approximately 30.5% from RMB47.8 million for the nine months ended September 30, 2014. The increase in the Group's research and development expenses for the period was primarily due to the significant increase in number of research and development staff and remuneration arising from improvement in overall research and development capability following the Group's strategic decision during the period.

### ***Other gains – net***

The Group's other income gains for the nine months ended September 30, 2015 was approximately RMB98.6 million, representing a significant increase compared to approximately RMB2.3 million for the corresponding period in 2014. The increase in the Group's other income gains for the period was primarily due to realised and unrealised gains for the period arising from gains on fair value of shares of SMI and equity interest of Yongle invested by the Group, 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 region.

### ***Finance income – net***

The increase during the period was mainly due to the appreciation of US dollars and HK dollars against Renminbi. Our financing income increased from approximately RMB1.8 million for the nine months ended September 30, 2014 to approximately RMB6.2 million for the nine months ended September 30, 2015. No interest was capitalized for the nine months ended September 30, 2015 (2014: Nil).

### ***Fair value loss of the preferred shares***

Fair value loss of the preferred shares decreased sharply to approximately RMB0 for the nine months ended September 30, 2015 from approximately RMB230.1 million for the nine months ended September 30, 2014. The decrease was mainly due to the automatic conversion of all Preferred Shares of the Group into ordinary Shares upon listing on December 30, 2014 and the related expenses for fair value loss was no longer incurred. 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 nine months ended September 30, 2015 was approximately RMB2.9 million, which was due to a loss incurred by the investee, Fuze, in its product research and development stage.

### ***Income tax (credit)/expenses***

The Group's income tax credit for the nine months ended September 30, 2015 was approximately RMB3.9 million, representing a decrease of approximately 173.6% from an income tax expenses of approximately RMB5.3 million for the nine months ended September 30, 2014. The rise of an income tax credit was primarily due to the increase in deferred tax assets recognised by certain of the Group's subsidiaries for tax losses carried forward from previous years.

### ***Loss for the period***

As a result of the foregoing, the loss attributable to owners of the Company was approximately RMB8.4 million for the nine months ended September 30, 2015, as compared to a loss attributable to owners of the Company of approximately RMB196.3 million for the nine months ended September 30, 2014, representing a decrease of approximately 95.7%.

To supplement our consolidated financial statements which are presented in accordance with International Financial Reporting Standards, we also use adjusted 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 profit for the period 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 Group's adjusted net profit for the nine months ended September 30, 2015 was approximately RMB43.3 million, representing a decrease of approximately 68.8% from the adjusted net profit of approximately RMB139.0 million for the nine months ended September 30, 2014. The decrease in our adjusted net 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 net loss for the period in this quarterly announcement 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 listing-related expenses, share-based compensation expenses and fair value gain 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 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 announcement may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

### **LIQUIDITY AND FINANCIAL RESOURCES**

During the nine months ended September 30, 2015, we financed our operations primarily through cash generated from past 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 nine months ended September 30, 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 at September 30, 2015, we had cash and cash equivalents of approximately RMB697.2 million (December 31, 2014: approximately RMB1,086.5 million), which primarily consisted of cash at bank and other financial institutions and cash in hand and which were mainly denominated in Renminbi (as to approximately 6.6%), Hong Kong dollars (as to approximately 83.1%), U.S. dollars (as to approximately 10.1%) and other currencies (as to approximately 0.2%).

Net proceeds from our listing, after deducting the underwriting commission and other estimated expenses in connection with the listing, which the Company received amounted to approximately HK\$686.2 million. As at the date of this quarterly announcement, the net proceeds from our listing generally had not yet been utilized and all of the net proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group. In the fourth quarter of 2015, we will start utilizing 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 nine months ended September 30, 2015, our total capital expenditure amounted to approximately RMB29.5 million (nine months ended September 30, 2014: approximately RMB27.0 million), including the purchase of furniture and office equipment of approximately RMB2.5 million (nine months ended September 30, 2014: approximately RMB2.4 million), server and other equipment of approximately RMB1.0 million (nine months ended September 30, 2014: approximately RMB1.5 million), motor vehicles of approximately RMB0.7 million (nine months ended September 30, 2014: approximately RMB2.4 million), leasehold improvements of approximately RMB3.5 million (nine months ended September 30, 2014: RMB1.4 million), trademarks and licenses approximately RMB21.4 million (nine months ended September 30, 2014: approximately RMB18.6 million) and computer software of approximately RMB0.4 million (nine months ended September 30, 2014: approximately RMB0.6 million). We funded our capital expenditure by using our cash flow generated from our operations.



