



LINEKONG

2016 THIRD QUARTERLY REPORT

藍港互動集團有限公司

Linekong Interactive Group Co.,Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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

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*This report, 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 report is accurate and complete in all material aspects and not misleading or deceptive and there are no other matters the omission of which would make this report or any statement herein misleading.*



Highlights

	For the three months ended September 30,		For the nine months ended September 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	125,362	115,919	455,387	416,869
Loss for the period	(75,427)	(18,982)	(125,982)	(9,156)
Adjusted net (loss)/profit (unaudited)	(65,530)	(8,368)	(99,422)	43,337

- Adjusted net (loss)/profit refers to the (loss)/profit which excludes share-based compensation expenses. This item is deemed as useful supplemental information as stated in the statement of comprehensive profit and loss, which reflects the profitability and operating performance of the company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.
- Revenue of the Group for the nine months ended September 30, 2016 amounted to approximately RMB455.4 million, representing an increase of approximately 9.2% as compared to approximately RMB416.9 million for the nine months ended September 30, 2015. Revenue for the three months ended September 30, 2016 amounted to approximately RMB125.4 million, representing an increase of approximately 8.1% as compared to approximately RMB116.0 million for the three months ended September 30, 2015.
- Our loss for the nine months ended September 30, 2016 amounted to approximately RMB126.0 million, as compared to a loss of approximately RMB9.2 million for the nine months ended September 30, 2015.
- Our adjusted net loss for the nine months ended September 30, 2016 amounted to approximately RMB99.4 million, as compared to an adjusted net profit of approximately RMB43.3 million for the nine months ended September 30, 2015.
- The board of Directors (the “**Board**”) do not recommend any payment of dividends for the nine months ended September 30, 2016.



Third quarterly results (unaudited)

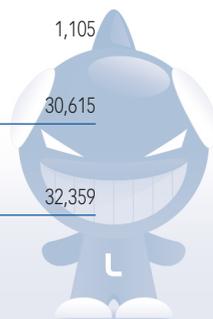
The Board announces the unaudited consolidated quarterly results and the unaudited interim condensed consolidated financial statements of the Group for the nine months ended September 30, 2016 together with the comparative figures for the nine months ended September 30, 2015. The results were reviewed 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)/Income

For the nine months ended September 30, 2016

	Note	Three months ended September 30,		Nine months ended September 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	4	125,362	115,919	455,387	416,869
Cost of revenue		(74,171)	(75,201)	(242,386)	(255,346)
Gross profit		51,191	40,718	213,001	161,523
Selling and marketing expenses		(54,725)	(16,978)	(153,647)	(134,081)
Administrative expenses		(23,821)	(19,945)	(72,179)	(57,044)
Research and development expenses		(35,195)	(30,517)	(105,791)	(85,285)
Other gains — net	6	3,269	8,940	29,303	98,578
Operating loss		(59,281)	(17,782)	(89,313)	(16,309)
Finance income — net		278	4,233	3,600	6,197
Share of loss of investments using equity accounting		(8,650)	(2,253)	(19,654)	(2,927)
Loss before income tax		(67,653)	(15,802)	(105,367)	(13,039)
Income tax (expense)/credit	7	(7,774)	(3,180)	(20,615)	3,883
Loss for the period		(75,427)	(18,982)	(125,982)	(9,156)
Other comprehensive income/(loss)					
Items that may be subsequently reclassified to profit or loss:					
— Changes in fair value of available- for-sale financial assets, net of tax		398	993	(636)	993
— Less: reclassification of changes in fair value of available-for- sale financial assets to profit or loss upon disposal, net of tax		(1,570)	(354)	(1,984)	(354)
— Share of other comprehensive income of investments using equity method, net of tax		246	1,105	1,108	1,105
Items that will not be reclassified to profit or loss:					
— Currency translation differences		4,250	31,104	16,678	30,615
Other comprehensive income for the period, net of tax		3,324	32,848	15,166	32,359



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

For the nine months ended September 30, 2016

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Note	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Total comprehensive (loss)/ income for the period	(72,103)	13,866	(110,816)	23,203
Loss attributable to:				
Owners of the Company	(75,426)	(18,206)	(125,980)	(8,378)
Non-controlling interests	(1)	(776)	(2)	(778)
Loss for the period	(75,427)	(18,982)	(125,982)	(9,156)
Total comprehensive (loss)/ income attributable to:				
Owners of the Company	(72,102)	14,642	(110,814)	23,981
Non-controlling interests	(1)	(776)	(2)	(778)
Total comprehensive (loss)/ income for the period	(72,103)	13,866	(110,816)	23,203
Loss per share (expressed in RMB per share)				
— Basic	8(a) (0.22)	(0.05)	(0.36)	(0.02)
— Diluted	8(b) (0.22)	(0.05)	(0.36)	(0.02)



Interim Condensed Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2016

(Unaudited)	Attributable to owners of the Company							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	Non-controlling interests RMB'000	
Balance at January 1, 2016	59	1,722,308	(3)	325,713	(977,657)	1,070,420	(1,907)	1,068,513
Comprehensive (loss)/income								
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 using equity method, net of tax	-	-	-	1,108	-	1,108	-	1,108
— Currency translation differences	-	-	-	16,678	-	16,678	-	16,678
Total comprehensive income/(loss) for the period	-	-	-	15,166	(125,980)	(110,814)	(2)	(110,816)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Employee share option and RSU Scheme:								
— Value of employee services	-	-	-	26,560	-	26,560	-	26,560
— Vesting of shares	-	(1)	1	-	-	-	-	-
Total contributions by and distributions to owners of the Company for the period	-	(1)	1	26,560	-	26,560	-	26,560
Balance at September 30, 2016	59	1,722,307	(2)	367,439	(1,103,637)	986,166	(1,909)	984,257



Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the nine months ended September 30, 2016

(Unaudited)	Attributable to owners of the Company							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	Non-controlling interests RMB'000	
Balance at January 1, 2015	59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296
Comprehensive (loss)/income								
Loss for the period	-	-	-	-	(8,378)	(8,378)	(778)	(9,156)
Other comprehensive income/(loss):								
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	993	-	993	-	993
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(354)	-	(354)	-	(354)
— Share of other comprehensive income of an investment accounted for using the equity method, net of tax	-	-	-	1,105	-	1,105	-	1,105
— Currency translation differences	-	-	-	30,615	-	30,615	-	30,615
Total comprehensive income/(loss) for the period	-	-	-	32,359	(8,378)	23,981	(778)	23,203
Total contributions by and distributions to owners of the Company recognised directly in equity								
Employee share option and RSU Scheme:								
— Value of employee services	-	-	-	52,493	-	52,493	-	52,493
— Vesting of shares	-	(3)	3	-	-	-	-	-
Buy-back of shares	-	(1,824)	-	-	-	(1,824)	-	(1,824)
Total contributions by and distributions to owners of the Company for the period	-	(1,827)	3	52,493	-	50,669	-	50,669
Balance at September 30, 2015	59	1,725,001	(3)	291,034	(934,124)	1,081,967	(799)	1,081,168



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 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”), Hong Kong and other countries and regions.

