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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)

**(1) CONNECTED TRANSACTION: DISPOSAL OF 50% EQUITY INTEREST
IN HORGOS PICTURES ACCORDING TO THE LANFENG AGREEMENT**

**(2) DISCLOSEABLE TRANSACTION: DISPOSAL OF
31% EQUITY INTEREST IN HORGOS PICTURES
ACCORDING TO THE LANHAI CULTURE AGREEMENT**

SUMMARY

The Board is pleased to announce that on 24 August 2017, Linekong Online, a wholly owned subsidiary of the Company, entered into the Lanfeng Agreement with Lanfeng Investment and the Lanhai Culture Agreement with Lanhai Culture, respectively. Pursuant to the Lanfeng Agreement, Lanfeng Investment has agreed to acquire and Linekong Online has agreed to dispose of 50% equity interest held in Horgos Pictures at a consideration of RMB29,300,000 (approximately HK\$32,921,300). Pursuant to the Lanhai Culture Agreement, Lanhai Culture has agreed to acquire and Linekong Online has agreed to dispose of 31% equity interest held in Horgos Pictures at a consideration of RMB18,166,000 (approximately HK\$20,411,200).

The transactions under the Lanfeng Agreement and the Lanhai Culture Agreement are separate transactions and are not inter-conditional.

GEM LISTING RULES IMPLICATIONS

According to the GEM Listing Rules, as an associate of a Director of the Company, Lanfeng Investment is a connected person of the Company. Therefore, the transaction contemplated under the Lanfeng Agreement constitutes a connected transaction of the Company under the GEM Listing Rules. As the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules in respect of the transaction under the Lanfeng Agreement are more than 0.1% but less than 5%, the Lanfeng Agreement and the transaction thereunder are exempt from the independent shareholders' approval requirement.

The transaction under the Lanhai Culture Agreement does not constitute a connected transaction of the Company, but reference to the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules shall be made in order to determine whether it constitutes a notifiable transaction. As one of the applicable percentage ratios in respect of the transaction under the Lanhai Culture Agreement, when aggregated with the transaction under the Lanfeng Agreement according to Rule 19.22 of the GEM Listing Rules, is more than 5% but less than 25%, the Lanhai Culture Agreement and the transaction thereunder constitute a discloseable transaction of the Company and are also subject to the announcement requirement but exempt from the shareholders' approval requirement under Chapter 19 of the GEM Listing Rules.

BACKGROUND

The Board is pleased to announce that on 24 August 2017, Linekong Online, a wholly owned subsidiary of the Company, entered into the Lanfeng Agreement with Lanfeng Investment and the Lanhai Culture Agreement with Lanhai Culture, respectively. Pursuant to the Lanfeng Agreement, Lanfeng Investment has agreed to acquire and Linekong Online has agreed to dispose of 50% equity interest held in Horgos Pictures at a consideration of RMB29,300,000 (approximately HK\$32,921,300). Pursuant to the Lanhai Culture Agreement, Lanhai Culture has agreed to acquire and Linekong Online has agreed to dispose of 31% equity interest held in Horgos Pictures at a consideration of RMB18,166,000 (approximately HK\$20,411,200).

The transactions under the Lanfeng Agreement and the Lanhai Culture Agreement are separate transactions and are not inter-conditional.

LANFENG AGREEMENT

Date

Signing and effective date: 24 August 2017

Parties

- (1) Linekong Online
- (2) Lanfeng Investment
- (3) Horgos Pictures
- (4) Tong Jie
- (5) Wang Jing
- (6) Qi Yunxiao

Consideration

Pursuant to the Lanfeng Agreement, the consideration for the disposal of 50% equity interest in Horgos Pictures is RMB29,300,000 (approximately HK\$32,921,300). The first instalment of the cash consideration in the amount of RMB2,930,000 shall be paid by Lanfeng Investment within fifteen (15) working days from the date of the fulfilment of all conditions for the first instalment of consideration as required under the Lanfeng Agreement. The second instalment of the cash consideration in the amount of RMB26,370,000 shall be paid within fifteen (15) working days from the date of the fulfilment of all conditions for the second instalment of consideration as required under the Lanfeng Agreement.

The consideration was determined after arm's length negotiations among the parties on normal commercial terms, having taken into account the appraised value of 100% equity interest in Horgos Pictures as at 30 June 2017 as set out in the valuation report dated 10 August 2017 issued by ValueLink Management Consultants Ltd. (藍策管理諮詢(北京)有限公司), an independent valuer, and the profitability of Horgos Pictures subsequent to 30 June 2017.

