



LINEKONG

● FIRST 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

LINEKONG
蓝港互动

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

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

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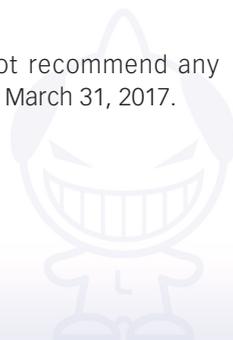
*This report, for which the directors (the “**Directors**”) of Linekong Interactive Group Co., Ltd. (“**the Company**” or “**We**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise 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 respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



Highlights

	For the three months ended March 31,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	167,980	166,917
Loss for the period	(12,604)	(7,272)
Adjusted net (loss)/profit	(5,653)	3,359

- Adjusted net (loss)/profit refers to the loss for the period which excludes share-based compensation. This item is deemed as supplemental information as stated in the consolidated statement of comprehensive loss which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.
- Our revenue for the three months ended March 31, 2017 amounted to approximately RMB168.0 million, representing an increase of approximately 0.6% as compared to approximately RMB166.9 million for the corresponding period in 2016.
- Loss for the period for the three months ended March 31, 2017 amounted to approximately RMB12.6 million, as compared to a loss of approximately RMB7.3 million for the corresponding period in 2016.
- The adjusted net loss for the three months ended March 31, 2017 amounted to approximately RMB5.7 million, as compared to an adjusted net profit of approximately RMB3.4 million for the corresponding period in 2016.
- The board of Directors (the “**Board**”) does not recommend any payment of dividends for the three months ended March 31, 2017.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the three months ended March 31, 2017

	Note	Three months ended March 31,	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	167,980	166,917
Cost of revenue		(99,827)	(84,237)
Gross profit		68,153	82,680
Selling and marketing expenses		(44,761)	(53,914)
Administrative expenses		(22,091)	(20,546)
Research and development expenses		(32,853)	(35,160)
Other gains — net	6	26,230	21,751
Operating loss		(5,322)	(5,189)
Finance income — net		85	3,721
Share of loss of investments using equity accounting		(4,408)	(4,678)
Loss before income tax		(9,645)	(6,146)
Income tax expense	7	(2,959)	(1,126)
Loss for the period		(12,604)	(7,272)
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		15,585	805
— Less:reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		(17,538)	(166)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		(527)	(414)
Items that will not be reclassified to profit or loss:			
— Currency translation differences		(3,533)	(5,731)
Other comprehensive loss for the period, net of tax		(6,013)	(5,506)
Total comprehensive loss for the period		(18,617)	(12,778)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (continued)

For the three months ended March 31, 2017

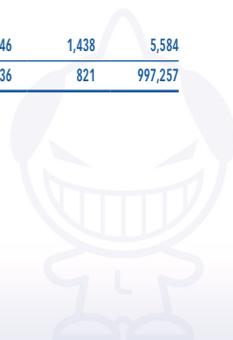
	Note	Three months ended March 31,	
		2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Loss attributable to:			
Owners of the Company		(13,924)	(7,272)
Non-controlling interests		1,320	—
Loss for the period		(12,604)	(7,272)
Total comprehensive loss attributable to:			
Owners of the Company		(19,909)	(12,778)
Non-controlling interests		1,292	—
Total comprehensive loss for the period		(18,617)	(12,778)
Loss per share (expressed in RMB per share)			
— Basic	8(a)	(0.04)	(0.02)
— Diluted	8(b)	(0.04)	(0.02)



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2017

(Unaudited)	Attributable to owners of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000			
Balance at January 1, 2017	59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290	
Comprehensive (loss)/income									
Loss for the period	-	-	-	-	(13,924)	(13,924)	1,320	(12,604)	
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	15,585	-	15,585	-	15,585	
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(17,538)	-	(17,538)	-	(17,538)	
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(527)	-	(527)	-	(527)	
— Currency translation differences	-	-	-	(3,505)	-	(3,505)	(28)	(3,533)	
Total comprehensive (loss)/income for the period	-	-	-	(5,985)	(13,924)	(19,909)	1,292	(18,617)	
Total contributions by and distributions to owners of the Company recognised directly in equity									
Decrease in ownership interest in subsidiaries without change of control	-	-	-	(1,438)	-	(1,438)	1,438	-	
Employee share option and RSU Scheme:									
— Value of employee services	-	-	-	6,951	-	6,951	-	6,951	
Repurchase of shares	-	(1,367)	-	-	-	(1,367)	-	(1,367)	
Total contributions by and distributions to owners of the Company for the period	-	(1,367)	-	5,513	-	4,146	1,438	5,584	
Balance at March 31, 2017	59	1,719,324	(2)	426,008	(1,148,953)	996,436	821	997,257	