The interim condensed consolidated balance sheet of the Group as of September 30, 2016 and the related interim condensed consolidated statements of comprehensive (loss)/income for the nine-month period and three-month period then ended, changes in equity and cash flows 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 11, 2016.

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, 2015 as set out in the 2015 annual report of the Company (the “2015 Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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 2015 Financial Statements, which have been prepared in accordance with IFRSs. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of assets and liabilities carried at fair value, such as available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

There are no new standards, amendments and interpretations to existing standards that are effective for the first time for this interim period, which 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, 2016. 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,	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Development and operations of online games:				
— Sales of in-game virtual items	120,676	110,071	433,211	395,611
— License fee and technical support fee	4,686	5,848	22,176	21,258
	125,362	115,919	455,387	416,869

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,	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of in-game virtual items, license fee and technical support fee:				
— Mobile games	122,637	108,136	436,619	387,028
— Web-based games	640	2,244	3,151	10,119
— Client-based games	2,085	5,539	15,617	19,722
	125,362	115,919	455,387	416,869



A breakdown of revenue derived from PRC (excluding Hong Kong) and overseas countries and regions in the respective period is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
PRC (excluding Hong Kong)	79,411	104,672	365,423	375,907
Overseas countries and regions	45,951	11,247	89,964	40,962
	125,362	115,919	455,387	416,869

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

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, 2016 and 2015.

Almost all the Group's non-current assets were located in the PRC as at September 30, 2016 and December 31, 2015.



5. Reserves

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at July 1, 2016	(7,831)	86,285	9,557	257,492	8,715	354,218
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
Balance at September 30, 2016	(7,831)	90,535	9,557	267,389	7,789	367,439
Balance at July 1, 2015	(7,831)	26,014	9,557	219,825	6	247,571
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	993	993
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(354)	(354)
Share of other comprehensive income of an investment accounted for using the equity method	-	-	-	-	1,105	1,105
Employee share option and RSU scheme: — Value of employee services	-	-	-	10,615	-	10,615
Currency translation differences	-	31,104	-	-	-	31,104
Balance at September 30, 2015	(7,831)	57,118	9,557	230,440	1,750	291,034



(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at January 1, 2016	(7,831)	73,857	9,557	240,829	9,301	325,713
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 using 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
Balance at September 30, 2016	(7,831)	90,535	9,557	267,389	7,789	367,439
Balance at January 1, 2015	(7,831)	26,503	9,557	177,947	6	206,182
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	993	993
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(354)	(354)
Share of other comprehensive income of an investment using equity method, net of tax	-	-	-	-	1,105	1,105
Employee share option and RSU scheme: — Value of employee services	-	-	-	52,493	-	52,493
Currency translation differences	-	30,615	-	-	-	30,615
Balance at September 30, 2015	(7,831)	57,118	9,557	230,440	1,750	291,034



6. Other gains — net

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Government subsidies (Note (a))	90	21	9,795	6,081
Foreign exchange gains/(losses), net	1,032	(410)	2,055	554
Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	(2,702)	(3,763)	9,749	61,045
Realised fair value gain of derivatives (Note (b))	-	-	-	14,540
Fair value gain from an associate measured at fair value through profit or loss	975	-	2,817	-
Gain on disposal of available-for-sale financial assets	1,616	404	2,089	404
Gain on disposals of property, plant and equipment	-	-	138	-
Gain on disposals of intangible assets	2,248	(880)	2,458	579
Return on short-term investments	-	-	-	821
Dilution gains arising from deemed disposal of investments (Note (c))	-	12,725	-	12,725
Others	10	843	202	1,829
	3,269	8,940	29,303	98,578



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.
- (b) On March 12, 2015, the Company entered into a share subscription agreement with SMI Holdings Group Limited (“SMI”), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company agreed to subscribe 139,582,733 ordinary shares of SMI for a total consideration of USD5,000,000, representing 1.35% of SMI’s issued shares. The subscription agreement is therefore accounted for as a forward contract which was fair valued by taking reference to share price of SMI quoted in the active market. The fair value change of this forward contract of RMB14,540,000 between the date of subscription agreement and the date of the issuance of the subscribed shares was charged to profit or loss.
- (c) The Company has used equity accounting for the equity investment in Fuze Entertainment Co., Ltd. (“Fuze”). In August 2015, Fuze issued series B preferred shares to several investors with total proceeds of USD30,750,000, which accounted for 33.88% equity shares of Fuze, on a fully diluted basis. As a result, the Group’s equity shares in Fuze was diluted from 37.78% to 24.98%, which resulted in a dilution gain of approximately RMB12,725,000. The dilution gain represents the difference between the attributable carrying value of the Group’s investment deemed disposed immediately prior to the issuance of these new shares and the Group’s share of the proceeds received for the new shares issued.



7. Income tax expense/(credit)

The income tax expense/(credit) of the Group for the three months and nine months ended September 30, 2016 and 2015 is analysed as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current income tax	5,002	322	14,393	2,626
Deferred income tax	2,772	2,858	6,222	(6,509)
Income tax expense/(credit)	7,774	3,180	20,615	(3,883)

(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 the nine months ended September 30, 2016 and 2015 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 the nine months ended September 30, 2016 and 2015, except for Shouyoutong (Beijing) Technology Co., Ltd. ("Shouyoutong") and Tianjin Baba Liusi Network Technology Co., Ltd. ("Tianjin 8864") which were accredited as software enterprises and subject to below preferential income tax rate:

	Nine months ended	
	September 30,	
	2016	2015
Shouyoutong	25%	50% reduction
Tianjin 8864	50% reduction	50% reduction

(d) *PRC withholding Tax ("WHT")*

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

As of September 30, 2016, 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, 2016 and December 31, 2015, 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, 2016 and 2015 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended September 30,		Nine months ended September 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Loss attributable to owners of the Company	(75,426)	(18,206)	(125,980)	(8,378)
Weighted average number of ordinary shares in issue (thousand shares)	349,340	343,981	348,449	340,203
Basic loss per share (expressed in RMB per share)	(0.22)	(0.05)	(0.36)	(0.02)



(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, 2016 and 2015, the Company had two categories of potential ordinary shares, restricted scheme units ("RSUs") and share options granted to eligible persons. As the Group incurred loss for the three months and nine months ended September 30, 2016 and 2015, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months and nine months ended September 30, 2016 and 2015 are the same as basic loss per share of the period.

