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**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, 2017**

**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.**

*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 this announcement or any statement herein misleading.*

## HIGHLIGHTS

	For the nine months ended September 30,	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue	<b>368,206</b>	455,387
Loss for the period	<b>(109,808)</b>	(125,982)
Adjusted net loss	<b>(94,820)</b>	(99,422)

- Adjusted net loss refers to the loss for the period which excludes share-based compensation expenses. This item is deemed as useful supplemental information as stated in the interim condensed consolidated statement of comprehensive loss, which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.
- Revenue of the Group for the nine months ended September 30, 2017 amounted to approximately RMB368.2 million, representing a decrease of approximately 19.1% as compared to approximately RMB455.4 million for the nine months ended September 30, 2016.
- Loss of the Group for the nine months ended September 30, 2017 amounted to approximately RMB109.8 million, as compared to a loss of approximately RMB126.0 million for the nine months ended September 30, 2016.
- Adjusted net loss of the Group for the nine months ended September 30, 2017 amounted to approximately RMB94.8 million, as compared to an adjusted net loss of approximately RMB99.4 million for the nine months ended September 30, 2016.
- The board of Directors (the “**Board**”) does not recommend any payment of dividends for the nine months ended September 30, 2017.

## THIRD QUARTERLY RESULTS (UNAUDITED)

The Board announces the unaudited consolidated quarterly results and the unaudited interim condensed consolidated financial statements of the Group for the nine months ended September 30, 2017 together with the comparative figures for the nine months ended September 30, 2016. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Directors, of which one independent non-executive Director as the chairman of the audit committee.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

*For the nine months ended September 30, 2017*

		Three months ended September 30,		Nine months ended September 30,	
	<i>Note</i>	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
Revenue	4	76,077	125,362	368,206	455,387
Cost of revenue		(51,070)	(74,171)	(218,800)	(242,386)
<b>Gross profit</b>		<b>25,007</b>	51,191	<b>149,406</b>	213,001
Selling and marketing expenses		(34,217)	(54,725)	(126,734)	(153,647)
Administrative expenses		(22,884)	(23,821)	(65,620)	(72,179)
Research and development expenses		(32,869)	(35,195)	(98,328)	(105,791)
Other gains — net	6	6,913	3,269	38,564	29,303
<b>Operating loss</b>		<b>(58,050)</b>	(59,281)	<b>(102,712)</b>	(89,313)
Finance (costs)/income — net		(1,078)	278	370	3,600
Share of loss of investments using equity accounting		(3,696)	(8,650)	(25,646)	(19,654)
<b>Loss before income tax</b>		<b>(62,824)</b>	(67,653)	<b>(127,988)</b>	(105,367)
Income tax credit/(expense)	7	3,381	(7,774)	18,180	(20,615)
<b>Loss for the period</b>		<b>(59,443)</b>	(75,427)	<b>(109,808)</b>	(125,982)
<b>Other comprehensive income/(loss)</b>					
Items that may be subsequently reclassified to profit or loss:					
— Changes in fair value of available-for-sale financial assets, net of tax					
		5,183	398	27,243	(636)
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax					
		(32)	(1,570)	(17,945)	(1,984)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax					
		(2,160)	246	(4,567)	1,108
Items that will not be reclassified to profit or loss:					
— Currency translation differences					
		(15,185)	4,250	(31,836)	16,678
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<b>(12,194)</b>	3,324	<b>(27,105)</b>	15,166

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (Continued)**

*For the nine months ended September 30, 2017*

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Note	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Total comprehensive loss for the period</b>	<b><u>(71,637)</u></b>	<b><u>(72,103)</u></b>	<b><u>(136,913)</u></b>	<b><u>(110,816)</u></b>
<b>Loss attributable to:</b>				
Owners of the Company	<b><u>(58,998)</u></b>	<b><u>(75,426)</u></b>	<b><u>(110,405)</u></b>	<b><u>(125,980)</u></b>
Non-controlling interests	<b><u>(445)</u></b>	<b><u>(1)</u></b>	<b><u>597</u></b>	<b><u>(2)</u></b>
<b>Loss for the period</b>	<b><u>(59,443)</u></b>	<b><u>(75,427)</u></b>	<b><u>(109,808)</u></b>	<b><u>(125,982)</u></b>
<b>Total comprehensive loss attributable to:</b>				
Owners of the Company	<b><u>(71,227)</u></b>	<b><u>(72,102)</u></b>	<b><u>(137,536)</u></b>	<b><u>(110,814)</u></b>
Non-controlling interests	<b><u>(410)</u></b>	<b><u>(1)</u></b>	<b><u>623</u></b>	<b><u>(2)</u></b>
<b>Total comprehensive loss for the period</b>	<b><u>(71,637)</u></b>	<b><u>(72,103)</u></b>	<b><u>(136,913)</u></b>	<b><u>(110,816)</u></b>
<b>Loss per share (expressed in RMB per share)</b>				
— Basic	8(a) <b><u>(0.17)</u></b>	<b><u>(0.22)</u></b>	<b><u>(0.31)</u></b>	<b><u>(0.36)</u></b>
— Diluted	8(b) <b><u>(0.17)</u></b>	<b><u>(0.22)</u></b>	<b><u>(0.31)</u></b>	<b><u>(0.36)</u></b>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*For the nine months ended September 30, 2017*

(Unaudited)	Attributable to owners of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held		Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
			for RSU Scheme RMB'000						
<b>Balance at January 1, 2017</b>	<b>59</b>	<b>1,720,691</b>	<b>(2)</b>	<b>426,480</b>	<b>(1,135,029)</b>	<b>1,012,199</b>	<b>(1,909)</b>	<b>1,010,290</b>	
<b>Comprehensive (loss)/income</b>									
Loss for the period	-	-	-	-	(110,405)	(110,405)	597	(109,808)	
Other comprehensive income/(loss)									
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	27,243	-	27,243	-	27,243	
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(17,945)	-	(17,945)	-	(17,945)	
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(4,567)	-	(4,567)	-	(4,567)	
— Currency translation differences	-	-	-	(31,862)	-	(31,862)	26	(31,836)	
<b>Total comprehensive (loss)/income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27,131)</b>	<b>(110,405)</b>	<b>(137,536)</b>	<b>623</b>	<b>(136,913)</b>	
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>									
Decrease in ownership interest in subsidiaries without change of control	-	-	-	(1,438)	-	(1,438)	1,438	-	
Employee share option and RSU Scheme:									
— Shares purchased for RSU Scheme	-	-	(2,540)	-	-	(2,540)	-	(2,540)	
— Value of employee services	-	-	-	14,988	-	14,988	-	14,988	
<b>Total contributions by and distributions to owners of the Company for the period</b>	<b>-</b>	<b>-</b>	<b>(2,540)</b>	<b>13,550</b>	<b>-</b>	<b>11,010</b>	<b>1,438</b>	<b>12,448</b>	
<b>Balance at September 30, 2017</b>	<b>59</b>	<b>1,720,691</b>	<b>(2,542)</b>	<b>412,899</b>	<b>(1,245,434)</b>	<b>885,673</b>	<b>152</b>	<b>885,825</b>	

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

*For the nine months ended September 30, 2017*

(Unaudited)	Attributable to owners of the Company						Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
<b>Balance at January 1, 2016</b>	59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513
<b>Comprehensive (loss)/income</b>								
Loss for the period	-	-	-	-	(125,980)	(125,980)	(2)	(125,982)
Other comprehensive (loss)/income								
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	(636)	-	(636)	-	(636)
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(1,984)	-	(1,984)	-	(1,984)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	1,108	-	1,108	-	1,108
— Currency translation differences	-	-	-	16,678	-	16,678	-	16,678
<b>Total comprehensive income/(loss) for the period</b>	-	-	-	15,166	(125,980)	(110,814)	(2)	(110,816)
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>								
Employee share option and RSU Scheme:								
— Value of employee services	-	-	-	26,560	-	26,560	-	26,560
— Vesting of shares	-	(1)	1	-	-	-	-	-
<b>Total contributions by and distributions to owners of the Company for the period</b>	-	(1)	1	26,560	-	26,560	-	26,560
<b>Balance at September 30, 2016</b>	59	1,722,307	(2)	367,439	(1,103,637)	986,166	(1,909)	984,257

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1. GENERAL INFORMATION

Linekong Interactive Group Co., Ltd. (the “Company”), 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’s shares have been listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering (“IPO”).

