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LINEKONG

蓝港互动

Linekong Interactive Group Co., Ltd.

藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

**DISCLOSEABLE TRANSACTION
SUBSCRIPTION OF SERIES A SHARE CAPITAL
AND**

DEEMED DISPOSAL OF EQUITY INTERESTS IN LINEKONG HORGOS

THE CAPITAL INCREASE AGREEMENT

The Board announces that on July 5, 2016 (after trading hours), Linekong Horgos, an indirect non-wholly owned subsidiary of the Company, entered into a Capital Increase Agreement with the Existing Shareholders and the Subscribers. Pursuant to the Capital Increase Agreement, Linekong Horgos has agreed to increase, and the Subscribers have agreed to subscribe for, a total of RMB17,567,568 registered share capital of Linekong Horgos at the subscription price of RMB7.40 per RMB1.00 registered share capital of Linekong Horgos for an aggregate consideration of RMB130,000,000 in cash, whereby:

- (i) Linekong Entertainment is the Subscriber under the Linekong Entertainment Subscription, subscribing for RMB6,756,757 registered share capital of Linekong Horgos for a total consideration of RMB50,000,000;
- (ii) Leguang is the Subscriber under the Leguang Subscription, subscribing for RMB6,756,757 registered share capital of Linekong Horgos for a total consideration of RMB50,000,000; and
- (iii) Rongsheng is the Subscriber under the Rongsheng Subscription, subscribing for RMB4,054,054 registered share capital of Linekong Horgos for a total consideration of RMB30,000,000.

The Series A Share Capital in total represent approximately 35.14% of the existing registered share capital of Linekong Horgos and approximately 26.00% of the enlarged registered share capital of Linekong Horgos, respectively.

As at the date of this announcement, Linekong Horgos has registered share capital of RMB50,000,000 and Linekong Entertainment holds RMB40,500,000 registered share capital of Linekong Horgos, representing approximately 81.00% of the existing registered share capital of Linekong Horgos. Immediately upon the completion of the Subscriptions, Linekong Entertainment will hold in aggregate RMB47,256,757 registered share capital of Linekong Horgos, representing approximately 69.94% of the enlarged registered share capital of Linekong Horgos, Leguang will hold RMB6,756,757 registered share capital of Linekong Horgos, representing approximately 10.00% of the enlarged registered share capital of Linekong Horgos and Rongsheng will hold RMB4,054,054 registered share capital of Linekong Horgos, representing approximately 6.00% of the enlarged registered share capital of Linekong Horgos.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscribers (other than Linekong Entertainment) and their respective ultimate beneficial owner(s) are Independent Third Parties.

GEM LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in respect of the Linekong Entertainment Subscription, when aggregated with Incorporation Investment, are more than 5% but all the applicable percentage ratios are less than 25%, the Linekong Entertainment Subscription constitutes a discloseable transaction for the Company and is subject to the announcement requirement under Chapter 19 of the GEM Listing Rules.

Immediately following the Subscriptions, the percentage shareholding of Linekong Entertainment in Linekong Horgos will be diluted from 81.00% to approximately 69.94%, which constitutes a Deemed Disposal of the Company's indirect interest in Linekong Horgos under Rule 19.29 of the GEM Listing Rules. Notwithstanding such dilution, Linekong Horgos will remain an indirect non-wholly owned subsidiary of the Company. As certain of the applicable percentage ratios in respect of the Deemed Disposal are more than 5% but all the applicable percentage ratios are less than 25%, the Deemed Disposal constitutes a discloseable transaction for the Company and is also subject to the announcement requirement under Chapter 19 of the GEM Listing Rules.

INTRODUCTION

The Board announces that on July 5, 2016 (after trading hours), Linekong Horgos, an indirect non-wholly owned subsidiary of the Company, entered into a Capital Increase Agreement with the Existing Shareholders and the Subscribers. Pursuant to the Capital Increase Agreement, Linekong Horgos has agreed to increase, and the Subscribers have agreed to subscribe for, a total of RMB17,567,568 registered share capital of Linekong Horgos at the subscription price of RMB7.40 per RMB1.00 registered share capital of Linekong Horgos for an aggregate consideration of RMB130,000,000 in cash.

THE CAPITAL INCREASE AGREEMENT

Date

July 5, 2016 (after trading hours)

Parties

The parties to the Capital Increase Agreement are (i) Linekong Horgos, (ii) the Existing Shareholders, (iii) Linekong Entertainment (as a Subscriber), (iv) Leguang (as a Subscriber) and (v) Rongsheng (as a Subscriber).

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscribers (other than Linekong Entertainment) and their respective ultimate beneficial owner(s) are Independent Third Parties.