## **CAPITAL STRUCTURE**

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

## **BORROWING AND GEARING RATIO**

As of September 30, 2015, we did not have any short-term or long-term bank borrowings.

As at September 30, 2015, the gearing ratio of the Group, calculated as total liabilities, excluding the Preferred Shares, divided by total assets, was approximately 17.3% (December 31, 2014: approximately 20.1%).

### **Charge on group assets**

As at September 30, 2015, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (September 30, 2014: Nil).

## **INFORMATION ON EMPLOYEES AND REMUNERATION POLICY**

As at September 30, 2015, the Group had 698 employees (March 31, 2014: 490), mainly worked and are located in the PRC.

The total remuneration of the employees of the Group was approximately RMB141.7 million for the nine months ended September 30, 2015 (2014 corresponding period: approximately RMB150.6 million).

The Group 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 Group has adopted a share option scheme as incentive to the Directors and eligible persons, details of which are set out in the paragraph headed “Share Option Scheme” of the quarterly announcement.

In addition, the Group has adopted a restricted unit share scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentive 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 nine months ended September 30, 2015 were approximately RMB52.5 million, representing a decrease of approximately 36.6% from approximately RMB82.8 million for corresponding period in 2014. The decrease was primarily due to vesting of part of 31,371,494 restricted share units (the “**RSUs**”) granted by the Group until March 21, 2014 has been settled. There was a significant decrease in share-based compensation for the nine months ended September 30, 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 organizes 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 nine months ended September 30, 2015.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of September 30, 2015, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which have been 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 are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

### (i) Long positions in shares and underlying shares

Name of Director/ chief executive	Capacity/ Nature of Interest	Number of relevant shares	Approximate percentage of shareholding <sup>(Note 5)</sup>
Mr. Wang Feng <sup>(Note 1)</sup>	Interest of controlled corporation Beneficial owner	66,576,160 9,246,308	20.52%
Ms. Liao Mingxiang <sup>(Note 2)</sup>	Interest of controlled corporation Beneficial owner	12,168,720 2,903,269	4.08%
Mr. Qian Zhonghua	Beneficial owner	5,000	0.001%
Mr. Mei Song <sup>(Note 3)</sup>	Interest of controlled corporation Beneficial owner	4,217,154 9,000	1.14%
Mr. Zhao Jun <sup>(Note 4)</sup>	Interest of controlled corporation Beneficial owner	2,811,769 20,000	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 813,000 shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme of the Company entitling him to receive 8,433,308 shares, and as of September 30, 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 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 holds 91,500 shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 shares, and as of September 30, 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 September 30, 2015, approximately 65.01% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (4) Mr. Zhao Jun holds 20,000 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 September 30, 2015, approximately 65.01% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (5) As of September 30, 2015, the Company issued 369,537,464 shares.

Save as disclosed above, on September 30, 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 positions in the shares in other members of the Group

So far as the Directors are aware, on September 30, 2015, the following Directors (excluding us) 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 other member of the Group:

Name of subsidiary	Name of shareholder	Registered capital	Approximate percentage of shareholding
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 executive of the Company, on September 30, 2015, the following persons (other than Directors or chief executive 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 positions in the shares

Name of shareholder	Nature of interest	Number of shares or securities held	Approximate percentage of interest in our Company <sup>(Note 8)</sup>
Wangfeng Management Limited <sup>(Note 1)</sup>	Beneficial owner	66,576,160	18.02%
Zhu Li <sup>(Note 2)</sup>	Interest of spouse	75,822,468	20.52%
China Momentum Fund, L.P.	Interest of controlled corporation	52,318,760	14.16%
Fosun China Momentum Fund GP, Ltd.	Interest of controlled corporation	52,318,760	14.16%
Fosun Financial Holdings Limited	Interest of controlled corporation	52,318,760	14.16%
Fosun Holdings Limited	Interest of controlled corporation	52,318,760	14.16%
Fosun International Holdings Limited	Interest of controlled corporation	52,318,760	14.16%
Fosun International Limited	Interest of controlled corporation	52,318,760	14.16%
Fosun Momentum Holdings Limited	Interest of controlled corporation	52,318,760	14.16%
Guo Guangchang	Interest of controlled corporation	52,318,760	14.16%