According to the valuation report, as at 30 June 2017 (i.e. the valuation benchmark date), the indicative value of the entire shareholders' interest in Horgos Pictures ranged from RMB52,000,000 to RMB58,600,000 (approximately HK\$58,427,000 to HK\$65,842,700) based on the market-based approach (instead of discount cash flows or prediction of profits, earnings or cash flows).

Conditions Precedent to Transaction

The payment of the first instalment of consideration for this transaction is subject to all of the following conditions precedent being fulfilled, unless the obligations of Linekong Online and Horgos Pictures being waived by Lanfeng Investment:

- (1) Shareholders and the board of Horgos Pictures have resolved to approve all of the transactions of Horgos Pictures as described in this agreement, while the other original shareholders of Horgos Pictures (except Linekong Online) have waived their pre-emptive rights and completed the arrangement of release of share restriction;
- (2) Linekong Online has completed the relevant decision and approval procedures as required by its articles of association and the Stock Exchange;
- (3) Linekong Online has issued a written notice to Lanfeng Investment demanding payment of the first instalment of consideration;
- (4) Representations, warranties and undertakings provided by all parties are true, legitimate and valid;
- (5) There is no material adverse change to the operation or financial condition of Horgos Pictures since the signing of the relevant agreement and prior to the payment of the first instalment of consideration.

The payment of the second instalment of consideration for this transaction is subject to all of the following conditions precedent being fulfilled, unless the obligations of Linekong Online and Horgos Pictures being waived by Lanfeng Investment:

- (1) Horgos Pictures has completed the repayment of the outstanding principle amount of all loans owed to Linekong Online together with any interest incurred thereon;
- (2) Horgos Pictures has completed the registration of changes in the industrial and commercial particulars;
- (3) Linekong Online has issued a written notice to Lanfeng Investment demanding payment of the second instalment of consideration;
- (4) Representations, warranties and undertakings provided by all parties are true, legitimate and valid;
- (5) There is no material adverse change to the operation or financial condition of Horgos Pictures since the signing of the relevant agreement and prior to the payment of the second instalment of consideration.

LANHAI CULTURE AGREEMENT

Date

Signing and effective date: 24 August 2017

Parties

- (1) Linekong Online
- (2) Lanhai Culture
- (3) Horgos Pictures
- (4) Tong Jie
- (5) Wang Jing
- (6) Qi Yunxiao

Consideration

Pursuant to the Lanhai Culture Agreement, the consideration for the disposal of 31% equity interest in Horgos Pictures is RMB18,166,000 (approximately HK\$20,411,200). The first instalment of the cash consideration in the amount of RMB1,816,600 shall be paid by Lanhai Culture within fifteen (15) working days from the date of the fulfilment of all conditions for the first instalment of consideration as required under the Lanhai Culture Agreement. The second instalment of the cash consideration in the amount of RMB16,349,400 shall be paid within fifteen (15) working days from the date of the fulfilment of all conditions for the second instalment of consideration as required under the Lanhai Culture Agreement.

The consideration was determined after arm's length negotiations among the parties on normal commercial terms, having taken into account the appraised value of 100% equity interest in Horgos Pictures as at 30 June 2017 as set out in the valuation report dated 10 August 2017 issued by ValueLink Management Consultants Ltd. (藍策管理諮詢(北京)有限公司), an independent valuer, and the profitability of Horgos Pictures subsequent to 30 June 2017.

According to the valuation report, as at 30 June 2017 (i.e. the valuation benchmark date), the indicative value of the entire shareholders' interest in Horgos Pictures ranged from RMB52,000,000 to RMB58,600,000 (approximately HK\$58,427,000 to HK\$65,842,700) based on the market-based approach (instead of discount cash flows or prediction of profits, earnings or cash flows).

Conditions Precedent to Transaction

The payment of the first instalment of consideration for this transaction is subject to all of the following conditions precedent being fulfilled, unless the obligations of Linekong Online and Horgos Pictures being waived by Lanhai Culture:

- (1) Shareholders and the board of Horgos Pictures have resolved to approve all of the transactions of Horgos Pictures as described in the agreement, while the other original shareholders of Horgos Pictures (except Linekong Online) have waived their pre-emptive rights and completed the arrangement of release of share restriction;
- (2) Linekong Online has completed the relevant decision and approval procedures as required by its articles of association and the Stock Exchange;
- (3) Linekong Online has issued a written notice to Lanhai Culture demanding payment of the first instalment of consideration;
- (4) Representations, warranties and undertakings provided by all parties are true, legitimate and valid;
- (5) There is no material adverse change to the operation or financial condition of Horgos Pictures since the signing of the relevant agreement and prior to the payment of the first instalment of consideration.