The Subscriptions

Pursuant to the Capital Increase Agreement,

- (i) Linekong Horgos has agreed to increase and Linekong Entertainment has agreed to subscribe for RMB6,756,757 registered share capital of Linekong Horgos;
- (ii) Linekong Horgos has agreed to increase and Leguang has agreed to subscribe for RMB6,756,757 registered share capital of Linekong Horgos; and
- (iii) Linekong Horgos has agreed to increase and Rongsheng has agreed to subscribe for RMB4,054,054 registered share capital of Linekong Horgos.

The Series A Share Capital in total represent approximately 35.14% of the existing registered share capital of Linekong Horgos and approximately 26.00% of the enlarged registered share capital of Linekong Horgos upon completion of the Subscriptions, respectively.

As at the date of this announcement, Linekong Horgos has registered share capital of RMB50,000,000 and Linekong Entertainment holds RMB40,500,000 registered share capital of Linekong Horgos, representing approximately 81.00% of the existing registered share capital of Linekong Horgos. Immediately upon the completion of the Subscriptions, Linekong Entertainment will hold in aggregate RMB47,256,757 registered share capital of Linekong Horgos, representing approximately 69.94% of the enlarged registered share capital of Linekong Horgos, Leguang will hold RMB6,756,757 registered share capital of Linekong Horgos, representing approximately 10.00% of the enlarged registered share capital of Linekong Horgos and Rongsheng will hold RMB4,054,054 registered share capital of Linekong Horgos, representing approximately 6.00% of the enlarged registered share capital of Linekong Horgos.

Series A Share Capital

The subsequent dealing with the registered share capital of Linekong Horgos will be subject to certain restrictions as set out in the Shareholders' Agreement and the Amended Articles of Association, which include:

- (i) right of first subscription: the Subscribers have priority in subscribing registered share capital in any subsequent capital increase over the Existing Shareholders;
- (ii) transfer restriction: where any shareholder proposes to transfer his/its registered share capital to a third party, not being an Existing Shareholder, he/it shall obtain consents from more than half of the other shareholders, who shall have priority in purchasing such registered share capital;
- (iii) right of first offer by the Subscribers: the Subscribers have priority in purchasing the relevant registered share capital over the Existing Shareholders under certain conditions when an Existing Shareholder transfers its registered share capital to a third party, being not an Existing Shareholder; and
- (iv) right of tag-along: where any Existing Shareholder proposes to sell his/its registered share capital to a third party, not being an Existing Shareholder, the Subscribers have the right to join the transaction and sell their registered share capital under the same terms and conditions thereunder.

The Subscribers to the Series A Share Capital shall have priority over the Existing Shareholders for return of capital in the event of winding-up. Linekong Entertainment's priority over the Existing Shareholders is limited to its interests in the Series A Share Capital.

Consideration

The subscription price under the Capital Increase Agreement is RMB7.40 per RMB1.00 registered share capital of Linekong Horgos. The aggregate consideration for the Subscriptions is RMB130,000,000. The consideration for the Linekong Entertainment Subscription is RMB50,000,000 and will be funded by the net proceeds from the public offering of the Company's shares. The consideration for the Leguang Subscription is RMB50,000,000 and the consideration for the Rongsheng Subscription is RMB30,000,000.

The subscription price was determined after arm's length negotiations among the parties to the Capital Increase Agreement after taking into account a number of factors including the estimated performance of Linekong Horgos (including the experienced professional team and the projects in preparation), the business model and business plan of Linekong Horgos and the current market conditions of film business in the PRC.

Conditions Precedent

Completion of the Subscriptions is conditional upon, among others, the following:

- (i) all the approvals (including approval from relevant authorities), consents and renouncements for the Subscriptions have been obtained by the Existing Shareholders and Linekong Horgos; and
- (ii) all the internal approvals for the Subscriptions have been obtained by the Subscribers.

All of these conditions precedent might be waived by written confirmations from the relevant obligees to their corresponding obligors as mentioned above.

Completion

Completion shall take place no later than 7 Business Days after the execution of Capital Increase Transaction Documents by the Existing Shareholders, the Subscribers and/or Linekong Horgos. Each of the Subscribers shall pay the full consideration of its Subscription to Linekong Horgos on the date of completion.

Termination

Capital Increase Agreement (other than certain customary surviving provisions thereunder) shall cease and terminate if (i) such termination has been agreed in writing among the parties to the Capital Increase Agreement; or (ii) any party informs the other parties in writing no less than 10 Business Days following certain events of default as stipulated in the Capital Increase Agreement.

Use of Proceeds

The total proceeds of the Subscriptions will be RMB130,000,000, which is intended to be used for the expansion of the main business of Linekong Horgos and for its working capital.