Name of shareholder	Nature of interest	Number of shares or securities held	Approximate percentage of interest in our Company <sup>(Note 8)</sup>
Starwish Global Limited <sup>(Note 3)</sup>	Beneficial owner	52,318,760	14.16%
The Core Trust Company Limited <sup>(Note 4)</sup>	Trustee of a trust	41,897,541	11.34%
Premier Selection Limited <sup>(Note 4)</sup>	Nominee for another person	41,897,541	11.34%
Ho Chi Sing	Interest of controlled corporation	29,922,996	8.10%
IDG-Accel China Growth Fund Associates, L.P. <sup>(Note 5, 6)</sup>	Interest of controlled corporation	27,774,323	7.52%
IDG-Accel China Growth Fund GP Associates Ltd. <sup>(Note 5, 6)</sup>	Interest of controlled corporation	27,774,323	7.52%
IDG-Accel China Growth Fund L.P. <sup>(Note 5, 6)</sup>	Beneficial owner	23,061,443	6.24%
Zhou Quan	Interest of controlled corporation	27,774,323	7.52%
Fubon Financial Holding Co., Ltd.	Interest of controlled corporation	23,739,000	6.42%
Fubon Life Insurance Co., Ltd.	Beneficial owner	23,739,000	6.42%

*Notes:*

1. Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited.
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 September 30, 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, directly holds the 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 September 30, 2015, 264,000 relevant shares have been sold to the RSUs participants and the RSU Nominee currently holds 41,897,541 shares, 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 4,217,154 RSUs 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. 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 7,766,440 shares to the stabilising manager, Citigroup Global Markets Asia Limited, which were used to cover the over-allocation in the international offering of the shares of the Company. On January 9, 2015, the stabilizing manager returned all the borrowed shares to the above respective funds. On the same date, the above funds disposal an aggregate of 7,262,444 shares at the average price of HK\$9.80.
7. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
8. As of September 30, 2015, the Company issued 369,537,464 shares.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on November 20, 2014 (the “**Share Option Scheme**”). 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. 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. Key terms of the Share Option Scheme are summarized in Appendix IV “Share Option Scheme” of the prospectus of the Company dated December 9, 2014.

On September 30, 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	As at January 1, 2015	Granted in the period	As at September 30, 2015
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	8.10	8.028	–	1,849,192 (Note 3)	1,849,192

### Notes:

- (1) The vesting period of the share option is starting from the date of acceptance of grantee to the commencement of the exercise period.
- (2) For the nine months ended September 30, 2015, no share options were exercised, cancelled and lapsed.

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

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
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.

(4) Please refer to the announcement of the Company dated August 12, 2015 for details.

### **Grant of RSUs**

On January 21, 2015, the Company has granted 2,275,000 RSUs to the employees and Directors of the Group in accordance with the RSU Scheme, among whom, each of Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Mei Song and Mr. Zhao Jun (All are executive Directors) were granted 1,000 RSUs. The underlying shares involved by the grant of RSUs will be settled by existing shares held by the trustee of the RSU Scheme. Please refer to the announcement of the Company dated January 21, 2015 for details.



## EVENTS DURING THE THIRD QUARTER OF 2015 AND SUBSEQUENT EVENTS

### 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 the SMI has conditionally agreed to issue 139,582,733 SMI shares (the “**Subscription Shares**”) at 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 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 HK\$109,194,825 (the “**Disposals**”). The Company holds 25,342,733 SMI shares, representing approximately 0.20% of the issued share capital of SMI at then time.

The Company recognised an unaudited gain from the Disposals in the amount of approximately HK\$77,436,105, which is calculated on the basis of (i) total purchase cost of US\$4,092,196 (equivalent to approximately HK\$31,758,720) for 114,240,000 SMI shares of approximately HK\$0.278 per SMI share, and (ii) the aggregated consideration of the Disposals amounted to HK\$109,194,825. The amount of the actual gain or loss from the Disposals is subject to audit.

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

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

### Investments 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 US\$5,000,000 (approximately HK\$39,000,000) 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 (the “**Series A Preferred Shares**”) in Fuze at the aggregate consideration of US\$17,000,000 (being approximately US\$0.275 per each Series A Preferred Share, and in aggregate, equivalent to approximately HK\$132,600,000), which is payable by (i) approximately US\$5,078,333 (equivalent to approximately HK\$39,610,997) resulting from the cancellation of indebtedness owed by Fuze to the Company under the Convertible Promissory Notes and (ii) the cash payment of approximately US\$11,921,667 (equivalent to approximately HK\$92,989,000). In addition, the Company entered into a series B+ preferred share purchase framework agreement with Fuze on September 2, 2015 and entered into series B+ preferred share purchase formal agreement with Fuze on September 23, 2015, pursuant to which the Company agreed to purchase 25,227,273 series B+ preferred shares (the “**Series B+ Preferred Shares**”) in Fuze at the aggregate consideration of US\$9,250,000 (being approximately US\$0.3667 per each Series B+ Preferred Share). As of the date of this announcement, the purchase of series B+ preferred shares by the Company has not been completed. The Company has engaged an independent financial adviser for the purchase of Series B+ Preferred Shares. Upon completion of the purchase of Series B+ Preferred Shares, the Company will hold 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 (after trading hours), a loan agreement was also entered into between the Company as the lender, and Fuze as the borrower. The Company granted an unsecured loan in the amount of US\$9,000,000 (or its equivalent in other currencies) to the Borrower for a period of 12 months from the date of advance of the loan amount. 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<sup>(Note 1)</sup> and the acceleration of repayment <sup>(Note 2)</sup>. As agreed between the Company and Fuze, the loan comprises US\$4,500,000 and a sum of RMB equivalent to US\$4,500,000.