9. Dividends

No dividends have been paid or declared by the Company during the nine months ended September 30, 2016 and 2015.



Management Discussion and Analysis

Business Review and Prospects

Review

The integration of pan-entertainment elements such as games, movies and animations has been accelerating, demonstrating that cross-industry resources integration is becoming a trend; meanwhile, new technologies including live streaming, augmented reality (**AR**) and virtual reality (**VR**) have been developing at a tremendous pace. It was realized by the global culture industry that, to maintain a dominant market position in fierce competition, the only way is to seize the dividend yield arising from new technological achievements when put into practice.

With the Group's expansion in fields of movie industry and consumer electronics, the basic structure of the group has been established and the advantages of group operation are gradually strengthened. The Group rolled out the "Movie-Animation-Game" three-in-one strategy and conducted fruitful exploration and practice to forge the full entertainment industry chain by integrating content and brand in the three fields of movie, animation and game, with the focus on a strategy of "community-based products, entertaining business and market internationalization".

1. Gaming business

As of September 30, 2016, we have commercialized 25 games in total, comprising 15 self-developed games and 10 licensed games.

The Wars of Shushan (蜀山戰紀之劍俠傳奇) (hereinafter referred to as ***The Wars of Shushan*** (蜀山戰紀)), as an opening masterpiece in 2016, was the first cross-industry integration IP product launched by the Group. The Group joined hands with Nicky Wu (吳奇隆), iQIYI and Anhui Satellite TV to create a brand new business model of "Platform-Movie-Game" Integration. The success of ***The Wars of Shushan*** has enabled Linekong Games to fully enter into a new phase with the expansion to platforms including movies, television stations and internet, and the full implementation of pan-entertainment.



The licensed mobile game **Daybreak** (黎明之光) is the first 3D massive multi-player online (**MMO**) action mobile game simultaneously launched on mobile devices, PC and household console. It took three years for the original developers of **Daybreak**'s client-based version to develop, and as such it perfectly carries on the storyline, scenes and character setting of its client-based version. By adopting top-notch self-developed Saturn3D engine and 8 major screen rendering technology of the next generation, it creates a realistic 3D big world with quality comparable to console games. With its excellent quality, **Daybreak** stood out in a number of heavy-weight IP masterpieces launched in the same period and was selected as the star mobile game by Mobile Hardcore Alliance in September 2016. **Daybreak** had excellent performance since its official commercialization on September 8, 2016. It frequently rose to the top 3 on the Best Seller List of the App Store and has maintained among top 10 on the Best Seller List of the App Store for a long time. The new editions launched in October was popular among the players with monthly gross billings growing steadily.

Big Words of Shushan (大話蜀山) is the first 3D turn-based game of Linekong, which adopts mythical heroes themed style. It creates aesthetic image with high quality comparable to client-based games and includes a large number of Shushan and mythical characters in brand-new adorable styles making appearance. **Excalibur II** (王者之劍2) is the sequel of the self-developed game **Excalibur** (王者之劍) of the Group, adding more social elements into the sophisticated ACT game. **Big Words of Shushan** and **Excalibur II** are now under testing.

Overseas gaming market has also showed strong performance. Since its formal establishment, the Linekong US Inc. (**Linekong US**), on one hand, has continued to strengthen R&D capability and enrich R&D team by attracting talents from renowned game companies and technology platforms in the United States and Europe; on the other hand, has been committed to striving for top Hollywood IPs with a global business perspective and processing in-depth customization in game R&D and promotion, which targets at the global market with North America as the focus. At the beginning of this year, along with Fox Digital Entertainment, the Group officially developed a strategic war-type mobile game **Independence Day: Extinction** (獨立日：捲土重來) based on a Hollywood science fiction disaster movie, marking that the Group takes a solid step towards its goal of integrating its "Movie-Animation-Game" strategy and creating global IPs.



In the meantime, the Linekong Korea Co., Ltd. (**Linekong Korea**) had published various products such as **Sword of Heaven** (蒼穹之劍) successively last year; while it made new progress this year. The first achievement is the licensing of **Thunder Armada** (雷霆艦隊), a World War II-themed 3D naval battle game developed by a PRC mainland company. It ranked top 3 and 33 on Korean Google Download List and Best Seller List, respectively, and maintained its rankings between top 30th to 40th on the Google Best Seller List in three consecutive months since its release in Korea in February this year. The second achievement is **The Wars of Shushan**, the Group's self-developed game. It ranked top 1 in popularity rankings in Kakao Talk, top 1 in download rankings in iOS, top 1 in download rankings in Google and top 1 in download rankings in ONESTORE, a local mall, after its release in Korea on June 28 this year. It ranked top 20 on the Google Best Seller List at its peak with monthly gross billings of approximately RMB10 million in three consecutive months.

Offering the players high quality and exquisite games has been the original belief of Linekong. The Group will continue to stringently control the quality of its games and strive to present the best experience for players around the world.

2. Movie business

The Group announced to fully enter into movie business in March this year. As one of the Group's core businesses, Linekong Pictures aims to forge the full entertainment industry chain by integrating the content and brand of the three fields of movie, animation and game and is committed to be the content provider targeting the internet generation. Linekong Pictures endeavors to launch movie and animation projects based on the IPs of the Group's self-developed games and infiltrates inversely with the gaming business by the IPs of the Group's self-developed movies and animations, thus reaching a virtuous cycle to create "Super IPs".

During this quarter, Linekong Pictures conducted Series A financing of RMB130 million. The current round of financing will mainly be used in producing new-generation movie and animation projects.



Linekong Pictures has obtained the relevant authorizations of **Snow Girl** (雪姬), a popular comics written by cartoonist Kang Gyeongok (姜京玉). The shooting of the web-based drama based on **Snow Girl** began at the end of August this year and was completed in mid-October. It is now undergoing the post-production phase. As the first heavyweight work of Linekong Pictures, it carries on the idea of combining exquisite IP product and excellent creators. The web-based drama is directed by the 90s director Cattree (貓的樹) from Yu Zheng Studio (于正工作室) and starring by popular 90s idols Song Weilong (宋威龍) and Zhou Yutong (周雨桐). Apart from the good-looking stars and excellent creators, more web-based drama elements were added into the storyline and lines, targeting the internet generation and the needs of the 90s and 00s, aiming at creating an exquisite super web-based drama.