Shareholders' Agreement and Amendment of Articles of Association

The Shareholders' Agreement shall be effective up the completion of the Subscriptions, the major terms of which have been disclosed in the section of "Series A Share Capital" as above.

As a result of the Subscriptions, the articles of association of Linekong Horgos will be amended to reflect the changes to its registered share capital and its share capital structure.

EFFECT ON THE SHAREHOLDING STRUCTURE OF LINEKONG HORGOS

The shareholding structures of Linekong Horgos (i) as at the date of this announcement; and (ii) immediately after completion of the Subscriptions by the Subscribers are set out in the table below:

As at the date of this announcement

Name of shareholder	Amount of registered share capital of Linekong Horgos (RMB')	Approximate percentage of the registered share capital of Linekong Horgos (%)
Linekong Entertainment	40,500,000	81.00
Mr. Tong Jie	3,500,000	7.00
Mr. Wang Jing	3,000,000	6.00
Ms. Qi Yunxiao	3,000,000	6.00
Total	50,000,000	100.00

Immediately after completion of the Subscriptions by the Subscribers

Name of shareholder	Amount of registered share capital of Linekong Horgos (RMB')	Approximate percentage of the registered share capital of Linekong Horgos (%)
Linekong Entertainment	47,256,757	69.94
Mr. Tong Jie	3,500,000	5.18
Mr. Wang Jing	3,000,000	4.44
Ms. Qi Yunxiao	3,000,000	4.44
Leguang	6,756,757	10.00
Rongsheng	4,054,054	6.00
Total	67,567,568	100.00

REASONS AND BENEFITS OF THE SUBSCRIPTIONS

The Directors believe that the Subscriptions will facilitate the improvement of Linekong Horgos' capital structure and cash flow status (particularly in view of the forthcoming launching of projects and the potential acquisition of intellectual property rights), which will in turn enhance the Group's capacity of risk-resistance as well as improve the Group's core competitiveness and capacity of sustainable development as a whole.

In light of the aforesaid, the Directors consider that the terms of the Capital Increase Agreement is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in respect of the Linekong Entertainment Subscription, when aggregated with Incorporation Investment, are more than 5% but all the applicable percentage ratios are less than 25%, the Linekong Entertainment Subscription constitutes a discloseable transaction for the Company and is subject to the announcement requirement under Chapter 19 of the GEM Listing Rules.

Immediately following the Subscriptions, the percentage shareholding of Linekong Entertainment in Linekong Horgos will be diluted from 81.00% to approximately 69.94%, which constitutes a Deemed Disposal of the Company's indirect interest in Linekong Horgos under Rule 19.29 of the GEM Listing Rules. Notwithstanding such dilution, Linekong Horgos will remain an indirect non-wholly owned subsidiary of the Company. As certain of the applicable percentage ratios in respect of the Deemed Disposal are more than 5% but all the applicable percentage ratios are less than 25%, the Deemed Disposal constitutes a discloseable transaction for the Company and is subject to the announcement requirement under Chapter 19 of the GEM Listing Rules.

FINANCIAL INFORMATION OF LINEKONG HORGOS

As Linekong Horgos was incorporated on June 14, 2016 and is not in operation as at the date of this announcement, the financial information (including the net profits (both before and after taxation) attributable to Series A Share Capital) of Linekong Horgos for the two financial years immediately preceding the Subscriptions is not readily available.

FINANCIAL IMPACT OF THE DEEMED DISPOSAL ON THE GROUP

Immediately following the Subscriptions, the shareholding of Linekong Entertainment in Linekong Horgos will be diluted from approximately 81.00% to approximately 69.94%, taking into account all the issued and outstanding ordinary share capital and Series A Share Capital, Linekong Horgos will remain an indirect non-wholly owned subsidiary of the Company and its financial results, assets, liabilities and cash flows will continue to be consolidated into the Company's consolidated financial statements in accordance with IFRSs. As the Deemed Disposal will not result in the Company's loss of control over Linekong Horgos, the Deemed Disposal will not result in the recognition of any investment gain or loss in the Company's consolidated statement of profit or loss upon the completion of the Subscriptions.

The Group intends to utilize the proceeds from the Subscriptions for the expansion of the main business of Linekong Horgos and for its working capital.

INFORMATION ABOUT THE PARTIES

The Group

The Company and its subsidiaries are principally engaged in online game and mobile game developing and publishing.

Linekong Entertainment

Linekong Entertainment is the PRC operating entity of the Group and is principally engaged in online game and mobile game developing and publishing.

Linekong Horgos

Linekong Horgos is a new-generation interactive entertainment media company aiming to create pan-entertainment environment by developing, producing and investing in film and TV drama. As at the date of this announcement, its existing registered share capital is RMB50,000,000.