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

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 and October 16, 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.

### **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 and June 25, 2015 and July 30, 2015 and the supplemental circular of the Company dated May 20, 2015.

### **Investment in Beijing Tianqu**

On July 1, 2015, Linekong Entertainment entered into a share purchase agreement to acquire 5% of the equity interests at then time 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% equity interests of the Hehe Fund at then time.

### **Investment in Coyote**

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

### **Investment in MicroFunPlus**

On August 19, 2015, the Company entered into a share purchase agreement with MicroFunPlus to acquire 2.5% of the equity interests in MicroFunPlus at then time 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 4 million users and ranking among the top 50 on iOS free game list for eight consecutive weeks as of September 30, 2015.

### **Investment in Guizhou Zhiqu**

On September 10, 2015, Linekong Entertainment entered into an investment agreement (the “**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 2% of the shareholding of Guizhou Zhiqu at then time at the consideration of RMB1,904,762. 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.

## Share Options Granted

Pursuant to the Share Option Scheme, on October 9, 2015, share options were granted by the Company and details 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	As at January 1, 2015	Total share options granted	As at the date of this announcement
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	7.18	6.896	–	6,010,000 (Note 3)	6,010,000

Notes:

- (1) The vesting period of the share options is starting from the date of acceptance of the grantee to the commencement of the exercise period.
- (2) As of the date of this announcement, no share options were exercised, cancelled and lapsed.
- (3) Such share 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 HK\$7.18.

- (4) Please refer to the announcement of the Company dated October 9, 2015 for details.

## GRANT OF RSUs

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.

## COMPETING INTERESTS

Mr. Wang Feng holds approximately 4.02% of the total equity interests in Beijing Locojoy Technology Co., Ltd (“**Locojoy**”) at then time, 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 the Company. As at September 21, 2015, Mr. Wang Feng completed the disposal of all of his equity interests in Locojoy. As at September 30, 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 3 November 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 referred to the “**Fosun Group**”). Fosun Group is an investment group taking roots in the PRC 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 operations (including healthcare, lifestyles, iron and steel, property development as well as sales and resources). The 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 and network game companies such as 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 and delegated representatives to hold directorship in the Board of the aforementioned companies. 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 the 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 with the businesses of the Group or has any other conflict of interests with the Group for the nine months ended September 30, 2015.

## **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 nine months ended September 30, 2015.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company repurchased on-market (i) 140,000 shares on July 9, 2015 at the highest and lowest prices of HK\$8.95 and HK\$8.00 per share, respectively; and (ii) 61,000 shares on July 10, 2015 at the highest and lowest prices of HK\$8.74 and HK\$8.727222 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 HK\$1,676,045, 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 total number of issued shares at then time. 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 HK\$5.99 and HK\$5.94 per share, respectively (the “**Second Share Repurchase**”). The aggregate purchase price paid (before brokerage and expenses) for the Second Share Repurchase was approximately HK\$598,160, 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 total number of issued shares at then time. Details of the Second Share Repurchase are set out in the announcement of the Company dated August 26, 2015.

## **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. Wang Xiaodong, Ms. Zhao Yifang and Mr. Zhang Xiangdong, our independent non-executive Directors and Mr. Qian Zhonghua, our non-executive Director. 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 risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

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

The Group's unaudited financial statements for the nine months ended September 30, 2015 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited financial statements of the Group for the nine months ended September 30, 2015 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## **INTERESTS OF THE COMPLIANCE ADVISER**

As confirmed by the Group's compliance adviser, REORIENT Financial Markets Limited (the "**Compliance Adviser**"), save as the compliance adviser agreement entered into between the Company and the Compliance Adviser 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.

## **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 nine months ended September 30, 2015, except for the deviation of code provision A.2.1 of the Code.

Under the code provision A.2.1, 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 to the date of this announcement, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board of the Company 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 senior management and the Board of the Company, which comprises experienced and high-calibre individuals. The Board



of the Company 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.

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 of 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. After specific enquiries were made with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the nine months ended September 30, 2015.

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

Beijing, the PRC, November 11, 2015

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