Linekong Pictures has a number of excellent IPs in its reserve, including **Snow Girl**, **He Does Not Like Superheros** (他不喜歡超級英雄), **Save Chuunibyou Project** (中二病拯救大作戰) and **The Story of A Fat Guy** (身為一個胖子), all of which are popular ACGN (Animation, Comic, Game and Novel) products and have a large fan base among the 95s. Meanwhile, Linekong Pictures also invested in a number of movie projects, including the first angel based internet movie **Angel Bedazzled** (蒙圈天使) and a comedy named **Wished** (反轉人生). Linekong Pictures is now gradually working on these projects.



3. Consumer electronics business and others

Fuze Entertainment Co., Ltd is a strategic investment of the Group and its subsidiary Fuze Technology (Shenzhen) Co., Ltd (“**Fuze Technology**”) was renamed as “Linekong Technology” in order to strengthen its synergy with Linekong Interactive in aspects such as product, technology and marketing. Linekong Technology will continue its long-term commitment in gaming entertainment devices and consumer electronic products. Its featured product “FUZE” (an upgrade version of the original “Fuze F1” (戰斧F1)) is its first household internet entertainment game console, and had established strategic cooperation with many famous game console developers overseas such as Ubisoft and Koei, and signed contracts on 76 game console masterpieces, including many 3A international games, among which are ***Dynasty Warriors 7: Xtreme Legends Complete Edition*** (真三國無雙7猛將完全版), ***Assassin’s Creed Chronicles*** (刺客信條編年史), ***Mighty No. 9*** (無敵9號). Meanwhile, the Android development platform of FUZE also embeds popular applications such as “PandaTV (熊貓TV)” and “LeEco (樂視)”. Apart from the gradual launch of new games, “FUZE” will continue to upgrade its system and the new “FUZE OS” system has completed the overall optimization with new features to improve user experience.

Apart from promoting online, Linekong Technology also makes efforts to build up the layout offline. FUZE currently has covered over 50 offline stores. Linekong Technology has also established cooperation with LeEco and Suning (蘇寧) and FUZE has entered about 100 LePar stores and 20 Suning offline stores in October. Linekong Technology will continue to keep abreast with the development of VR technology and has become the exclusive agent for ***Project Boundary*** (邊境計劃), the core game of a Chinese game developer ***Studio Surgical Scalpels*** (柳葉刀科技), with both console and VR editions. The game will be released to all platforms in the global market. Linekong Technology will also be committed to supporting the console game development teams and cultivate talents for the console game sector to build up a healthy console game market environment in China.



The Group has been paying close attention to the development trends and technology changes of AR, VR and live streaming business, so as to create synergy with the Group's existing businesses in the field of AR, VR and live streaming business, which further facilitates the development of product diversity of the Group. The Group announced that it will develop an AR mobile game under the theme of **Monster Hunt** (捉妖記), which will combine Chinese mythology with emerging LBS and AR technologies and activate the national IP through the unique monster hunt gameplay.

In 2015, the Group has invested in two companies, namely YL Entertainment and Sports (YLES) Co., Ltd. ("**Yongle**") and MicroFunPlus Co., Ltd. ("**MicroFunPlus**"). Yongle is a limited liability company registered in Beijing, PRC and is mainly engaged in operation of sports, arts and recreational events and tickets marketing, which was officially quoted on the National Equities Exchange and Quotations System since July 7, 2016 (stock code: 837736). MicroFunPlus is a developer focusing on exquisite casual mobile games, which was officially quoted on the National Equities Exchange and Quotations System on September 23, 2016 (stock code: 838966), and its featured product **Candy Crush** (賓果消消樂, formerly 糖果萌萌消) is popular among players.

During this period, the Group announced that it has conducted a strategic investment of dozens of million RMB into a mixed virtual reality technology company appMagics Tech Limited (邁吉客科技(北京)有限公司) ("**appMagics**"). appMagics is a technology company with the leadership in R&D capabilities and creates a brand new social interaction model by taking advantage of the technological innovations in virtual and reality fusion simulation, facial expression / motion capture and interaction control, etc.



Prospect

Based on the preliminary layout, Linekong Interactive, Linekong Pictures and Linekong Technology will remain consistent in using Linekong brand in the future and will focus on gaming, pictures entertainment and consumer electronics respectively, with a view to identifying greater market opportunities.

Lane 1: Gaming

Along with the strategic adjustment of gaming business to “exquisite product and maximized IP value”, the Group imposes stringent control on its product quality and even prolongs the research cycle in order to be recognized by the market and players.

First, as for self-developed games, the Group will focus on the expertized product categories with the operating model based on self-developed IP as a carrier, unearthing the storyline and deep-rooted culture of IP and its popular elements that will be all-around the kernels of the game design, which eventually becomes part of the games in order to ensure and enhance the quality of self-developed products. Second, as for licensed games, the Group will further explore, innovate and develop by enhancing the selection of appropriate licensed games. Through sound market research, keen perception of industry changes and bold attempt on innovative games, the Group attracts players and meets their needs with high-quality and diversified games. The Group believes that with its outstanding quality and fine reputation in the market, the mobile game **Daybreak** will continue its excellent performance in the fourth quarter and the following year, bringing stable billings into the Company. The Group also plans to introduce **Daybreak** into Hong Kong, Macau and Taiwan by the end of the year and into South Korea and Southeast Asia early next year.

Linekong US will introduce the Group’s first self-developed mobile e-sport game, in which players could play football, basketball and hockey while driving and participate in real-time competitions with other players. The licensed game **Legend of Adorable MiYue** (萌萌半月傳) is a 3D aesthetic dress-up game jointly forged by the Group and Flower Film & TV (花兒影視), which targets at the female game market.



Monster Hunt is a MMO mobile game based on the movie **Monster Hunt** that topped the box office in mainland China in 2015 and the game will recreate the movie storyline. In the future, the Group will also cooperate with EDKO Films to launch iterative products simultaneously with the release of the film **Monster Hunt II** (捉妖記2). **Sword of Heaven II** (蒼穹之劍2) is a sequel to **Sword of Heaven**, a classic mythical heroes-themed MMO mobile game which is regarded as one of the “Three Swords of Linekong”. It will also be the first cross-industry super IP of Linekong Games which covers “movie, animation and game”.

At present, global entertainment has become an inevitable trend. Linekong Games will fully exploit resources from overseas and local teams to create global IPs. Moreover, Linekong Games will further develop in the vertical field intensively by seizing product categories Linekong is adept at, exploring new categories in subdivided markets and focusing on game products related to the subdivided field of mobile competition.

Lane 2: Pictures entertainment

Linekong Pictures is another core business of the Group. Its development priority is to develop exquisite games of IPs for the new generation. Not only does Linekong Pictures endeavor to create movies with high quality content, but it also regards movies as an important part of the pan-entertainment ecosystem of the Group. By maximizing the value of “movie, animation and game”, Linekong Pictures pursuits full synergies with the Group’s business such as animations and games.