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the three months ended March 31, 2017

(Unaudited)	Attributable to owners of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
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	-	-	-	-	(7,272)	(7,272)	-	(7,272)
Other comprehensive (loss)/income								
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	805	-	805	-	805
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(166)	-	(166)	-	(166)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(414)	-	(414)	-	(414)
— Currency translation differences	-	-	-	(5,731)	-	(5,731)	-	(5,731)
Total comprehensive income/(loss) for the period	-	-	-	(5,506)	(7,272)	(12,778)	-	(12,778)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Employee share option and RSU Scheme: — Value of employee services	-	-	-	10,631	-	10,631	-	10,631
Total contributions by and distributions to owners of the Company for the period	-	-	-	10,631	-	10,631	-	10,631
Balance at March 31, 2016	59	1,722,308	(3)	330,838	(984,929)	1,068,273	(1,907)	1,066,366



Notes to Interim Condensed Consolidated Financial Information

1. General information

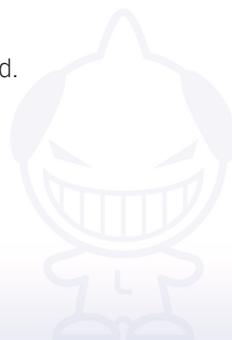
Linekong Interactive Group Co., Ltd. (the “Company”), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. The Company’s shares have been listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering (“IPO”).

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

The interim condensed consolidated balance sheet of the Group as of March 31, 2017 and the related interim condensed consolidated statements of comprehensive loss for the three-month period then ended, changes in equity for the three-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 May 12, 2017.

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

The Interim Financial Information has not been audited.



2. Basis of preparation

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

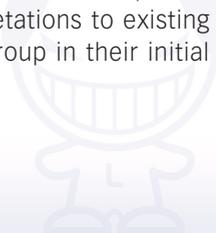
3. Summary of significant accounting policies

The accounting policies applied in the preparation of the unaudited Interim Financial Information are consistent with those used in the 2016 Financial Statements, which have been prepared in accordance with all applicable IFRSs and requirements of Hong Kong Companies Ordinance Cap. 622. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

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, 2017. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in their initial applications.



4. Revenue and segment information

	Three months ended	
	March 31,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Development and operations of online games (<i>Note (a)</i>):		
— Sales of in-game virtual items	133,518	156,925
— License fee and technical support fee	11,770	9,992
Licensing of film rights (<i>Note (b)</i>)	22,692	—
	167,980	166,917

- (a) The Group offers its online games in different forms: client-based games, web-based games and mobile games. A breakdown of revenue derived from different forms of the Group's games in the respective period is as follows:

	Three months ended	
	March 31,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	141,478	156,202
— Web-based games	734	1,367
— Client-based games	3,076	9,348
	145,288	166,917

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 ended March 31, 2017 and 2016.

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

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

	Three months ended March 31, 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue from external customers:		
— Mainland China	136,882	147,852
— Korea	25,839	6,438
— Overseas countries and regions	5,259	12,627
	167,980	166,917

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

	As of March 31, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
Mainland China	61,305	81,366
Overseas countries and regions	7,181	7,727
	68,486	89,093

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 January 1, 2017	(7,831)	118,899	9,557	273,990	31,865	426,480
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	15,585	15,585
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(17,538)	(17,538)
Share of other comprehensive income of investments using equity method, net of tax	-	-	-	-	(527)	(527)
Decrease in ownership interest in subsidiaries without change of control	(1,438)	-	-	-	-	(1,438)
Employee share option and RSU scheme: — Value of employee services	-	-	-	6,951	-	6,951
Currency translation differences	-	(3,505)	-	-	-	(3,505)
Balance at March 31, 2017	(9,269)	115,394	9,557	280,941	29,385	426,008
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	-	-	-	-	805	805
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(166)	(166)
Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	-	(414)	(414)
Employee share option and RSU scheme: — Value of employee services	-	-	-	10,631	-	10,631
Currency translation differences	-	(5,731)	-	-	-	(5,731)
Balance at March 31, 2016	(7,831)	68,126	9,557	251,460	9,526	330,838