The payment of the second instalment of consideration for this transaction is subject to all of the following conditions precedent being fulfilled, unless the obligations of Linekong Online and Horgos Pictures being waived by Lanhai Culture:

- (1) Horgos Pictures has completed the repayment of the outstanding principle amount of all loans owed to Linekong Online together with any interest incurred thereon;
- (2) Horgos Pictures has completed the registration of changes in the industrial and commercial particulars;
- (3) Linekong Online has issued a written notice to Lanhai Culture demanding payment of the second instalment of consideration;

- (4) Representations, warranties and undertakings provided by all parties are true, legitimate and valid;
- (5) There is no material adverse change to the operation or financial condition of Horgos Pictures since the signing of the relevant agreement and prior to the payment of the second instalment of consideration.

INFORMATION ABOUT HORGOS PICTURES

Horgos Pictures, a subsidiary of the Company established on 14 June 2016, is an interactive entertainment company focusing on internet dramas, with the aim of creating pan-entertainment environment by developing, producing and investing in internet dramas. The current registered share capital of Horgos Pictures is RMB50,000,000 (approximately HK\$56,179,800). Linekong Online entered into a share-based payment agreement with Mr. Tong Jie, Mr. Wang Jing and Ms. Qi Yunxiao, pursuant to which Linekong Online agreed to transfer 19% of shares of Horgos Pictures to the aforementioned parties at a consideration received within a certain timeframe, which will be subject to vesting schedule, service and performance conditions. Prior to the date of this announcement, the restrictions on relevant shares under the agreement were released and such shares were vested unconditionally to Mr. Tong Jie, Mr. Wang Jing and Ms. Qi Yunxiao. As at the date of this announcement, Horgos Pictures is owned as to 81.00% by Linekong Online, 7.00% by Mr. Tong Jie, 6.00% by Mr. Wang Jing and 6.00% by Ms. Qi Yunxiao.

Based on the audited consolidated balance sheet prepared according to the PRC Accounting Standards, the total assets, total liabilities and net assets of Horgos Pictures as at 30 June 2017 amounted to RMB45,715,200 (approximately HK\$51,365,400), RMB11,264,900 (approximately HK\$12,657,100) and RMB34,450,300 (approximately HK\$38,708,300), respectively.

Based on the unaudited consolidated profit or loss statement prepared according to the PRC Accounting Standards, the net loss before and after tax of Horgos Pictures for the year ended 31 December 2016 amounted to RMB18,396,900 (approximately HK\$20,670,700) and RMB18,396,900 (approximately HK\$20,670,700), respectively.

FINANCIAL IMPACT OF THE TRANSACTIONS

Upon completion of the equity transfers under the Lanfeng Agreement and the Lanhai Culture Agreement, the Group will cease to have any shareholdings in Horgos Pictures and Horgos Pictures will cease to be a subsidiary of the Company. Therefore, the assets, liabilities and financial results of Horgos Pictures will no longer be consolidated into the financial statements of the Company.

Based on the difference between the transaction considerations and the carrying amount of the transferred subjects currently estimated, the Company is expected to record an estimated gain before tax of approximately RMB13,000,000 (approximately HK\$14,600,000) in respect of the equity transfer under the Lanfeng Agreement as well as an estimated gain before tax of approximately RMB8,000,000 (approximately HK\$9,000,000) in respect of the equity transfer under the Lanhai Culture Agreement.

USE OF PROCEEDS FROM THE TRANSACTIONS

The proceeds from the transactions are intended to be used as the general working capital of the Group and for financing the further development of the game business of the Group.

REASONS AND BENEFITS OF THE TRANSACTIONS

As a renowned online game operator, the Group has been committed to the development and operation of mobile games as well as the distribution of licensed games on behalf of cooperative game developers since its listing. Since its establishment, the Group has commercialized 26 online games in total, comprising 16 self-developed games and 10 licensed games. All games of the Group pursue high quality. In the future, the Group will also continue to focus on streamlining its business in the game sector while enhancing our brand awareness and competence in game development and distribution. Besides, the Group will continuously expand its market share in Mainland China and actively establish its presence in international game markets through the three overseas departments in the USA, Korea and South East Asia, gradually materializing a global network for our mobile game business.

Therefore, the Company hopes that these disposals will facilitate the Group to better allocate its quality resources to mainly develop the game sector and continue to strengthen its core business by making more endeavors to develop particularly its exquisite games and building a global distribution network.

In light of the aforesaid, the Board of the Company resolved to dispose of its shareholdings in Horgos Pictures. The Group will concentrate on a faster pace of development in the game sector.