LineKong Pictures currently has a number of movie and television projects undergoing. The successful shooting of web-based drama **Snow Girl** proved LineKong Pictures’ capability and determination to produce exquisite works. The Group plans to release the web drama early 2017. A film version of **Snow Girl** will also be shot in 2017. A super comedy movie **He Does Not Like Superheros** will be produced by an international crew. Linekong Pictures will also cooperate with the playwrights from **Loser Brothers** (廢柴兄弟) to produce an exquisite web-based comedy based on it. It will be further developed into comic and game later. LineKong Pictures will also adapt one of Three Swords of Linekong, **Sword of Heaven**, into a television drama and later a movie, implementing “movie and game integration” development strategy, that is to produce movie and television dramas based on self-own IP products and make full use of the synergy between LineKong Games and LineKong Pictures.



Meanwhile, along with Beijing Sue Fang Media Co., Ltd. (北京玉隆騰嘉文化傳媒有限公司), members from Top Funny Comedian (歡樂喜劇人), Deyun She (德雲社) and Mahua Funage (開心麻花), and Bao Beier as a guest star, Linekong Pictures will jointly produce **Angel Bedazzled**, which is the first internet movie in China based on the background of angels. **Wished**, a comedy movie, is invested by Linekong Pictures and is directed by Dayyan Eng, a director who won awards at Venice and Cannes Film Festival, starring Xia Yu, a winner of best actor award, Yan Ni, Pan Bin-long and Song Qian, a prominent idol, through strong partnerships with Edko (Beijing) Films Distribution Co., Ltd. (安樂(北京)電影發行有限公司) and Tianjin Lianrui Pictures Ltd. (天津聯瑞影業有限公司), etc.

Furthermore, the Group will continue to pay close attention to its live streaming business through the introduction of external resources and cultivation of internal forces, so as to facilitate the development of relevant projects.

Lane 3: Consumer electronics

Nowadays, the focus of internet development has gradually shifted from “Mobile Internet” to “Internet of Everything”. Internet of Everything leads to the highlights of personalization instead of submerging personal values. Therefore, a “personalized interactive platform” that connects people will become the foundation for new ecology mode of internet.

The Group and Linekong Technology will further deepen their openness and cooperation. By capitalizing on the FUZE OS carrier, Linekong Technology actively seeks for various forms of partnership in the fields of game, video, live broadcasting and social media so as to achieve the platform effect, striving to make “Fuze” a “household internet entertainment center” in its true sense as soon as possible.



International markets

We have generally granted licenses of our games, including our self-developed games and licensed games for which we have global exclusive licenses, to third-party publishers in the international markets. As at September 30, 2016, our games have been published in 47 countries and regions outside mainland China in aggregate. The Korean version of **The Wars of Shushan** and a licensed game **Thunder Armada** were successfully launched by our Korean subsidiary in the first half of 2016. Along with Fox Digital Entertainment, the Group's US subsidiary has also developed a strategic war-type mobile game **Independence Day: Extinction** based on a Hollywood science fiction disaster movie. For the nine months ended September 30, 2016, our revenue generated from overseas markets represented approximately 19.8% of our total revenue. For the nine months period ended September 30, 2015, our revenue generated from overseas markets represented approximately 9.8% of our total revenue.

Our players

The total number of registered players of our games increased from approximately 196.8 million as at September 30, 2015 to over 217.1 million as at September 30, 2016. As at September 30, 2016, the monthly average user (MAU) reached approximately 2.5 million users and the daily average users (DAU) reached approximately 0.4 million users with average monthly revenue per paying users (ARPPU) of approximately RMB273.1.

Financial Review

Revenue

Revenue of the Group increased by approximately 9.2% from approximately RMB416.9 million for the nine months ended September 30, 2015 to approximately RMB455.4 million for the nine months ended September 30, 2016. The increase in revenue was mainly attributed to a self-developed mobile game, **The Wars of Shushan**, which was launched in January 2016, and a licensed mobile game, **Daybreak**, which was launched in September 2016.



Revenue by game forms and sources

The following table sets forth the breakdown of revenue by (i) Game forms; (ii) Self-developed games and licensed games for three months ended September 30, 2015 and 2016, and nine months ended September 30, 2015 and 2016, respectively:

	For the three months ended September 30,				For the nine months ended September 30,			
	2016		2015		2016		2015	
	RMB'000	approximate %	RMB'000	approximate %	RMB'000	approximate %	RMB'000	approximate %
Mobile games	122,637	97.8	108,136	93.3	436,619	95.9	387,028	92.8
Web-based games	640	0.5	2,244	1.9	3,151	0.7	10,119	2.4
Client-based games	2,085	1.7	5,539	4.8	15,617	3.4	19,722	4.8
Total	125,362	100	115,919	100	455,387	100	416,869	100

	For the three months ended September 30,				For the nine months ended September 30,			
	2016		2015		2016		2015	
	RMB'000	approximate %	RMB'000	approximate %	RMB'000	approximate %	RMB'000	approximate %
Self-developed games	74,667	59.6	48,752	42.1	303,943	66.7	175,576	42.1
Licensed games	50,695	40.4	67,167	57.9	151,444	33.3	241,293	57.9
Total	125,362	100	115,919	100	455,387	100	416,869	100

Cost of revenue

The Group's cost of revenue for the nine months ended September 30, 2016 was approximately RMB242.4 million, representing a decrease of approximately 5.1% from approximately RMB255.3 million for the nine months ended September 30, 2015. The Group's cost of revenue for the nine months ended September 30, 2016, excluding share-based compensation expenses was approximately RMB240.7 million, representing a decrease of approximately 4.0% from approximately RMB250.8 million for the nine months ended September 30, 2015. The decrease in cost of revenue as compared to the period for nine months ended September 30, 2015 was mainly attributed to reduction in revenue sharing fees paid to third-party game developers as a result of increased portion of self-developed mobile game revenue from the total revenue generation for the nine months ended September 30, 2016.



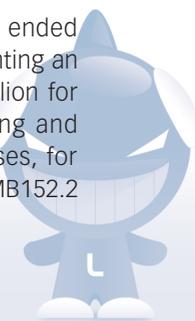
Gross profit and gross profit margin

The Group's gross profit for the nine months ended September 30, 2016 was approximately RMB213.0 million, representing an increase of approximately 31.8% compared to approximately RMB161.6 million for the nine months ended September 30, 2015. The Group's gross profit, excluding share-based compensation expenses, for the nine months ended September 30, 2016 was approximately RMB214.7 million, representing an increase of approximately 29.3% compared to approximately RMB166.1 million for the nine months ended September 30, 2015. The increase in the Group's gross profit was primarily attributed to combined effect of, a new self-developed mobile game launched in the period for nine months ended September 30, 2016, and reduction in revenue sharing fees paid to third-party game developers as a result of increased portion of self-developed mobile game revenue from the total revenue generation for the nine months ended September 30, 2016.