6. Other gains — net

	Three months ended	
	March 31,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies <i>(Note (a))</i>	21	8,384
Foreign exchange (loss)/gains, net	(304)	146
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	740	13,080
Fair value gain from an associate measured at fair value through profit or loss	4,591	–
Impairment charges on available- for-sale financial assets	(1,773)	–
Gain on disposal of available-for- sale financial assets	23,384	196
Gain on disposals of property, plant and equipment	–	138
Gain on disposals of intangible assets	–	210
Others	(429)	(403)
	26,230	21,751

Note:

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



7. Income tax expense

The income tax expense of the Group for the three months ended March 31, 2017 and 2016 is analysed as follows:

	Three months ended	
	March 31,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	1,851	244
Deferred income tax	1,108	882
Income tax expense	2,959	1,126

(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 three months ended March 31, 2017 and 2016 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.



(c) *PRC Enterprise Income Tax ("EIT")*

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the three months ended March 31, 2017 and 2016, except for Tianjin Baba Liusi Network Technology Co., Ltd. ("Tianjin 8864") and Horgos Linekong Pictures Corporation ("Linekong Horgos"). Tianjin 8864 was accredited as software enterprises and Linekong Horgos was accredited as a new company in economic development zone. The applicable schedules of preferential income tax rate for Tianjin 8864 and Linekong Horgos are as follows:

	Three months ended	
	March 31,	
	2017	2016
Tianjin 8864	50% reduction	50% reduction
Linekong Horgos	EIT exemption	25%

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

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

As of March 31, 2017, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of March 31, 2017 and December 31, 2016, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

8. Loss per share

(a) Basic

Basic loss per share for the three months ended March 31, 2017 and 2016 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended March 31,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company	(13,924)	(7,272)
Weighted average number of ordinary shares in issue (thousand shares)	348,576	346,560
Basic loss per share (expressed in RMB per share)	(0.04)	(0.02)

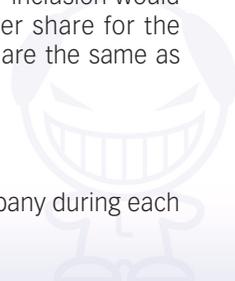
(b) Diluted

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 ended March 31, 2017 and 2016, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the three months ended March 31, 2017 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months ended March 31, 2017 and 2016 are the same as basic loss per share of the period.

9. Dividends

No dividends have been paid or declared by the Company during each of the three months ended March 31, 2017 and 2016.



Management Discussion and Analysis

Business Review and Prospects

Review and Prospects

In 2017, while implementing the integration strategy of “Movie-Animation-Game”, the Group continuously strengthened the ability of R&D and operation of its core business, mobile games; In the meantime, future orientated preparations were made in the pan-entertainment areas such as movie, intelligent hardware, internet content, etc., with an intention to bring rich and new interactive entertainment experience to million of users.

During the first quarter of 2017, the Group focused on game business and achieved substantial results in Korean market alongside the vigorous exploration of the overseas markets. The Korean version of our mobile game Daybreak (黎明之光) has reaped fruitful results since release, ranking 1st on the Free Game list and 3rd on the Best Seller List of iOS, 1st in popularity rankings and 5th on the Best Seller List of Google Play, 1st in popularity rankings of Kakao, and 2nd in the Korean local mall ONE STORE. 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)) and Thunder Armada (雷霆艦隊), both of which were commercialized, have maintained good income level in Korea. Supercharged (formerly known as Super Charge), a casual and battling game self-developed by Linekong US Inc., has accumulated a lot of popularity worldwide during testing stage with its smooth player experience and diverse gameplay, and will soon be commercialized for the global market.