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

The interim condensed consolidated balance sheet of the Group as of September 30, 2017 and the related interim condensed consolidated statements of comprehensive loss for the nine-month period and three-month period then ended, changes in equity for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) have been approved by the Board of Directors on November 14, 2017.

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

The Interim Financial Information has not been audited.

## 2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2016 as set out in the 2016 annual report of the Company (the “2016 Financial Statements”), which have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and requirements of Hong Kong Companies Ordinance Cap. 622.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of the unaudited Interim Financial Information are consistent with those used in the 2016 Financial Statements, as described in the 2016 Financial Statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the first time for the interim period. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

The adoption of amendments to IFRSs that are effective for the first time for this interim period does not have a material impact on the Group.

The Group has not early adopted any new standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial period beginning January 1, 2017. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in their initial applications.

#### 4. REVENUE AND SEGMENT INFORMATION

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	<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 ( <i>Note (a)</i> ):				
— Sales of in-game virtual items	<b>60,610</b>	120,676	<b>291,065</b>	433,211
— License fee and technical support fee	<b>15,467</b>	4,686	<b>54,449</b>	22,176
Licensing of film rights ( <i>Note (b)</i> )	—	—	<b>22,692</b>	—
	<b>76,077</b>	125,362	<b>368,206</b>	455,387

- (a) 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 in the respective period is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	<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	<b>72,763</b>	122,637	<b>335,108</b>	436,619
— Web-based games	<b>714</b>	640	<b>2,164</b>	3,151
— Client-based games	<b>2,600</b>	2,085	<b>8,242</b>	15,617
	<b>76,077</b>	125,362	<b>345,514</b>	455,387

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

The Group has a large number of game players, no revenue from any individual game player exceeded 10% or more of the Group's revenue for the three months and nine months ended September 30, 2017 and 2016.

- (b) Revenue from licensing of film rights (including rights of internet drama) is recognised upon the delivery of the master tapes to the customers, in accordance with the terms of the underlying contracts. Revenue from licensing of film rights (including rights of internet drama) was derived from a single external customer in PRC.



A breakdown of revenue derived from Mainland China and overseas countries and regions in the respective period is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
Revenue from external customers:				
— Mainland China	<b>49,879</b>	79,411	<b>269,318</b>	365,423
— Korea	<b>20,926</b>	39,229	<b>80,860</b>	61,493
— Overseas countries and regions	<b>5,272</b>	6,722	<b>18,028</b>	28,471
	<b>76,077</b>	125,362	<b>368,206</b>	455,387

The Group's non-current assets other than financial instruments, investments using equity accounting and deferred tax assets were located as follows:

	As of September 30, 2017 <i>RMB'000</i> (Unaudited)	As of December 31, 2016 <i>RMB'000</i> (Audited)
Mainland China	<b>36,423</b>	81,366
Overseas countries and regions	<b>11,933</b>	7,727
	<b>48,356</b>	89,093

## 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, 2017</b>	<u>(9,269)</u>	<u>102,257</u>	<u>9,557</u>	<u>282,196</u>	<u>33,605</u>	<u>418,346</u>
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	5,183	5,183
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(32)	(32)
Share of other comprehensive income of investments accounted for using equity method, net of tax	-	-	-	-	(2,160)	(2,160)
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	6,782	-	6,782
Currency translation differences	-	(15,220)	-	-	-	(15,220)
<b>Balance at September 30, 2017</b>	<u>(9,269)</u>	<u>87,037</u>	<u>9,557</u>	<u>288,978</u>	<u>36,596</u>	<u>412,899</u>
<b>Balance at July 1, 2016</b>	<u>(7,831)</u>	<u>86,285</u>	<u>9,557</u>	<u>257,492</u>	<u>8,715</u>	<u>354,218</u>
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	398	398
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(1,570)	(1,570)
Share of other comprehensive income of investments using equity method, net of tax	-	-	-	-	246	246
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	9,897	-	9,897
Currency translation differences	-	4,250	-	-	-	4,250
<b>Balance at September 30, 2016</b>	<u>(7,831)</u>	<u>90,535</u>	<u>9,557</u>	<u>267,389</u>	<u>7,789</u>	<u>367,439</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, 2017</b>	<b>(7,831)</b>	<b>118,899</b>	<b>9,557</b>	<b>273,990</b>	<b>31,865</b>	<b>426,480</b>
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	27,243	27,243
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(17,945)	(17,945)
Share of other comprehensive income of investments using equity method, net of tax	-	-	-	-	(4,567)	(4,567)
Decrease in ownership interest in subsidiaries without change of control	(1,438)	-	-	-	-	(1,438)
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	14,988	-	14,988
Currency translation differences	-	(31,862)	-	-	-	(31,862)
<b>Balance at September 30, 2017</b>	<b>(9,269)</b>	<b>87,037</b>	<b>9,557</b>	<b>288,978</b>	<b>36,596</b>	<b>412,899</b>
<b>Balance at January 1, 2016</b>	<b>(7,831)</b>	<b>73,857</b>	<b>9,557</b>	<b>240,829</b>	<b>9,301</b>	<b>325,713</b>
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(636)	(636)
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(1,984)	(1,984)
Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	-	1,108	1,108
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	26,560	-	26,560
Currency translation differences	-	16,678	-	-	-	16,678
<b>Balance at September 30, 2016</b>	<b>(7,831)</b>	<b>90,535</b>	<b>9,557</b>	<b>267,389</b>	<b>7,789</b>	<b>367,439</b>

## 6. OTHER GAINS — NET

	Three months ended September 30,		Nine months ended September 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Government subsidies ( <i>Note (a)</i> )	74	90	238	9,795
Foreign exchange gains/(losses), net	2,091	1,032	(927)	2,055
Realised/unrealised fair value gains/(losses) on financial assets at fair value through profit or loss	3,556	(2,702)	3,700	9,749
Fair value gain from an associate measured at fair value through profit or loss	1,191	975	14,013	2,817
Impairment charges on available-for-sale financial assets	—	—	(1,773)	—
(Loss)/gain on disposal of available-for-sale financial assets	(192)	1,616	23,692	2,089
Gain on disposal of property, plant and equipment	—	—	—	138
Gain on disposals of intangible assets	—	2,248	—	2,458
Others	193	10	(379)	202
	<u>6,913</u>	<u>3,269</u>	<u>38,564</u>	<u>29,303</u>