The Group's gross profit margin for the nine months ended September 30, 2016 was approximately 46.8%, representing an increase of approximately 8.1 percentage points compared to approximately 38.7% for the nine months ended September 30, 2015. The Group's gross profit margin, excluding share-based compensation expenses, for the nine months ended September 30, 2016 was approximately 47.1%, representing an increase of approximately 7.3 percentage points as compared to approximately 39.8% for the nine months ended September 30, 2015. The increase in the Group's gross profit margin was primarily attributed to combined effect of, a new self-developed mobile game launched in the period for nine months ended September 30, 2016, and reduction in revenue sharing fees paid to third-party game developers as a result of increased portion of self-developed mobile game revenue from the total revenue generation for the nine months ended September 30, 2016.

Selling and marketing expenses

The Group's selling and marketing expenses for the nine months ended September 30, 2016 were approximately RMB153.6 million, representing an increase of approximately 14.5% from approximately RMB134.1 million for the nine months ended September 30, 2015. The Group's selling and marketing expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2016 were approximately RMB152.2



million, representing an increase of approximately 16.8% from approximately RMB130.3 million for the nine months ended September 30, 2015. Due to increase in a number of newly self-developed and licensed mobile games during the nine months period ended September 30, 2016, our advertising and promotion related expenses have been increased as compare to the period for the nine months ended September 30, 2015.

Administrative expenses

The Group's administrative expenses for the nine months ended September 30, 2016 were approximately RMB72.2 million, representing an increase of approximately 26.7% from approximately RMB57.0 million for the nine months ended September 30, 2015. The Group's administrative expenses excluding share-based compensation expenses, for the nine months ended September 30, 2016 were approximately RMB58.3 million, representing an increase of approximately 63.3% from approximately RMB35.7 million for the nine months ended September 30, 2015. The increase in the Group's administrative expenses was primarily due to the increase in both headcount of administration staff and remuneration, their labour costs and other welfares; and other related expenses.

Research and development expenses

The Group's research and development expenses for the nine months ended September 30, 2016 were approximately RMB105.8 million, representing an increase of approximately 24.0% from approximately RMB85.3 million for the nine months ended September 30, 2015. The Group's research and development expenses, excluding share-based compensation expenses, for the nine months ended September 30, 2016 were approximately RMB96.2 million, representing an increase of approximately 54.2% from RMB62.4 million for the nine months ended September 30, 2015. The increase in the Group's research and development expenses for the nine months ended September 30, 2016 was primarily due to the overall effect of increase in research and development staff salaries and welfares expenses; investment made in research and development expenses in order to expand overseas market and to strengthen research and development capability of games overseas; and the outsourcing of animation and art design expenses relating to the development of newly launched mobile game ***The Wars of Shushan***.



Other gains — net

The Group's other gains for the nine months ended September 30, 2016 was approximately RMB29.3 million, representing a decrease as compared to approximately RMB98.6 million for the nine months ended September 30, 2015. Such change in the Group's other gains was primarily due to the changes in fair value occurred on certain investments held by the Company in between the periods for the nine months ended September 30, 2015 and 2016 respectively.

Finance income — net

The Group's finance income decreased from approximately RMB6.2 million for the nine months ended September 30, 2015 to approximately RMB3.6 million for the nine months ended September 30, 2016. The decrease was mainly due to reduction in foreign exchange gain as compared to the corresponding period for the nine months ended September 30, 2015. No interest was capitalized for the nine months ended September 30, 2016 (2015: 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, 2016 was approximately RMB19.7 million; for the nine months ended September 30, 2015, it was approximately RMB3.0 million, the increase was mainly due to a loss incurred by the investee, the Fuze Entertainment Co., Ltd, on its early operational stage.

Income tax (expense)/credit

The Group's income tax expense for the nine months ended September 30, 2016 was approximately RMB20.6 million, as compared to an income tax credit of approximately RMB3.9 million for the nine months ended September 30, 2015. The change in income tax was due to (i) adjustments in current income tax charge as a result of different computation base applied in between the tax basis and accounting basis; and (ii) increase in deferred income tax charge, as a result of reverse back of deferred tax asset recognised in previous period.



Loss for the period

As a result of the foregoing, the loss for the period was approximately RMB126.0 million for the nine months ended September 30, 2016, as compared to a loss for the period of approximately RMB9.2 million for the nine months ended September 30, 2015.

To supplement our consolidated financial statements presented in accordance with International Financial Reporting Standards, we also adopted adjusted net loss/profit as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted net loss/profit was derived from our loss for the period excluding share-based compensation expenses. The adjusted net loss/profit is an unaudited figure.

The Group's adjusted net loss for the nine months ended September 30, 2016 was approximately RMB99.4 million, as compared to an adjusted net profit of approximately RMB43.3 million for the nine months ended September 30, 2015. The change resulted of our adjusted net loss was due to combined effect of (i) changes in fair value occurred on certain investments held by the Company in between the period ended September 30, 2015 and 2016 respectively; (ii) expansion into overseas market, and investment made over movie business are still on their early operational stage; and (iii) increase in tax charge as a result of different computation base applied in between the tax basis and accounting basis. We have presented adjusted net loss for the period in this quarterly report as we believe that the adjusted loss for the quarter is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into consideration of share-based compensation expenses. However, adjusted net loss for the period should not be considered in isolation or construed as an alternative to net loss or operating income, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted net loss/profit for the quarter presented in this quarterly report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.



Liquidity and Financial Resources

During the nine months ended September 30, 2016, we financed our operations primarily through cash generated from our primary operating activities. The Group maintains a solid cash position since the net proceeds we received from the listing of the Company's 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, 2016, 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

As at September 30, 2016, we had cash and cash equivalents of approximately RMB682.9 million (December 31, 2015: approximately RMB794.5 million), which primarily consisted of cash at bank and other financial institutions and cash in hand and which were mainly denominated in Renminbi (as to approximately 23.2%), Hong Kong dollars (as to approximately 75.5%), U.S. dollars (as to approximately 1.2%) and other currencies (as to approximately 0.1%).