While the overseas market maintained rapid growth, the domestic market also grew stably. The commercialized mobile games, such as Daybreak (黎明之光), The Wars of Shushan (蜀山戰紀), etc., have accumulated a group of loyal players with their top-notch quality. In particular, Daybreak (黎明之光), with newly added King Kong mount and assassin occupation and skin licensed by UBISOFT, has brought players richer gaming experience. Following The Wars of Shushan (蜀山戰紀), the Group will once again be working with IQIYI jointly to release a movie-and-game integration IP masterpiece, The Legend of Jade Sword (莽荒紀). The Legend of Jade Sword (莽荒紀) novel topped the list of online novels in Mainland China for three consecutive years. An adaption of the animation of the same name was

broadcasted on iQIYI in 2015, with an accumulated number of views over 350 million. The TV series of the same name has wrapped up and is expected to be broadcasted on the platforms such as iQIYI and Tencent as well as top satellite TV channels simultaneously during 2017. The game of the same name is scheduled to be launched at the same time. During the first quarter, the R&D and testing work of much anticipated self-developed games, such as Monster Hunt (捉妖記), Sword of Heaven 2 (蒼穹之劍2) and Rock the Heaven (鬧鬧天宮), progressed orderly.

Moreover, the Group also had certain achievements in movie business. During the first quarter, the Internet drama Long For You (我與你的光年距離), adapted from the popular comic work Snow Girl (雪姬), was exclusively released on Letv, with an accumulated number of views over 1.1 billion. As a first-ever attempt of the Group to produce movie content on the internet, Long For You (我與你的光年距離) has put the concept of “exquisite IP + quality original work + outstanding platform” into practice.

In the coming period of 2017, the Group will commercialize 8-10 games in succession, mainly including following games and types:

Name	Type	Region	Features
To The High Seas (大航海之路)	MMORPG	Korea	3D nautical game with grand and realistic scenes and rich experience of adventures, trades and wars
Supercharged	Competition	Global	A combination of recreation, competition and social activities with highly enjoyable and smooth experience
Monster Hunt (捉妖記)	MMORPG	PRC	Rich experience of plots with a strong and vivid scene of ambiance



Name	Type	Region	Features
Sword of Heaven 2 (蒼穹之劍2)	MMORPG	PRC	Aesthetic image of high quality and home of a fairyland
Rock the Heaven (鬧鬧天宮)	Competition	PRC	3D cartoon characters from Journey to the West in novel ways of battles with smooth experience
One Hundred Thousand Bad Jokes (十萬個冷笑話) (drama version)	3D cards	PRC	Playable domestic ironic drama featuring original plots, scenes and characters from the animation
Twilight World (暮光世界)	MMOARPG	PRC	Diverse gameplay with smooth experience and grand special effects and attire
The Legend of Jade Sword (莽荒紀)	MMORPG	PRC	Epic and large 3D mobile game with a fantasy world, intelligent fairies and pets with featured combats and remaking of classic plots

While commercializing high quality games, the Group will also accelerate the development of its game business in emerging markets. In the coming period of 2017, the Group will establish a new team focusing on the emerging markets and refine the types of games to be commercialized.

As for its movie business, Wished (反轉人生) co-produced by the Group will be released during summer and will be premiered on June 30, 2017. The production of the Internet drama Chuunibyuu, Saved (中二拯救大作戰) adapted from two-dimensional IP will be completed in 2017. By achieving differentiation in high quality internet movie contents, the movie business will continue to enhance the brand value for the Group.

International markets

As of March 31, 2017, our games are published in 47 countries and regions in addition to China. As of March 31, 2017, the revenue from overseas markets for the first quarter was approximately RMB31.1 million, representing a significant increase of approximately 62.8% as compared to approximately RMB19.1 million from overseas markets in 2016. The revenue from overseas markets accounted for approximately 18.5% of our total revenue.

Our players

The total number of registered players of our games increased from approximately 208.6 million as at March 31, 2016 to over 224.4 million as at March 31, 2017. As at March 31, 2017, the monthly average user (MAU) reached approximately 1.9 million users and the daily average users (DAU) reached approximately 0.3 million users with average monthly revenue per paying users (ARPPU) of approximately RMB291.4.



Financial Review

Revenue

The Group's revenue increased by approximately 0.6% from approximately RMB166.9 million for the three months ended March 31, 2016 to approximately RMB168.0 million for the three months ended March 31, 2017.

During the three months ended March 31, 2017, the revenue contributed by game business decreased by approximately 13.0%, or RMB21.6 million, compared with the corresponding period of 2016, which due to less new game released during the first three months ended March 31, 2017 than that of 2016, which mainly due to the strategy made by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of movie business, the Group recognised revenue of RMB22.7 million from sales of licensing of film rights during the first three months of 2017.