*Note:*

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

## 7. INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for the three months and nine months ended September 30, 2017 and 2016 is analysed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current income tax	(1,118)	5,002	(13,447)	14,393
Deferred income tax	(2,263)	2,772	(4,733)	6,222
<b>Income tax (credit)/expense</b>	<u>(3,381)</u>	<u>7,774</u>	<u>(18,180)</u>	<u>20,615</u>

**(a) Cayman Islands income tax**

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

**(b) Hong Kong profits tax**

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for each of three months and nine months ended September 30, 2017 and 2016 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

**(c) PRC Enterprise Income Tax (“EIT”)**

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of three months and nine months ended September 30, 2017 and 2016, except for Tianjin Baba Liusi Network Technology Co., Ltd. (“Tianjin 8864”), Beijing Feng and Long Interactive Culture Co., Limited (“Feng and Long”) and Horgos Linekong Pictures Corporation (“Linekong Horgos”). Tianjin 8864 and Feng and Long were accredited as software enterprises, and Linekong Horgos was accredited as a new company in economic development zone. The applicable schedules of preferential income tax rate for Tianjin 8864, Feng and Long and Linekong Horgos are as follows:

	<b>Nine months ended September 30, 2017</b>		2016
Tianjin 8864	<b>50% reduction</b>	50% reduction	
Feng and Long	<b>EIT exemption</b>	EIT exemption	
Linekong Horgos	<b>EIT exemption</b>		25%

**(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 WHT rate will be reduced from 10% to 5%.

As of September 30, 2017, 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, 2017 and December 31, 2016, the PRC operational entities did not have available undistributed profit to be remitted to the Company.

## 8. LOSS PER SHARE

### (a) Basic

Basic loss per share for the three months and nine months ended September 30, 2017 and 2016 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		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company	(58,998)	(75,426)	(110,405)	(125,980)
Weighted average number of ordinary shares in issue (thousand shares)	<u>353,755</u>	<u>349,340</u>	<u>353,542</u>	<u>348,449</u>
Basic loss per share (expressed in RMB per share)	<u>(0.17)</u>	<u>(0.22)</u>	<u>(0.31)</u>	<u>(0.36)</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 and nine months ended September 30, 2017 and 2016, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the three months and nine months ended September 30, 2017 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months and nine months ended September 30, 2017 and 2016 are the same as basic loss per share of the period.

## 9. DIVIDENDS

No dividends have been paid or declared by the Company during each of the nine months ended September 30, 2017 and 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW FOR THIRD QUARTER 2017 AND PROSPECTS

The Group officially adopted a new brand logo on October 17, 2017, and strives to become a leading global entertainment enterprise with a brand new mission of "have fun, have brilliant".

During the reporting period, the Group continued to focus on its core game business and strived to introduce more interesting games to the global players while maintaining its strengths in game development and distribution. It also anticipated the development in areas such as internet contents and intelligent hardware so as to diversify its business segments, aiming at an in-depth exploration into the pan-entertainment market.

#### 1. Achieving breakthroughs in overseas markets, such as South Korea and Southeast Asia

Our Group's company in Korea has become more sophisticated in terms of research and development, game release, team building and brand building after three years of development. It is the first profit-making overseas branch of the Group. During the third quarter, such company is licensed to publish *Nueva Salida* (大航海之路), a nautical-themed 3D massively multiplayer online (MMO) mobile game developed by NetEase. The game was launched in the Korean market on October 18, 2017 and has since become one of the recommended apps for the week of Google Play, scored 4.6 in Google Play and 4.7 in AppStore and gained top popularity ranking among the strategy games in both platforms. The Korean version of our mobile game *Daybreak* (黎明之光) achieved fruitful results, ranked 1st on the Free Downloads Chart and 3rd on the Grossing Chart of AppStore, 1st in popularity rankings and 5th on the Grossing Chart of Google Play, 1st in popularity rankings of Kakao, and 2nd in the Korean local mall ONE store. Meanwhile, we also released *The Fighter Storm* (戰機風暴), a 3D flight simulation game adopting active time battle system in Korea.

The Group considered that the competition in global mobile game market is aligned with the population base and the new population benefits brought by the GDP per capita in the countries. Therefore, the Group has officially built up a game release team in Southeast Asia in the third quarter, with a view to speeding up our development in the Southeast Asian game market.

#### 2. Actively exploring the development of globalized products

Globalization is one of the key strategies of the Group. The Group always places great emphasize on the exploration of globalized products by devoting on the research and development of globalized game genres, further optimizing the global deployment of the Group.

2017 is a crucial year for the globalization business of the Group. *Supercharged* (極限車球), a casual and battling game with the combination of leisure, sports and social elements self-developed by our Group's company in the U.S. for two years, has accumulated a lot of popularity during the testing stage with its smooth player experience and diverse gameplay, and its commercial operation in the global market will commence after its release in South America.

### 3. Kicking off the research and development of casual battling games

The Group places great emphasize on the research and development of new game genres. While maintaining its leading research and development advantages in midcore and hardcore mobile games like MMO and ARPG, the Group kicked off the research and development of casual battling games, and continued to modify our products, aiming at achieving breakthrough in the field of casual battling games.

Apart from *Supercharged* (極限車球), the Group is actively developing a MOBA mobile game, namely *Uproar in Heaven* (鬧鬧天宮), a Chinese-style air battle game with a brand-new way of battling and 3D cartoon characters from the Chinese novel “Journey to the West”. The game integrated the hottest horizontal version of IO with MOBA. It brings brand new experiences to players with its beautiful characters at animation level, horizontal version of fierce air combat, red-hot battle with novel characters, and fast-paced confrontation group battle.

### 4. Promoting IP products deployment as always

The Group has always adhered to our IP-driven strategy and attached importance to IP design and culture, as well as the combination of films and games. The Group continues to promote our own IP and adapted IP product deployment.

In respect of our own IP products, *Sword of Heaven* (蒼穹之劍) is the first integration IP invented by the Group based on the concept of “Movie-Comic-Game”. Bai Yicong (白一驄) acted as the chief screenwriter of movie of the same name. *Sword of Heaven 2* (蒼穹之劍2), a self-developed MMORPG mobile game in oriental fantasy and epic style, is expected to be launched officially in December 2017. It will bring brand new interesting experiences to players with oriental fantasy and epic style in land, sea and air scenarios, constellation and camp battle, immersive scene interaction and multi-dimensional social experiences.

In respect of the adapted IP products, such as the officially authorized mobile game for the movie of the same name, *Monster Hunt* (捉妖記) creates an oriental fantasy world for monster hunting and has gained a lot of attention and expectation from players with its highly reproduced story, character design for monsters such as *Wuba* (胡巴) and *Blood Demon* (血妖), as well as spectacular and fascinating worldview. *胭脂妃* (also known as *羋月傳之傳奇佳人*), which is duly authorized by *羋月傳*, is the first mobile game featuring culture of imperial palace and 3D customization released by the Group. The product reproduces the classic plots and scenes accurately, incorporating the story line in relation to the classic conflicts between the concubines in the ancient imperial palace into the game. The game also features fashionable playing style such as scoring systems of fashion customs and theme-dancing. Meanwhile, the Group has constantly promoted our strategic plan of “Movie-Comic-Game” through the cooperation with *iQIYI* (愛奇藝) to jointly release a movie-and-game integrated mobile game, namely *The Legend of Jade Sword* (莽荒紀) which is expected to be launched simultaneously with its TV drama in early 2018. With its special battle system and original dubbing artists from the TV drama, classic scenes will be recreated in the game.