Mr. Wang Feng and Ms. Liao Mingxiang, executive Directors of the Company, are deemed to have a material interest in the transactions under the Lanfeng Agreement and have abstained from voting on the resolutions in relation to the transactions under the Lanfeng Agreement at the meeting of the Board. Save as disclosed above, none of other Directors has any material interest in these transactions and is required to abstain from voting on the relevant resolutions at the meeting of the Board.

The Board (including the independent non-executive Directors) is of the view that the terms of the Lanfeng Agreement and the Lanhai Culture Agreement and the transactions thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the shareholders as a whole.

INFORMATION ABOUT THE PARTIES

The Company and its subsidiaries are principally engaged in the development and distribution of online games and mobile games.

Linekong Online, a PRC operating entity of the Group, is principally engaged in the development and operation of self-developed mobile games as well as the distribution of licensed games on behalf of cooperative game developers.

Horgos Pictures, an interactive entertainment company focusing on internet dramas, aims to create pan-entertainment environment by developing, producing and investing in internet dramas.

Lanfeng Investment is a limited partnership established in the PRC and is principally engaged in investment holding. The limited partners of Lanfeng Investment are an entity established by Mr. Wang Feng and an entity established by Ms. Liao Mingxiang, the Directors of the Company.

Lanhai Culture is a limited partnership established in the PRC and is principally engaged in investment holding. The limited partners of Lanhai Culture include two natural persons. Lanhai Culture and its ultimate beneficial owners are the independent third parties of the Company and its connected person(s).

GEM LISTING RULES IMPLICATIONS

According to the GEM Listing Rules, as an associate of a Director of the Company, Lanfeng Investment is a connected person of the Company. Therefore, the transaction contemplated under the Lanfeng Agreement constitutes a connected transaction of the Company under the GEM Listing Rules shall be made in order to determine whether it constitutes a notifiable transaction. As the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules in respect of the transaction under the Lanfeng Agreement are more than 0.1% but less than 5%, the Lanfeng Agreement and the transaction thereunder are exempt from the independent shareholders' approval requirement.

The transaction under the Lanhai Culture Agreement does not constitute a connected transaction of the Company, but reference to the applicable percentage ratios as set out in Rule 19.07 of the GEM Listing Rules shall be made in order to determine whether it constitutes a notifiable transaction. As one of the applicable percentage ratios in respect of the transaction under the Lanhai Culture Agreement, when aggregated with the transaction under the Lanfeng Agreement according to Rule 19.22 of the GEM Listing Rules, is more than 5% but less than 25%, the Lanhai Culture Agreement and the transaction thereunder constitute a discloseable transaction of the Company and are also subject to the announcement requirement but exempt from the shareholders' approval requirement under Chapter 19 of the GEM Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“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 24 May 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

“Directors”	director(s) of the Company
“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 from time to time
“Horgos Pictures”	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 14 June 2016 and as at the date of this announcement, is owned as to 81.00% by Linekong Online, 7.00% by Mr. Tong Jie, 6.00% by Mr. Wang Jing and 6.00% by Ms. Qi Yunxiao
“Lanfeng Agreement”	an equity transfer agreement dated 24 August 2017 entered into among, inter alia, Linekong Online and Lanfeng Investment in respect of the transfer of 50% equity interest in Horgos Pictures
“Lanfeng Investment”	Gonggingcheng Lanfeng Investment Management Partnership (Limited Partnership)* (共青城藍峰投資管理合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
“Lanhai Culture”	Gonggingcheng Lanhai Culture Investment Management Partnership (Limited Partnership)* (共青城藍海文化投資管理合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
“Lanhai Culture Agreement”	an equity transfer agreement dated 24 August 2017 entered into among, inter alia, Linekong Online and Lanhai Culture in respect of the transfer of 31% equity interest in Horgos Pictures
“Linekong Online”	Linekong Online (Beijing) Technology Co., Ltd. (藍港在線(北京)科技有限公司), a company established with limited liability in the PRC and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China which for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Accounting Standards”	the PRC Accounting Standards for Business Enterprises
“RMB”	Renminbi, the lawful currency of the PRC

* For identification purpose only

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

In this announcement, the amounts denominated in RMB have been translated into Hong Kong dollars at the assumed exchange rate of HK\$1 = RMB0.89 for reference only.

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

Beijing, PRC, 24 August 2017

As at the date of this announcement, the executive Directors of the Company are Mr. WANG Feng, Ms. LIAO Mingxiang, Mr. QIAN Zhonghua and Mr. ZHAO Jun; the non-executive Director is Mr. PAN Donghui; 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 of the Stock Exchange 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.