The following tables set forth the breakdown of our revenue by game and movie business respectively. And for the game business, the other following tables set forth the breakdown of revenue by (i) game forms; (ii) self-developed games and licensed games; and (iii) development and operations of online games for the three months ended March 31, 2017 and 2016 respectively:

	For the three months ended March 31,			
	2017 approximate		2016 approximate	
	RMB'000	%	RMB'000	%
Development and operations of online games	145,288	86.5	166,917	100.0
Licensing of film rights	22,692	13.5	-	-
Total	167,980	100.0	166,917	100.0

	For the three months ended March 31,			
	2017		2016	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Mobile games	141,478	97.4	156,202	93.6
Web-based games	734	0.5	1,367	0.8
Client-based games	3,076	2.1	9,348	5.6
Total	145,288	100.0	166,917	100.0

	For the three months ended March 31,			
	2017		2016	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Self-developed games	48,978	33.7	117,983	70.7
Licensed games	96,310	66.3	48,934	29.3
Total	145,288	100.0	166,917	100.0

	For the three months ended March 31,			
	2017		2016	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Sales of in-game virtual items	133,518	91.9	156,925	94.0
License fee and technical support fee	11,770	8.1	9,992	6.0
Total	145,288	100.0	166,917	100.0



Cost of revenue

The Group's cost of revenue for the three months ended March 31, 2017 was approximately RMB99.8 million, representing an increase of approximately 18.5% from approximately RMB84.2 million for the three months ended March 31, 2016. The Group's cost of revenue for the three months ended March 31, 2017, excluding share-based compensation expenses was approximately RMB99.1 million, representing an increase of approximately 18.7% from approximately RMB83.5 million for the three months ended March 31, 2016.

During the three months ended March 31, 2017, the cost incurred by game business was approximately RMB81.6 million, representing a decrease of approximately 3.1%, or RMB2.6 million, compared with the corresponding period of 2016, which was according to the decrease of our game revenue.

During the three months ended March 31, 2017, the cost incurred by movie business was approximately RMB18.2 million.

Gross profit and gross profit margin

The Group's gross profit for the three months ended March 31, 2017 was approximately RMB68.2 million, representing a decrease of approximately 17.5% from approximately RMB82.7 million for the three months ended March 31, 2016. The Group's gross profit, excluding share-based compensation expense, for the three months ended March 31, 2017 was approximately RMB68.8 million, representing a decrease of approximately 17.5% as compared to approximately RMB83.4 million for the three months ended March 31, 2016. The decrease in the Group's gross profit was primarily due to (1) increase in revenue generated from licensed game, especially Daybreak (黎明之光) (which was commercialised from September 18, 2016), as a result of the increase in content fee paid to third party developers; (2) the additional production cost incurred by movie business for the three months ended March 31, 2017.



The Group's gross profit margin for the three months ended March 31, 2017 was approximately 40.6%, representing a decrease of approximately 9.0 percentage points as compared to approximately 49.6% for the three months ended March 31, 2016. The Group's gross profit margin, excluding share-based compensation expense, for the three months ended March 31, 2017 was approximately 41.0%, representing a decrease of approximately 9.0 percentage points as compared to approximately 50.0% for the three months ended March 31, 2016.

During the three months ended March 31, 2017, the gross profit margin of game business was approximately 43.8%, representing a decrease of approximately 5.8 percentage points compared with the corresponding period of 2016, which mainly due to the increase in proportion of revenue from licensed mobile game to the overall revenue.

The gross profit margin from movie business was approximately 19.8%, which was lower than gross profit margin of game business.

Selling and marketing expenses

The Group's selling and marketing expenses for the three months ended March 31, 2017 were approximately RMB44.8 million, representing a decrease of approximately 16.9% from approximately RMB53.9 million for the three months ended March 31, 2016. The Group's selling and marketing expenses, excluding share-based compensation expense, for the three months ended March 31, 2017 were approximately RMB44.3 million, representing a decrease of approximately 16.9% from approximately RMB53.3 million for the three months ended March 31, 2016. The decrease was primarily due to reduction of advertising and promotion expenses incurred by publishing new games.