## 5. Accelerating the release of third-party games in the PRC game market

The Group regards “selecting products and types for long-term development” as the top priority for the release of our products, and gathers our resources to carry out the promotion of quality third-party products in a timely manner.

*Daybreak* (黎明之光), a 3D mobile game featuring action adventure, added King Kong mount and the officially licensed outfits from Assassin’s Creed by UBISOFT, pushing it to rank Top 10 on the Grossing Chart of AppStore soon after the release of its new version and making it maintained Top 15 and once ranked up to Top 3 on the same list. *Ultimate Sea Battle* (終極海戰), the new downloadable content of *Daybreak* (黎明之光), ranked up to 11th on the Grossing Chart of AppStore soon after release. *Tofu* (豆腐傳) is the global first mobile game in the world released by the Group featuring immortal cultivation in Chinese cute-style. It adopts a creative artistic style combining traditional Chinese art and cartoon, which brings interesting and adventurous experience of cultivation and enlightenment for players. 萌寵聯盟 is the first mobile game released by the Group with social elements featuring innovative 3D pet raising system. The integration of its cartoon style and animal adorable features makes the game much more interesting.

In Taiwan, *Twilight World* (暮光世界) has been ranking Top 30 on the Grossing Chart of AppStore since its release and once ranked up to Top 5 on the Grossing Chart and 2nd on the Free Downloads Chart. *Legend of MiYue* (半月傳) ranked first in download rankings of both AppStore and Google Play, and became one of the recommended apps of Google Play.

## 6. Others

In addition to the game business, the companies of the Group are also actively exploring the business of other Internet applications, such as short video clips. *Sound Waves* (音浪), a creative short music video application, is currently in the trial operation. We intend to develop it into a new portal platform for interested users who are beginners. At the same time, we are planning ahead for conducting business in the intelligent hardware sector.

It has always been the original belief of the Group to offer high quality and exquisite games for players. The Group will remain focused on its core game business by making a constant effort in its R&D and global distribution of games. In particular, the Group will continue to release more quality products with more interesting contents and continue to follow the three major strategies of “IP Driven, New Category, International Market” for our game business.

## Annex: information of major games

### 1. Self-developed Games

<b>Name of Game</b>	<b>Type of Game</b>	<b>Region</b>	<b>Features</b>
Sword of Heaven 2 (蒼穹之劍2)	MMORPG	PRC	Oriental epic fantasy Gameplay with three routes covering the sea, the land and the air, constellation, warfare in camping style, scenes designed for immersive interaction, multidimensional socialising experience
Monster Hunt (捉妖記)	MMORPG	PRC	Highly reproduced movie scenes, plots and main characters, creating an oriental fantasy world for monster hunting
The Legend of Jade Sword (莽荒紀)	MMORPG	PRC	Epic and large 3D mobile game with a fantasy world, intelligent fairies and pets with featured combats, remaking classic plots and scenes
Supercharged (極限車球)	MOBA	Global	A combination of recreation, competition and socialising activities with highly enjoyable and rich experience
Uproar In Heaven (鬧鬧天宮)	MOBA	PRC	3D cartoon characters from journey to the West in novel ways of battles with smooth experience

## 2. Licensed Games

<b>Name of Game</b>	<b>Type of Game</b>	<b>Region</b>	<b>Developer</b>	<b>Features</b>
Nueva Salida (大航海之路)	MMORPG	Korea	NetEase	3D nautical game with grand and realistic scenes and rich experience of adventures, trades and wars
Legend of MiYue (胭脂妃(芊月傳之傳奇佳人))	3D cards	PRC	UTGAME	Culture of imperial palace and 3D customisation Revisiting classic plots and scenes
Tofu (豆福傳)	3D ARPG	PRC	趣上科技	3D “immortal cultivation” game in Chinese cute-style
萌寵聯盟	3D raising simulation	PRC	麥卓科技	3D cartoon, pet raising simulation with social element

### **Our players**

The total number of registered players of our games increased from approximately 217.1 million as at September 30, 2016 to approximately 232.2 million as at September 30, 2017. As at September 30, 2017, the number of our average monthly active users (MAU) reached approximately 1.6 million and the number of our average daily active users (DAU) reached approximately 0.3 million.

## **FINANCIAL REVIEW**

### **Revenue**

Revenue of the Group decreased by approximately 19.1% from approximately RMB455.4 million for the nine months ended September 30, 2016 to approximately RMB368.2 million for the nine months ended September 30, 2017.

During the nine months ended September 30, 2017, the revenue contributed by game business of the Group decreased by approximately 24.1% or RMB109.9 million, as compared with the corresponding period of 2016, which is mainly due to less new games released during the nine months of 2017 than that of 2016, which mainly due to the strategy implemented by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of the movie business of the Group, the Group recognised revenue of approximately RMB22.7 million from licensing of film rights during the nine months ended September 30, 2017.

### Revenue by game forms and sources

The following table sets forth the breakdown of our total revenue by game business and movie business. And for the game business, the other following tables set forth the breakdown of revenue by (ii) game forms and (iii) self-developed games and licensed games for nine months ended September 30, 2017 and 2016, respectively:

	For the nine months ended September 30,			
	2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Development and operations of online games	<b>345,514</b>	<b>93.8</b>	455,387	100.0
Licensing of film rights	<b>22,692</b>	<b>6.2</b>	–	–
<b>Total</b>	<b>368,206</b>	<b>100.0</b>	<b>455,387</b>	<b>100.0</b>

	For the nine months ended September 30,			
	2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Mobile games	<b>335,108</b>	<b>97.0</b>	436,619	95.9
Web-based games	<b>2,164</b>	<b>0.6</b>	3,151	0.7
Client-based games	<b>8,242</b>	<b>2.4</b>	15,617	3.4
<b>Total</b>	<b>345,514</b>	<b>100.0</b>	<b>455,387</b>	<b>100.0</b>

	For the nine months ended September 30,			
	2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Self-developed games	<b>111,721</b>	<b>32.3</b>	303,943	66.7
Licensed games	<b>233,793</b>	<b>67.7</b>	151,444	33.3
<b>Total</b>	<b>345,514</b>	<b>100.0</b>	<b>455,387</b>	<b>100.0</b>

## International markets

As of September 30, 2017, our games have been released in 47 countries and regions outside of China. For the nine months ended September 30, 2017, the revenue from overseas markets was approximately RMB98.9 million, representing an increase of approximately 9.9% as compared to the revenue from overseas markets for the same period of 2016. The revenue from overseas markets accounted for approximately 26.9% of our total revenue.

The revenue from overseas countries and regions is mainly generated from South Korea.

	For the nine months ended September 30,			
	2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
PRC (excluding Hong Kong)	<b>269,318</b>	<b>73.1</b>	365,423	80.2
Overseas countries and regions	<b>98,888</b>	<b>26.9</b>	89,964	19.8
<b>Total</b>	<b>368,206</b>	<b>100.0</b>	<b>455,387</b>	<b>100.0</b>

## Cost of revenue

The Group's cost of revenue for the nine months ended September 30, 2017 was approximately RMB218.8 million, representing a decrease of approximately 9.7% from approximately RMB242.4 million for the nine months ended September 30, 2016. The Group's cost of revenue for the nine months ended September 30, 2017, excluding share-based compensation expenses was approximately RMB217.1 million, representing a decrease of approximately 9.8% from approximately RMB240.7 million for the nine months ended September 30, 2016.