Net proceeds from our Listing, after deducting the underwriting commission and other estimated expenses in connection with the Listing, which the Company received amounted to approximately Hong Kong Dollars 686.2 million. As at the date of this quarterly report, some of the net proceeds (see Use of IPO Proceeds) from our Listing had been utilised and the rest has been deposited into short-term demand deposits and other deposits in a bank account maintained by the Group. We will continue to utilising 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 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, 2016, our total capital expenditure amounted to approximately RMB35.0 million (nine months ended September 30, 2015: approximately RMB29.5 million), including the purchase of furniture and office equipment of approximately RMB1.2 million (nine months ended September 30, 2015: approximately RMB2.5 million), server and other equipment of approximately RMB0.2 million (nine months ended September 30, 2015: approximately RMB1.0 million), motor vehicles of approximately RMB0.7 million (nine months ended September 30, 2015: approximately RMB0.7 million), leasehold improvements of approximately RMB4.3 million (nine months ended September 30, 2015: RMB3.5 million), trademarks and licenses approximately RMB27.6 million (nine months ended September 30, 2015: approximately RMB21.4 million) and computer software of approximately RMB1.0 million (nine months ended September 30, 2015: approximately RMB0.4 million). We funded our capital expenditure by using our cash flow generated from our operations.

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 comprised ordinary shares.



Borrowing and Gearing Ratio

As of September 30, 2016, we have a long-term bank borrowings of RMB80.0 million, of which approximately RMB0.5 million is due within a year (December 31, 2015: Nil).

As at September 30, 2016, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 27.2% (December 31, 2015: approximately 16.9%).

Charge on group assets

As at September 30, 2016, a cash asset of approximately RMB81.9 million of the Group was pledged as a security for bank borrowing (As at December 31, 2015: Nil).

Information on Employees and Remuneration Policy

As of September 30, 2016, the Group had 683 employees (September 30, 2015: 698), mainly worked and stationed in the PRC.

The total remuneration of the employees of the Group was approximately RMB152.4 million for the nine months ended September 30, 2016 (2015 corresponding period: approximately RMB141.7 million).

The Company has established the remuneration committee on April 21, 2014 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules. The remuneration committee will regularly review and recommend to the Board from time to time the remuneration and compensation of the Directors and senior management of the Group. The Group offers competitive remuneration package commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus.

In determining staff remuneration, the Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The staff remuneration is reviewed 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 the quarterly report.

In addition, the Company has adopted a restricted unit share scheme (the "**RSU Scheme**") on March 21, 2014 with the objective to incentive Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based compensation expenses in connection with the RSU Scheme for the nine months ended September 30, 2016 were approximately RMB26.6 million, representing a decrease of approximately 49.3% from approximately RMB52.5 million for corresponding period in 2015. The decrease was primarily due to there was no additional restricted share unit issued for the nine months ended September 30, 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, 2016.

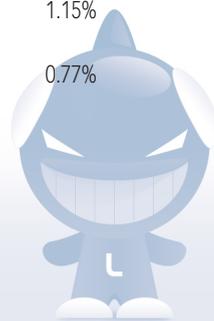


Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of September 30, 2016, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“SFO”)) which were 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 5)
Mr. Wang Feng ^(Note 1)	Interest of controlled corporation	66,576,160	20.93%
	Beneficial owner	10,646,308	
Ms. Liao Mingxiang ^(Note 2)	Interest of controlled corporation	12,168,720	4.09%
	Beneficial owner	2,918,269	
Mr. Qian Zhonghua	Beneficial owner	5,000	0.001%
Mr. Mei Song ^(Note 3)	Beneficial owner	4,226,154	1.15%
Mr. Zhao Jun ^(Note 4)	Beneficial owner	2,839,769	0.77%



Notes:

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 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, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of 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, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (3) Mr. Mei Song holds 9,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of September 30, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (4) Mr. Zhao Jun holds 28,000 shares and is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 shares, and as of September 30, 2016, approximately 82.5% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (5) As of September 30, 2016, the Company issued 368,868,464 shares.

Save as disclosed above, on September 30, 2016, 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, 2016, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd.) (" Linekong Entertainment ")	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Entertainment	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Entertainment	Mr. Zhang Yuyu	RMB1,091,000	10.91%



Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

So far as is known to the Directors or chief executive of the Company, as of September 30, 2016, 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 the Company <i>(Note 7)</i>
Wangfeng Management Limited <i>(Note 1)</i>	Beneficial owner	66,576,160	18.05%
Zhu Li <i>(Note 2)</i>	Interest of spouse	77,222,468	20.93%
China Momentum Fund, L.P.	Interest of controlled corporation	52,318,760	14.18%
Fosun China Momentum Fund GP, Ltd.	Interest of controlled corporation	52,318,760	14.18%
Fosun Financial Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun Holdings Limited	Interest of controlled corporation	52,318,760	14.18%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company <i>(Note 7)</i>
Fosun International Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun International Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun Momentum Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Guo Guangchang	Interest of controlled corporation	52,318,760	14.18%
Starwish Global Limited <i>(Note 3)</i>	Beneficial owner	52,318,760	14.18%
The Core Trust Company Limited <i>(Note 4)</i>	Trustee of a trust	40,397,658	10.95%
Premier Selection Limited <i>(Note 4)</i>	Nominee for another person	40,397,658	10.95%
Chi Sing Ho <i>(Note 5)</i>	Interest of controlled corporation	29,922,996	8.11%
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%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company <i>(Note 7)</i>
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%

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".
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, 2016, Fosun International Limited is 71.53% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of September 30, 2016, Mr. Guo Guangchang owns 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 42,161,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of September 30, 2016, 1,763,883 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 40,397,658 underlying Shares, including a total of 18,274,000 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, (iii) the 4,217,154 RSUs granted to Mr. Mei Song, and (iv) the 2,811,769 RSUs granted to Mr. Zhao Jun.
5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund 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. As of September 30, 2016, the Company issued 368,868,464 Shares.

Share Option Scheme

The Company adopted a share option scheme on November 20, 2014 (the “**Share Option Scheme**”). The purpose of the Share Option Scheme is to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of 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, 2016, details of the granted and outstanding share options of the Company are set out as follows:

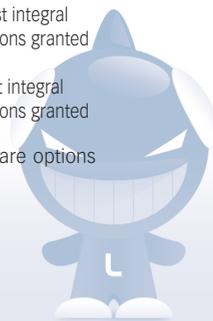
Category	Date of Grant	Option Period	Share options granted	Exercise price per share HKD	The weighted average closing price of the shares HKD	Outstanding balance as at January 1, 2016	During the reporting period				Outstanding balance as at September 30, 2016	Number of new shares issued during the reporting 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 ⁽¹⁾⁽²⁾	8.10	8.028	1,849,192	0	0	0	1,386,894	462,298	0	462,298
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 ⁽¹⁾⁽²⁾	7.18	6.896	5,860,000	0	0	0	1,080,000	4,780,000	0	0
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 ⁽¹⁾⁽²⁾	4.366	4.366	N/A	1,750,000	0	0	0	1,750,000	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:

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
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:

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

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



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

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

The closing price of the shares immediately before the date on which the share options were granted was HKD4.18 per share.