Administrative expenses

The Group's administrative expenses for the three months ended March 31, 2017 were approximately RMB22.1 million, representing an increase of approximately 7.8% from approximately RMB20.5 million for the three months ended March 31, 2016. The Group's administrative expenses, excluding share-based compensation expense, for the three months ended March 31, 2017 were approximately RMB18.7 million, representing an increase of approximately 19.9% from approximately RMB15.6 million for the three months ended March 31, 2016. The increase in the Group's administrative expenses was primarily due to the increase in administrative staffs' remuneration, labour costs and other welfares.

Research and development expenses

The Group's research and development expenses for the three months ended March 31, 2017 were approximately RMB32.9 million, representing a decrease of approximately 6.5% from approximately RMB35.2 million for the three months ended March 31, 2016. The Group's research and development expenses, excluding share-based compensation expense, for the three months ended March 31, 2017 were approximately RMB30.4 million, representing a decrease of approximately 1.6% from approximately RMB30.9 million for the three months ended March 31, 2016. The decrease in the Group's research and development expenses was primarily due to decreased expenditures from outsourcing animation and art design.

Other gains — net

The Group's other gains for the three months ended March 31, 2017 were approximately RMB26.2 million, as compared to approximately RMB21.8 million for the three months ended March 31, 2016. The other gains for the three months ended March 31, 2017 mainly represent realised gain generated from the disposal of the Group's interests in MicroFunPlus Co., Ltd.

Finance income — net

Our finance income decreased from approximately RMB3.7 million for the three months ended March 31, 2016 to approximately RMB85 thousand for the three months ended March 31, 2017 mainly due to the decrease in interest income generated from an offshore flexible deposit account and other wealth management products. No interest was capitalised for the three months ended March 31, 2017 (2016: Nil).

Share of loss of investments using equity accounting

The Group's share of loss of investment using equity accounting for the three months ended March 31, 2017 was approximately RMB4.4 million, which was mainly due to a loss incurred by the investee, the Fuze Entertainment Co., Ltd, as a result of continued expenditure incurred in its early operational stages.



Income tax expense

The Group's income tax expense for the three months ended March 31, 2017 were approximately RMB3.0 million, representing an increase of approximately 172.7% as compared to the income tax of approximately RMB1.1 million for the three months ended March 31, 2016. The increase in the Group's income tax expense was primarily due to the increase of taxable profit made by some subsidiaries of the Group.

Loss for the period

As a result of the foregoing, the loss for the period was approximately RMB12.6 million for the three months ended March 31, 2017, representing a increase of approximately 73.3% as compared to a loss of approximately RMB7.3 million for the three months ended March 31, 2016.

To supplement our consolidated financial statements presented in accordance with the 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 net of share-based compensation expenses. The adjusted net (loss)/profit is an unaudited figure.

The following table reconciles our adjusted net (loss)/profit for the three months ended March 31, 2017 and 2016 respectively, in accordance with the International Financial Reporting Standards:



	For the three months ended March 31,		Change
	2017	2016	(approximate
	RMB'000	RMB'000	%)
Loss for the period	(12,604)	(7,272)	73.3
Add:			
Share-based compensation expenses	6,951	10,631	(34.6)
Adjusted net (loss)/profit (unaudited)	(5,653)	3,359	(268.3)

The Group's adjusted net loss for the three months ended March 31, 2017 was approximately RMB5.7 million, as compared to adjusted net profit of approximately RMB3.4 million for the three months ended March 31, 2016. The decrease in our adjusted net profit was mainly due to the decrease in gross profit. We have presented adjusted net (loss)/profit in this quarterly report as we believe that the adjusted net (loss)/profit 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)/profit 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 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 three months ended March 31, 2017, we financed our operations primarily through cash generated from our past operating activities. We maintain a solid cash position since the net proceeds we received from the Listing 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 three months ended March 31, 2017, majority of 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 transactions of speculative derivatives.

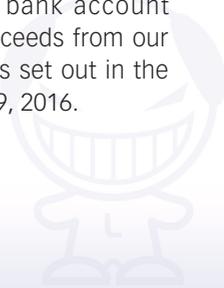
Cash and cash equivalents, short-term bank deposits and restricted deposits

As at March 31, 2017, we had cash and cash equivalents of approximately RMB476.6 million (December 31, 2016: approximately RMB338.7 million), primarily consisted of cash at bank and other financial institution and cash in hand and mainly denominated in Renminbi (as to approximately 29.0%), Hong Kong dollars (as to approximately 67.0%), U.S. dollars (as to approximately 3.8%) and other currencies (as to approximately 0.2%).