During the nine months ended September 30, 2017, the cost incurred by our game business was approximately RMB196.2 million, representing a decrease of approximately 19.1%, or RMB46.2 million, as compared with the corresponding period of 2016, which was due to the decrease of the revenue of our game business.

During the nine months ended September 30, 2017, the cost incurred by our movie business was approximately RMB22.6 million.

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

The Group's gross profit for the nine months ended September 30, 2017 was approximately RMB149.4 million, representing a decrease of approximately 29.9% as compared to approximately RMB213.0 million for the nine months ended September 30, 2016. The Group's gross profit, excluding share-based compensation expenses, for the nine months ended September 30, 2017 was approximately RMB151.1 million, representing a decrease of approximately 29.6% as compared to approximately RMB214.7 million for the nine months ended September 30, 2016. The decrease in the Group's gross profit was primarily due to (1) the decrease in revenue generated from our game business for the nine months ended September 30, 2017 as compared with that of the corresponding period of 2016; and (2) the additional production cost incurred by our movie business for the nine months ended September 30, 2017.

The Group's gross profit margin for the nine months ended September 30, 2017 was approximately 40.6%, representing a decrease of approximately 6.2 percentage points as compared to approximately 46.8% for the nine months ended September 30, 2016. The Group's gross profit margin, excluding share-based compensation expenses, for the nine months ended September 30, 2017 was approximately 41.0%, representing a decrease of approximately 6.1 percentage points as compared to approximately 47.1% for the nine months ended September 30, 2016.

During the nine months ended September 30, 2017, the gross profit margin of the game business of the Group was approximately 43.2%, representing a decrease of approximately 3.6 percentage points as compared with the corresponding period of 2016, which was mainly due to the increase in proportion of revenue from licensed mobile games to the overall revenue.

The gross profit margin of the movie business of the Group was approximately 0.4%, which is lower than gross profit margin of our game business.

## **Selling and marketing expenses**

The Group's selling and marketing expenses for the nine months ended September 30, 2017 were approximately RMB126.7 million, representing a decrease of approximately 17.5% from approximately RMB153.6 million for the nine months ended September 30, 2016. The Group's selling and marketing expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2017 were approximately RMB125.8 million, representing a decrease of approximately 17.3% from approximately RMB152.2 million for the nine months ended September 30, 2016. The decrease was primarily due to the reduction of our advertising and promotion expenses for publishing new games.

## **Administrative expenses**

The Group's administrative expenses for the nine months ended September 30, 2017 were approximately RMB65.6 million, representing a decrease of approximately 9.1% from approximately RMB72.2 million for the nine months ended September 30, 2016. The Group's administrative expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2017 were approximately RMB57.2 million, representing a decrease of approximately 1.9% from approximately RMB58.3 million for the nine months ended September 30, 2016. The decrease in the Group's administrative expenses was primarily due to impairment of game license fees paid made by the Group as a result of certain already issued games ceased operation for the nine months ended September 30, 2016 while there was no such impairment provided in the corresponding period of 2017.

## **Research and development expenses**

The Group's research and development expenses for the nine months ended September 30, 2017 were approximately RMB98.3 million, representing a decrease of approximately 7.1% from approximately RMB105.8 million for the nine months ended September 30, 2016. The Group's research and development expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2017 were approximately RMB94.3 million, representing a decrease of approximately 1.9% from RMB96.2 million for the nine months ended September 30, 2016. The decrease in the Group's research and development expenses was primarily due to the decrease in expenditures from outsourcing animation and art design.

## **Other gains — net**

The Group's other gains for the nine months ended September 30, 2017 was approximately RMB38.6 million, representing an increase of approximately 31.7% as compared to approximately RMB29.3 million for the nine months ended September 30, 2016. Such change in the Group's other gains was primarily due to the realised and unrealised gain in fair value of certain investments held by the Company during the nine months ended September 30, 2017 and 2016 respectively.

## **Finance income — net**

The Group's finance income decreased from approximately RMB3.6 million for the nine months ended September 30, 2016 to approximately RMB0.4 million for the nine months ended September 30, 2017. The decrease was mainly due to two factors: (i) the exchange rate of Hong Kong dollar (“**HKD**”) against U.S. dollar (“**USD**”) decreased, which led to the increase of unrealised exchange loss; and (ii) the interest cost incurred by the loan borrowed by the Group to finance its operating activities. No interest was capitalized for the nine months ended September 30, 2017 (nine months ended September 30, 2016: Nil).

## **Share of loss of Investments using equity accounting**

The Group's share of loss of Investments using equity accounting for the nine months ended September 30, 2017 was approximately RMB25.6 million, which was mainly due to a loss incurred by an investee, the Fuze Entertainment Co., Ltd, during its early operational stage.

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

The Group's income tax credit was approximately RMB18.2 million for the nine months ended September 30, 2017, while the Group's income tax expense for the nine months ended September 30, 2016 was approximately RMB20.6 million. The change in income tax was mainly due to the accreditation of a subsidiary of our Group as a software enterprise in the year of 2017, it enjoys preferential tax treatment and thus the income tax accrued in the year of 2016 was exempted and reversed during the nine months ended September 30, 2017.

### **Loss for the period**

As a result of the foregoing, the loss for the period of the Group was approximately RMB109.8 million for the nine months ended September 30, 2017, as compared to a loss for the period of approximately RMB126.0 million for the nine months ended September 30, 2016.

### **Non-IFRSs measure — adjusted net loss**

To supplement our consolidated financial statements presented in accordance with International Financial Reporting Standards, we also adopted adjusted net loss 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 loss was derived from our loss for the period excluding share-based compensation expenses. The adjusted net loss is an unaudited figure.

The Group's adjusted net loss for the nine months ended September 30, 2017 was approximately RMB94.8 million, representing a decrease of approximately 4.6% as compared to the adjusted net loss of approximately RMB99.4 million for the nine months ended September 30, 2016. The decrease in our adjusted net loss was due to the reduction of advertising and promotion expenses incurred for publishing new games during the nine months ended September 30, 2017. We have presented adjusted net loss for the period in this quarterly results announcement as we believe that the adjusted net loss for the quarter is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses. However, the 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 results announcement may not be comparable to similarly titled measures reported by other companies due to the differences in the components of the calculation.



## LIQUIDITY AND FINANCIAL RESOURCES

During the nine months ended September 30, 2017, we financed our operations primarily through cash generated from our primary operating activities. The Group maintains a solid cash position because of the net proceeds we received from the listing of the Company's shares (the "**Shares**") on the Stock Exchange (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, 2017, the Group's idle capital was invested in short-term wealth management products 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, short-term bank deposits and restricted deposits

As at September 30, 2017, we had cash and cash equivalents of approximately RMB404.4 million (December 31, 2016: approximately RMB338.7 million), which primarily consisted of cash at bank and other financial institutions and cash in hand, which were mainly denominated in Renminbi (as to approximately 15.6%), HKD (as to approximately 53.1%), USD (as to approximately 26.0%) and other currencies (as to approximately 5.3%).