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

Share Incentive Scheme

The Company approved and adopted the restricted share unit 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.



On September 30, 2016, RSUs in respect of 33,666,494 underlying shares has been granted to 461 grantees (four of which are our Directors). Total RSUs in respect of 1,128,385 underlying shares granted to 263 grantees had been lapsed during the nine months ended September 30, 2016. On September 30, 2016, 24,853,985 RSUs have been vested unconditionally and there were 5,489,708 RSUs granted and outstanding.

Events during the Reporting Period and Subsequent Events

Change of Logo of the Company

On January 21, 2016, the Company proposed to adopt a new logo (the “**New Logo**”) with effect from January 27, 2016. The New Logo would be printed on all corporate documents of the Company, including but not limited to, the Company’s share certificates, promotional materials, interim and annual reports, announcements and corporate stationery.

Details of the change of logo of the Company are set out in the announcement of the Company dated January 21, 2016.

Change in Use of Proceeds

On March 29, 2016, the Company has resolved to change the use of the actual net proceeds from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, being amounted to approximately HKD686.2 million (the “**IPO Proceeds**”). Regarding the situations of the use of the IPO Proceeds as of September 30, 2016, please refer to the section headed “Use of IPO Proceeds”.



Details of the change in use of proceeds are set out in the announcement of the Company dated March 29, 2016.

Investment in UGen, Inc.

On May 11, 2016, Linekong Holdings Limited, a wholly-owned subsidiary of the Company, entered into a share purchase agreement to acquire 384,000 series seed preferred stock shares, being 6.9% of the post-capital increase total equity interests (assuming full exercise of the options granted to parties other than Linekong Holdings Limited to acquire the common stock shares or the securities convertible into the common stock shares), in UGen, Inc. at a consideration of USD400,000. UGen, Inc. is a limited liability company registered established under the laws of the State of Washington, United States and is primarily engaged in virtual reality community construction and operation. As of the date of this report, the investment in UGen, Inc. has been completed.

Re-election of Directors

Each of Mr. Mei Song, Mr. Zhao Jun, Mr. Wang Xiaodong and Ms. Zhao Yifang has been retired from office as Directors pursuant to article 16.3 of the Company's articles of association and successfully been re-elected at the annual general meeting of the Company held on June 14, 2016 (the "**General Meeting**"). Further, each of Ms. Liao Mingxiang and Mr. Ma Ji has been retired from office as Directors pursuant to article 16.18 of the Company's articles of association and successfully been re-elected at the General Meeting.



Capital Increase in Linekong Horgos

On July 5, 2016, Horgos Linekong Pictures Corporation (霍爾果斯藍港影業有限公司) (“**Linekong Horgos**”), an indirect wholly-owned subsidiary of the Company, entered into a conditional capital increase agreement (“**Capital Increase Agreement**”) with its existing shareholders, namely, Linekong Entertainment, a wholly-owned subsidiary of the Company, Mr. Tong Jie, Mr. Wang Jing and Ms. Qi Yunxiao (collectively, the “**Existing Shareholders**”), and the subscribers, namely Ningbo Meishan Bonded Port Zone Leguang Investment Centre (寧波梅山保稅港區樂廣投資中心), Shenzhen Rongsheng Yihao Investment Centre, (深圳融盛一號投資中心) and Linekong Entertainment (collectively, the “**Subscribers**”). Pursuant to the Capital Increase Agreement, Linekong Horgos has conditionally agreed to increase, and the Subscribers have conditionally agreed to subscribe for, a total of RMB17,567,568 registered share capital of Linekong Horgos at the subscription price of RMB7.40 per RMB1.00 registered share capital of Linekong Horgos for an aggregate consideration of RMB130,000,000 (“**Capital Increase Transaction**”). The aggregate proceeds of the Capital Increase Transaction, being RMB130,000,000, is intended to be used for the expansion of Linekong Horgos’ main business and for its working capital. For details of the Capital Increase Transaction, please refer to the announcement of the Company dated July 5, 2016. As of the date of this report, the capital increase in Linekong Horgos has not yet been completed.

Investment in Huaying Jiashi

On July 26, 2016, Linekong Horgos entered into a capital increase agreement to subscribe for 21.05% of the post-capital increase share capital of Huaying Jiashi (Beijing) International Culture Media Co., Ltd. (“**Huaying Jiashi**”) at a consideration of RMB12,000,000. Huaying Jiashi is a limited liability company registered in Beijing, the PRC and is primarily engaged in film distribution. As of the date of this report, the investment in Huaying Jiashi has been completed.



Investment in appMagics

On August 18, 2016, Linekong Entertainment Technology Co., Ltd. (also known as Linekong Online (Beijing) Technology Co., Ltd.) acquired from certain existing shareholders 10% equity interest in appMagics Technology (Beijing) Co., Ltd. (邁吉客科技(北京)有限公司) (“**appMagics**”) at a total consideration of RMB12,000,000. appMagics is a limited liability company registered in Beijing, the PRC and is primarily engaged in visual mixed reality. As of the date of this report, the investment in appMagics has not yet been completed.

Use of IPO Proceeds

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

As of September 30, 2016, a total amount of approximately HKD126.9 million from the IPO Proceeds had been utilized for the purposes and approximately in the amount set out below:

- (a) approximately HKD52.7 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD16.1 million was used for potential strategic acquisition or investment in companies in online game and related businesses; and
- (c) approximately HKD58.1 million was used for creating pan-entertainment environment.

As of September 30, 2016, approximately HKD559.3 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 purpose 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, is a managing director of Fosun Equity Investment Management Ltd. and has been a director of Starwish Global Limited since November 3, 2015. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 656)) and its subsidiaries (together, 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 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, 2016.



Significant Investments, Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the nine months ended September 30, 2016.

Purchase, Sale or Redemption of Listed Securities of the Company

During the nine months ended September 30, 2016, neither the Company, nor any of its subsidiaries has 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, independent non-executive Director, and other members included Mr. Qian Zhonghua, non-executive Director, and Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang, 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, 2016 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, 2016 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Interests of the Compliance Advisor

As confirmed by the Group's compliance advisor, REORIENT Financial Markets Limited (the "**Compliance Advisor**"), save as the compliance advisor agreement entered into between the Company and the Compliance Advisor dated August 20, 2014, none of the Compliance Advisor or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Corporate Governance

The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with the Code for the nine months ended September 30, 2016, except for the deviation of Code provision A.2.1 of the Code.



Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. From the date of listing to the date of this report, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-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 in its composition.

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings for the nine months ended September 30, 2016.