As of March 31, 2017, we had short-term bank deposit of approximately amounting to RMB177.6 million (December 31, 2016: approximately RMB313.0 million).

As of March 31, 2017, approximately RMB105.6 million (December 31, 2016: approximately RMB106.1 million) are restricted deposits held at bank as reserve for serving of a loan facility of approximately RMB99.8 million provided by the bank, and which will expire in 2018.

Net proceeds from our listing, after deducting the underwriting commission and other estimated expenses in connection with the listing, received by the Company amounted to approximately HK\$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 start 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 three months ended March 31, 2017, our total capital expenditures amounted to approximately RMB0.8 million (for the three months ended March 31, 2016: approximately RMB33.5 million), including the purchase of furniture and office equipment of approximately RMB0.3 million (for the three months ended March 31, 2016: approximately RMB0.7 million), motor vehicles of approximately RMB0.3 million (for the three months ended March 31, 2016: Nil), server and other equipment of approximately RMB0.1 million (for the three months ended March 31, 2016: approximately RMB0.2 million), leasehold improvements: Nil (for the three months ended March 31, 2016: approximately RMB1.5 million), trademarks and licenses: Nil (for the three months ended March 31, 2016: approximately RMB31.0 million) and computer software of approximately RMB0.1 million (for the three months ended March 31, 2016: approximately RMB0.1 million).

Capital Structure

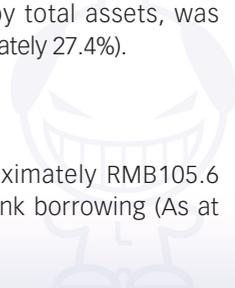
The shares of the Company have been listed on GEM of the Stock Exchange since December 30, 2014. The capital structure of the Group comprised ordinary shares.

Borrowings and Gearing Ratio

As of March 31, 2017, long-term bank loan amounting to approximately RMB99.8 million borrowed by the Group, of which approximately RMB0.6 million is due within one year (As of December 31, 2016, long-term bank loan amounting to RMB100.0 million borrowed by the Group, of which approximately RMB0.6 million is due within one year). As at March 31, 2017, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 24.6% (As at December 31, 2016: approximately 27.4%).

Charge on group assets

As at March 31, 2017, a restricted deposit of approximately RMB105.6 million of the Group was pledged as a security for bank borrowing (As at December 31, 2016: approximately RMB106.1 million).



Information on Employees and Remuneration Policy

As at March 31, 2017, the Group had 708 employees (March 31, 2016: 649), and most of them worked and stationed in the PRC. The table below sets forth the number of employees in each functional area as at March 31, 2016 and March 31, 2017, respectively:

Function	As at March 31,			
	2017		2016	
	Number of Employees	approximate % of total employees	Number of Employees	approximate % of total employees
Research and development	409	57.8	387	59.6
Game publishing	172	24.3	164	25.3
— Game licensing	56	7.9	41	6.3
— Customer services	47	6.6	55	8.5
— Sales and marketing	69	9.7	68	10.5
General and administrative	84	11.9	98	15.1
Movie business	43	6.1	—	—
Total	708	100.0	649	100.0

The total remuneration of the employees of the Group was approximately RMB52.8 million for the three months ended March 31, 2017 (2016 corresponding period: approximately RMB49.6 million).

The Group has established the remuneration committee on April 21, 2014 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules. The remuneration committee will regularly review and recommend to the Board from time to time regarding the remuneration and compensation of the Directors and the 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 share option scheme (the “**Share Option Scheme**”) as an incentive to the Directors and eligible persons, details of which are set out in the paragraph headed “Share Option Scheme” of this quarterly report.

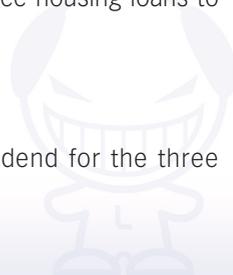
In addition, the Group has adopted restricted unit share scheme (the “**RSU Scheme**”) with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

Share-based compensation expenses in connection with the RSU Scheme and share option scheme for the three months ended March 31, 2017 were approximately RMB7.0 million, representing a decrease of approximately 34.0% from approximately RMB10.6 million for corresponding period in 2016.