As of September 30, 2017, we had short-term bank deposit amounting to approximately RMB34.2 million (December 31, 2016: approximately RMB313.0 million).

As of September 30, 2017, approximately RMB135.0 million is restricted deposits held at bank as reserve for a bank loan facility with a total credit line of approximately RMB130.0 million (December 31, 2016: approximately RMB106.1 million), and which will expire in 2018.

Net proceeds from our Listing, after deducting the underwriting commission and other expenses in connection with the Listing, which the Company received amounted to approximately HKD686.2 million. As at the date of this quarterly results announcement, some of the net proceeds (see section "**Use of IPO Proceeds**") from our Listing had been utilised and the rest has been deposited into short-term demand deposits in a bank account maintained by the Group. We will continue to utilise the net proceeds from our Listing in accordance with the proposed use of proceeds as set out in the "Change in Use of Proceeds" announcement of the Group dated March 29, 2016.

## **Capital expenditures**

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the nine months ended September 30, 2017, our total capital expenditure amounted to approximately RMB11.4 million (nine months ended September 30, 2016: approximately RMB35.0 million), comprising the purchase of furniture and office equipment of approximately RMB1.4 million (nine months ended September 30, 2016: approximately RMB1.2 million), server and other equipment of approximately RMB0.1 million (nine months ended September 30, 2016: approximately RMB0.2 million), motor vehicles of approximately RMB0.3 million (nine months ended September 30, 2016: approximately RMB0.7 million), leasehold improvements of approximately RMB0.2 million (nine months ended September 30, 2016: RMB4.3 million), trademarks and licenses approximately RMB9.1 million (nine months ended September 30, 2016: approximately RMB27.6 million) and computer software of approximately RMB0.3 million (nine months ended September 30, 2016: approximately RMB1.0 million).

## **CAPITAL STRUCTURE**

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

## **BORROWING AND GEARING RATIOS**

As of September 30, 2017, long-term bank loan borrowed by the Group amounting to approximately RMB119.5 million, of which approximately RMB99.5 million is due within one year (As of December 31, 2016, long-term bank loan amounting to RMB100.0 million borrowed by the Group, of which approximately RMB0.6 million is due within one year).

As at September 30, 2017, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 26.2% (As at December 31, 2016: approximately 27.4%).

## **CHARGE ON GROUP ASSETS**

As at September 30, 2017, cash asset of approximately RMB135.0 million of the Group was pledged as security for bank borrowing (As at December 31, 2016: approximately RMB106.1 million).

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

As of September 30, 2017, the Group had 733 employees (September 30, 2016: 683), mainly worked and stationed in the PRC.

The total remuneration of the employees of the Group was approximately RMB155.5 million for the nine months ended September 30, 2017 (2016 corresponding period: approximately RMB152.4 million).

The Company 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 on regular basis.

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

In addition, the Company has adopted a restricted share unit scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based compensation expenses in connection with the RSU Scheme for the nine months ended September 30, 2017 were approximately RMB15.0 million, representing a decrease of approximately 43.6% from approximately RMB26.6 million for the corresponding period in 2016.

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group’s business. As a fast growing company, the Company is able to provide its employees with ample career development choices and opportunities of advancement. The 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 Company also provides various incentives to motivate its employees. In addition to providing performance-based bonuses and share-based awards, the Company offers unsecured, interest-free housing loans to employees with good performance.

## **DIVIDEND**

The Board did not recommend the payment of dividend for the nine months ended September 30, 2017.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As of September 30, 2017, 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 any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the “SFO”)) which were required 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, were as follows:

#### (i) Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Total number of Shares	Approximate percentage of shareholding (Note 4)
Mr. Wang Feng <sup>(Note 1)</sup>	Interest of controlled corporation	66,576,160	20.94%
	Beneficial owner	10,646,308	
Ms. Liao Mingxiang <sup>(Note 2)</sup>	Interest of controlled corporation	12,168,720	4.09%
	Beneficial owner	2,918,269	
Mr. Qian Zhonghua	Beneficial owner	5,000	0.001%
Mr. Zhao Jun <sup>(Note 3)</sup>	Beneficial owner	2,739,769	0.74%

#### Notes:

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 2,213,000 Shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 shares subject to vesting. As of September 30, 2017, approximately 95.0% of the RSUs granted to him have been vested and the remaining RSUs are subject to vesting.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 Shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 Shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 106,500 Shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares subject to vesting. As of September 30, 2017, approximately 95.0% of the RSUs granted to her have been vested and the remaining RSUs are subject to vesting.

(3) Mr. Zhao Jun holds 28,000 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, 2017, approximately 63.3% of the RSUs granted to him have been vested and the remaining RSUs are subject to vesting. During the reporting period, Mr. Zhao Jun sold 10,000 Shares on the Stock Exchange.

(4) As of September 30, 2017, the Company issued 368,730,964 Shares.

Save as disclosed above, on September 30, 2017, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as of September 30, 2017, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Linekong Online (Beijing) Technology Co., Ltd. ("Linekong Online")	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Online	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Online	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, as of September 30, 2017, 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 and short positions in the Shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 8)
Wangfeng Management Limited <sup>(Note 1)</sup>	Beneficial owner	66,576,160	18.06%
Zhu Li <sup>(Note 2)</sup>	Interest of spouse	77,222,468	20.94%
China Momentum Fund, L.P. <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun China Momentum Fund GP, Ltd. <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun Financial Holdings Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun Holdings Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun International Holdings Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun International Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Fosun Momentum Holdings Limited <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Guo Guangchang <sup>(Note 3)</sup>	Interest of controlled corporation	52,318,760	14.19%
Starwish Global Limited <sup>(Note 3)</sup>	Beneficial owner	52,318,760	14.19%

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares or securities held</b>	<b>Approximate percentage of interest in our Company</b> <i>(Note 8)</i>
The Core Trust Company Limited <i>(Note 4)</i>	Trustee of a trust	40,701,158	11.04%
Premier Selection Limited <i>(Note 4)</i>	Nominee for another person	40,701,158	11.04%
Chi Sing Ho <i>(Note 5)</i>	Interest of controlled corporation	29,922,996	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. <i>(Note 5)</i>	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund Associates, L.P. <i>(Note 5)</i>	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund L.P. <i>(Note 5)</i>	Beneficial owner	23,061,443	6.25%
Quan Zhou <i>(Note 5)</i>	Interest of controlled corporation	27,774,323	7.53%
Fubon Financial Holding Co., Ltd. <i>(Note 6)</i>	Interest of controlled corporation	23,739,000	6.44%
Fubon Life Insurance Co., Ltd. <i>(Note 6)</i>	Beneficial owner	23,739,000	6.44%
JPMorgan Chase & Co. <i>(Note 7)</i>	Interest of controlled corporation	25,771,564	6.98%
J. P. Morgan Broker-Dealer Holdings Inc <i>(Note 7)</i>	Interest of controlled corporation	25,771,564	6.98%
J. P. Morgan Securities LLC <i>(Note 7)</i>	Beneficial owner	25,771,564	6.98%