Leguang

Leguang is principally engaged in equity investments in areas of intellectual hardware, internet application, and internet content.

Rongsheng

Rongsheng is principally engaged in equity investments in areas of internet content and entertainment culture.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expression shall have the following meanings:

“Amended Articles of Association”	the articles of association of Linekong Horgos as amended in relation to the Subscriptions
“Board”	the board of Directors
“Business Day”	any day on which banks generally are open for business in PRC (excluding Saturday, Sunday and any other statutory public holiday in PRC)
“Capital Increase Agreement”	the capital increase agreement dated July 5, 2016 entered into among Linekong Horgos, the Existing Shareholders and the Subscribers

“Capital Increase Transaction Documents”	collectively, the Capital Increase Agreement, the Shareholders’ Agreement, the Amended Articles of Association and any other supplemental documents as required under the laws of the PRC
“Company”	Linekong Interactive Group Co., Ltd. (藍港互動集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on May 24, 2007 and formerly known as Linekong International Co., Ltd. (藍港互動有限公司)
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Deemed Disposal”	the Subscriptions as viewed under Rule 19.29 of the GEM Listing Rules as a deemed disposal of the Company’s indirect interest in Linekong Horgos
“Directors”	director(s) of the Company
“Existing Shareholders”	collectively, Linekong Entertainment, Mr. Tong Jie, Mr. Wang Jing and Ms. Qi Yunxiao, and an “Existing Shareholder” shall mean one of them
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“Group”	the Company and its subsidiaries (which include Linekong Entertainment and its subsidiaries)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRSs”	the International Financial Reporting Standards
“Incorporation Investment”	the investment of RMB50,000,000 by Linekong Entertainment for acquisition of RMB40,500,000 registered share capital of Linekong Horgos during its incorporation process
“Independent Third Party(ies)”	a third party independent of the Company and its connected persons
“Leguang”	Ningbo Meishan Bonded Port Zone Leguang Investment Centre (寧波梅山保稅港區樂廣投資中心), a limited liability partnership established in the PRC on May 21, 2016

“Leguang Subscription”	the subscription of RMB6,756,757 registered share capital of Linekong Horgos by Leguang pursuant to the Capital Increase Agreement
“Linekong Entertainment”	Linekong Entertainment Technology Co., Ltd., also known as Linekong Online (Beijing) Technology Co., Ltd. (藍港在線(北京)科技有限公司), a company incorporated with limited liability in the PRC on March 30, 2007 and is effectively entirely controlled by our Group through a series of contractual arrangements (which is more particularly described in the Company’s prospectus dated December 9, 2014) and hence treated as a wholly-owned subsidiary of our Group
“Linekong Entertainment Subscription”	the subscription of RMB6,756,757 registered share capital of Linekong Horgos by Linekong Entertainment pursuant to the Capital Increase Agreement
“Linekong Horgos”	Horgos Linekong Pictures Corporation (霍爾果斯藍港影業有限公司), a company incorporated with limited liability in the PRC on June 14, 2016 and as at the date of this announcement, is owned as to 81.00% by Linekong Entertainment, 7.00% by Mr. Tong Jie, 6.00% by Mr. Wang Jing and 6.00% by Ms. Qi Yunxiao. Mr. Tong, Mr. Wang and Ms. Qi are Independent Third Parties
“PRC”	The People’s Republic of China, which for the purpose of interpretation of this announcement only, except where the context requires otherwise, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Rongsheng”	Shenzhen Rongsheng Yihao Investment Centre, (深圳融盛一號投資中心), a limited liability partnership established in the PRC on June 27, 2016
“Rongsheng Subscription”	the subscription of RMB4,054,054 registered share capital of Linekong Horgos by Rongsheng pursuant to the Capital Increase Agreement
“Series A Share Capital”	the RMB17,567,568 registered share capital of Linekong Horgos to be subscribed pursuant to the Subscriptions
“Shareholder(s)”	shareholder(s) of the Company
“Shareholders’ Agreement”	the shareholders’ agreement dated July 5, 2016 entered into among Linekong Horgos, the Existing Shareholders and the Subscribers, which shall be effective upon the completion of the Subscriptions

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	collectively, Linekong Entertainment, Leguang and Rongsheng, and a “Subscriber” shall mean one of them
“Subscriptions”	collectively, Linekong Entertainment Subscription, the Leguang Subscription and the Rongsheng Subscription, and a “Subscription” shall mean one of them
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“%”	percent

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

Beijing, PRC, July 5, 2016

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the Stock Exchange’s website at www.hkgem.com for at least 7 days from the date of its posting and be posted on the website of the Company at www.linekong.com.