*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 all of the Shares which are interested by Mr. Wang Feng under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of this announcement.
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, 2017, Fosun International Limited is 71.75% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of September 30, 2017, Mr. Guo Guangchang owned 64.45% equity interest in Fosun International Holdings Limited.
4. The Core Trust Company Limited, being the RSU trustee, directly holds the entire issued share capital of Premier Selection Limited (the RSU nominee), which originally held 43,697,041 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, 2017, 2,995,883 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 40,701,158 underlying Shares, including a total of 15,462,231 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 4,217,154 RSUs granted to Mr. Zhao Jun. On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017, June 22, 2017, August 30, 2017 and September 12, 2017, the Company had directed The Core Trust Company Limited to purchase and hold on-market 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 Shares, 1,000 Shares, 72,000 Shares, 140,000 Shares, 100,000 Shares, 240,500 Shares and 50,500 Shares, respectively, of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.
5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund Associates, L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 Shares) and IDG-Accel China Growth Fund-A L.P. (directly holds 4,712,880 Shares) 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. Quan Zhou and Mr. Chi Sing Ho; 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. Chi Sing Ho. Hence, IDG-Accel China Growth Fund Associates L.P., IDG-Accel China Growth Fund GP Associates Ltd. and Mr. Quan Zhou are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing Ho is deemed to be interested in 29,922,996 Shares by virtue of SFO.
6. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
7. J.P. Morgan Securities LLC is 100% owned by J.P. Morgan Broker-Dealer Holdings Inc. J.P. Morgan Broker-Dealer Holdings Inc is 100% owned by JPMorgan Chase & Co..
8. As of September 30, 2017, the Company issued 368,730,964 Shares.



## SHARE OPTION SCHEME

The Company adopted the share option scheme (the “**Share Option Scheme**”) on November 20, 2014. 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 the 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.

As of September 30, 2017, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of Grant	Option Period	Share options granted	Exercise price per Share HKD	The weighted average closing price of the Shares HKD	Outstanding balance as at January 1, 2017	During the reporting period				Outstanding balance as at September 30, 2017	Number of new Shares issued during the reporting period	Number of new Shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 <sup>(Note 2)</sup>	8.10	8.028	462,298	0	0	0	0	462,298	0	0
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 <sup>(Note 3)</sup>	7.18	6.896	4,742,500	0	0	0	789,375	3,953,125	0	511,250
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 <sup>(Note 4)</sup>	4.366	4.366	1,450,000	0	0	0	37,500	1,412,500	0	362,500
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 <sup>(Note 5)</sup>	3.10	3.084	N/A	9,225,000	0	0	1,235,000	7,990,000	0	0

*Notes:*

- (1) The vesting period of the share options is starting from the date of acceptance of the grant to the commencement of the exercise period.
- (2) The options granted on August 12, 2015 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
i. 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. 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. 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. 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. 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. 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. 46 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

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

- (3) The options granted on October 9, 2015 may be exercised in accordance with the following vesting timetable:

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

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

- (4) The options granted on June 15, 2016 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
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 HKD4.366 per Share.

- (5) The options granted on January 18, 2017 may be exercised in accordance with the following vesting timetable:

<b>Vesting Dates</b>	<b>Maximum Cumulative Percentage of Share Options Vested</b>
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 HKD3.10 per Share.

- (6) Please refer to the announcements of the Company dated August 12, 2015, October 9, 2015, June 15, 2016 and January 18, 2017 for details.

## **SHARE INCENTIVE SCHEME**

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

As of September 30, 2017, RSUs in respect of 35,471,879 underlying Shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 860,038 underlying Shares granted to 14 grantees had been lapsed during the nine months ended September 30, 2017. As of September 30, 2017, 28,150,104 RSUs have been vested unconditionally and there were 3,002,390 RSUs granted and outstanding.

## **EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS**

### **Share Purchase by RSU Trustee**

On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017, June 22, 2017, August 30, 2017, September 12, 2017 and October 10, 2017, the Company had directed The Core Trust Company Limited, being the RSU Trustee assisting with the administration and vesting of RSUs granted pursuant to the RSU Scheme adopted by the Company, to purchase and hold on-market 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 Shares, 1,000 Shares, 72,000 Shares, 140,000 Shares, 100,000 Shares, 240,500 Shares, 50,500 Shares and 370,000 Shares respectively, of the ordinary Shares of the Company (collectively, the “**Share Purchases**”), which will be used to satisfy the RSUs upon exercise.

The Board believes that the current financial resources of the Company would enable it to proceed with the Share Purchases while maintaining a solid financial position for the continuation of the Company’s business. In the opinion of the Board, it’s an opportune time to replenish the underlying Shares in respect of the RSUs for the purpose of showing confidence of the Board to the Company’s future prospect as the value of the shares of the Company is consistently undervalued.

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 13, 2017, June 22, 2017, August 30, 2017, September 12, 2017 and October 10, 2017 respectively.

### **Grant of Share Options**

Pursuant to the Share Option Scheme, on January 18, 2017, share options were granted by the Company and details are set out in the section headed “Share Option Scheme” of this announcement.

### **Re-designation of Director, Appointment of Non-Executive Director and Changes in the composition of the Board Committees**

On February 3, 2017, the Board announced the following changes to the Board, with effect from February 3, 2017: (1) Mr. Qian Zhonghua was redesignated from the non-executive Director of the Company to the executive Director of the Company. Mr. Qian Zhonghua, following his redesignation, ceased to be a member of the audit committee of the Board and a member of the nomination committee of the Board. He has entered into a director’s service agreement with the Company, pursuant to which, he has been appointed as an executive Director for a term of three years commencing from February 3, 2017. He is currently entitled to a remuneration of RMB137,500 per month, which is determined with reference to his duties and responsibilities within the Group and the prevailing market condition; and (2) Mr. Pan Donghui was appointed as the non-executive Director of the Company, a member of the audit committee of the Board and a member of the nomination committee of the Board.

## **Resignation of Executive Director**

On June 16, 2017, Mr. Mei Song has resigned as an executive Director and a member of the nomination committee with effect from June 16, 2017 due to his personal reasons.

## **Establishment of Feng Hua Investment and Feng Hua Partners**

On August 24, 2017, Linekong Online, a wholly-owned subsidiary of the Company, has signed the shareholders' contribution agreement (the "**Shareholders' Contribution Agreement**") with Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Qian Zhonghua, Mr. Ren Zheng and Mr. Shang Silin, pursuant to which Linekong Online has agreed to contribute RMB3.9 million with the intention of jointly establishing Linekong Feng Hua Investment Management Limited (藍港峰華投資管理有限公司) ("**Feng Hua Investment**") with the above parties.

On the same day, Feng Hua Investment, which is intended to be established, has entered into the limited partnership contribution agreement (the "**Limited Partnership Contribution Agreement**") with Linekong Online, Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Qian Zhonghua, Mr. Ren Zheng and Mr. Shang Silin, pursuant to which Linekong Online has agreed to contribute RMB12.5 million to jointly establish Linekong Feng Hua Limited Partners Corporation (Limited Partnership) (藍港峰華有限合夥企業(有限合夥)) ("**Feng Hua Partners**") with the above parties. The purpose of establishing Feng Hua Partners is for managing fund raising projects. Upon completion of the transactions contemplated under the Limited Partnership Contribution Agreement, Linekong Online will become a limited partner of Feng Hua Partners while Feng Hua Investment will become a general partner of Feng Hua Partners.

As the Directors of the Company, Mr. Wang Feng, Ms. Liao Mingxiang and Mr. Qian Zhonghua are connected persons of the Company according to the GEM Listing Rules. Therefore, pursuant to the GEM Listing Rules, the Shareholders' Contribution Agreement, the Limited Partnership Contribution Agreement and the transactions thereunder constitute the connected transactions of the Company under the GEM Listing Rules. Pursuant to the requirement under Rule 20.79 of the GEM Listing Rules, the transactions under the Shareholders' Contribution Agreement shall be aggregated with the transactions under the Limited Partnership Contribution Agreement. As the applicable ratios under Rule 19.07 of the GEM Listing Rules in respect of the Shareholders' Contribution Agreement, the Limited Partnership Contribution Agreement and the transactions thereunder, when aggregated, are more than 0.1% but less than 5%, the Shareholders' Contribution Agreement, the Limited Partnership Contribution Agreement and the transactions thereunder are exempted from the independent shareholders' approval requirement.

Details of the transactions in relation to the establishment of Feng Hua Investment and Feng Hua Partners are set out in the announcement of the Company dated August 24, 2017. As at the date of this announcement, the establishment of Feng Hua Investment has been completed. It was disclosed in the above announcement that the board of directors of Feng Hua Investment would comprise of seven members, among which three directors would be delegated by Linekong Online while four directors would be delegated by the remaining shareholders. The parties to the Shareholders' Contribution Agreement subsequently agreed to decrease the number of directors to five, among which two will be delegated by Linekong Online and three will be delegated by the remaining shareholders.

### **Disposals of Equity Interest in Horgos Pictures**

On 24 August 2017, Linekong Online, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with, among others, Gonggingcheng Lanfeng Investment Management Partnership (Limited Partnership) (共青城藍峰投資管理合夥企業(有限合夥)) (“**Lanfeng Investment**”) (the “**Lanfeng Agreement**”) and another equity transfer agreement with, among others, 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)) (“**Lanhai Culture**”) (the “**Lanhai Culture Agreement**”), 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 Linekong Pictures Corporation (霍爾果斯藍港影業有限公司) (“**Horgos Pictures**”) at a consideration of RMB29,300,000. 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. 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.

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

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 exempted 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 exempted from the shareholders' approval requirement under Chapter 19 of the GEM Listing Rules.

Details of the transactions in relation to the disposals of equity interest in Horgos Pictures are set out in the announcement of the Company dated August 24, 2017. As at the date of this announcement, the disposals of equity interest in Horgos Pictures have not been completed.

### **Change of Logo of the Company**

The Company adopted the new logos with effect from October 17, 2017 in order to align with its latest business development. The change of Company logo will not affect any rights of the shareholders of the Company. All certificates of issued securities bearing the existing logo will, after the change of the Company's logo, continue to be evidence of title to such securities and will continue to be valid for trading, settlement, registration and delivery purposes. Therefore, there will not be any arrangement for the free exchange of existing certificates of securities of the Company for new certificates of securities bearing the new logos of the Company.

Details of the change of logo of the Company are set out in the announcement of the Company dated October 17, 2017.

### **USE OF IPO PROCEEDS**

The actual net proceeds of the Company from the public offering, after deducting the underwriting commission and other expenses in connection with the public offering, amounted to approximately HKD686.2 million (the "**IPO Proceeds**").

As of September 30, 2017, a total amount of approximately HKD291.4 million from the IPO Proceeds had been utilised for the purposes and approximately in the amount set out below:

- (a) approximately HKD81.7 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD46.0 million was used for potential strategic acquisition or investment in companies in online game and related businesses;
- (c) approximately HKD58.2 million was used for creating pan-entertainment environment;
- (d) approximately HKD59.9 million was used for licensing more high-quality games with different genres and themes from Chinese and overseas game developers and the operation of such games; and
- (e) approximately HKD45.6 million was used for the research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content.

As of September 30, 2017, approximately HKD394.8 million, being the residual part of the IPO Proceeds, remains unutilized.



The unutilized IPO Proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group.

The Company will continue to utilize the IPO Proceeds for the purposes which are consistent with those set out in the announcement of “Change in Use of Proceeds” of the Company dated March 29, 2016.

## **INTERESTS IN COMPETING BUSINESS**

Mr. Qian Zhonghua, a non-executive Director (re-designated as executive Director with effect from February 3, 2017), had been a managing director of Fosun Equity Investment Management Ltd. from October 2014 to January 2017 and a director of Starwish Global Limited from April 2015 to January 2017 before the re-designation as executive Director. 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: 00656)) and its subsidiaries (together, the “**Fosun Group**”). Fosun Group is an investment group taking roots in China with a global foothold. It has established two principal businesses comprising integrated finance (including insurance, investment, wealth management and internet finance) and industrial operation (including health, happiness, steel, property development and sales, and resources). Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including private mobile game and network game companies including Shanghai MUYOU Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies. In addition, Fosun Group has nominated representatives to hold directorship in the board of directors of the aforementioned companies after the appointment. On the other hand, although Fosun Group has the right to nominate one of its representatives to act as a non-executive director in each of the private portfolio companies, it does not control any of the board of directors of the private portfolio companies.

Save as 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, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group for the nine months ended September 30, 2017.

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

Save as disclosed in this announcement, there was no significant investment, material acquisition and disposal of subsidiaries and affiliated companies by the Company during the nine months ended September 30, 2017.

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

During the nine months ended September 30, 2017, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The audit committee was established on April 24, 2014. The chairman of the audit committee is Mr. Ma Ji, an independent non-executive Director, and other members included Mr. Qian Zhonghua (resigned with effect from February 3, 2017), an executive Director, Mr. Pan Donghui (appointed with effect from February 3, 2017), a non-executive Director, and Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang, the independent non-executive Directors. The written terms of reference of the audit committee are posted on the GEM website and on the Company's website.

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

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

The Group's unaudited financial statements for the nine months ended September 30, 2017 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, 2017 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## **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, 2017, except for the deviation of code provisions A.2.1 and A.5.1 of the Code.

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

Code provision A.5.1 of the Code provides that issuers should establish a nomination committee which is chaired by the chairman of the Board or an independent non-executive Director and comprises a majority of independent non-executive Directors. For the period from January 1, 2017 to June 16, 2017, the nomination committee of the Company comprised Mr. Wang Feng (Chairman of nomination committee), Ms. Liao Mingxiang, Mr. Mei Song (resigned with effect from June 16, 2017) as executive Directors; Mr. Qian Zhonghua (re-designated as executive Director and ceased to be a member of the nomination committee with effect from February 3, 2017) and Mr. Pan Donghui (appointed as non-executive Director and a member of the nomination committee with effect from February 3, 2017) as non-executive Directors; and Mr. Ma Ji, Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang as independent non-executive Directors. During the period from January 1, 2017 to June 16, 2017, although the independent non-executive Directors only accounted for half of the members, the Company considers that this composition can operate more effectively and the overall independence has not been affected. On June 16, 2017, Mr. Mei Song resigned as an executive Director and a member of the nomination committee with effect from June 16, 2017. For the period from June 17, 2017 to September 30, 2017, the Company had complied with the code provision A.5.1 of the Code.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them 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, all Directors confirmed that they have complied with the required standards of dealings for the nine months ended September 30, 2017.

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

Beijing, PRC, November 14, 2017

*As at the date of this announcement, the executive Directors 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 will remain on the "Latest Company Announcements" page of the Stock Exchange's website at [www.hkgem.com](http://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](http://www.linekong.com).*