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group’s business. As a fast growing company, the Group is able to provide its employees with ample career development choices and advancement opportunities. The Group organises various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building. The Group also provides various incentives to better motivate its employees. In addition to providing performance-based bonuses and share-based awards, the Group offers unsecured, interest-free housing loans to employees with good performance.

Dividend

The Board did not recommend the payment of dividend for the three months ended March 31, 2017.

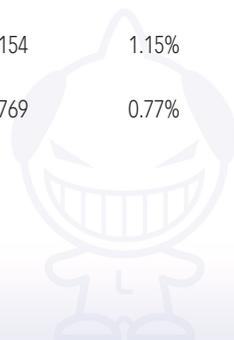


Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of March 31, 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“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	20.94%
	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 March 31, 2017, approximately 90.0% 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 March 31, 2017, approximately 90.0% 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 March 31, 2017, approximately 90.0% 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 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of March 31, 2017, approximately 60.0% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (5) As of March 31, 2017, the Company issued 368,730,964 shares.

Save as disclosed above, on March 31, 2017, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.



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

So far as the Directors are aware, as of March 31, 2017, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Linekong 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 March 31, 2017, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long and short positions in the shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 7)
Wangfeng Management Limited <i>(Note 1)</i>	Beneficial owner	66,576,160	18.06%
Zhu Li <i>(Note 2)</i>	Interest of spouse	77,222,468	20.94%
China Momentum Fund, L.P. <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Fosun China Momentum Fund GP, Ltd. <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Fosun Financial Holdings Limited <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Fosun Holdings Limited <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company <i>(Note 7)</i>
Fosun International Holdings Limited <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Fosun International Limited <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Fosun Momentum Holdings Limited <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Guo Guangchang <i>(Note 3)</i>	Interest of controlled corporation	52,318,760	14.19%
Starwish Global Limited <i>(Note 3)</i>	Beneficial owner	52,318,760	14.19%
The Core Trust Company Limited <i>(Note 4)</i>	Trustee of a trust	40,492,158	10.98%
Premier Selection Limited <i>(Note 4)</i>	Nominee for another person	40,492,158	10.98%
Chi Sing Ho <i>(Note 5)</i>	Interest of controlled corporation	29,922,996	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. <i>(Note 5)</i>	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund Associates, L.P. <i>(Note 5)</i>	Interest of controlled corporation	27,774,323	7.53%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our 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 March 31, 2017, Fosun International Limited is 71.55% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Limited. As of March 31, 2017, 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 43,094,041 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of March 31, 2017, 2,601,883 relevant Shares have been sold by the RSU participants and the RSU nominee currently holds 40,492,158 underlying Shares, including a total of 19,679,385 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 4,217,154 RSUs granted to Mr. Zhao Jun. On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017 and April 6, 2017, the Company had directed the Core Trust Company Limited to purchase and hold on-market 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 Shares, 1,000 Shares and 72,000 Shares, respectively, of the ordinary shares of the Company, which will be used to satisfied the RSUs upon exercise.
5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund Associates, L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 shares) and IDG Accel China Growth Fund-A L.P. (directly holds 4,712,880 shares) are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Quan Zhou and Mr. Chi Sing Ho, and (ii) IDG-Accel China Investors L.P. is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Chi Sing Ho. Hence, IDG-Accel China Growth Fund Associates L.P., IDG-Accel China Growth Fund GP Associates Ltd. and Mr. Quan Zhou are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing Ho is deemed to be interested in 29,922,996 Shares by virtue of SFO.
6. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
7. As of March 31, 2017, the Company issued 368,730,964 Shares.



Share Option Scheme

The Company adopted the Share Option Scheme on November 20, 2014. The purpose of the Share Option Scheme is to incentivise and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full-time or part-time) or a director of a member of the Group or associated companies of the Company or any person who provides or has provided consultancy or other advisory services to the Group. Key terms of the Share Option Scheme are summarized in Appendix IV “Share Option Scheme” of the prospectus of the Company dated December 9, 2014.



As of March 31, 2017, details of the granted and outstanding share options of the Company are set out as follows:

Category	Date of Grant	Option Period	Share options granted	Exercise price per share	The weighted average closing price of the shares	Outstanding balance as at January 1, 2017	During the reporting period				Outstanding balance as at March 31, 2017	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 ⁽¹⁾⁽²⁾	8.10	8.028	462,298	0	0	0	0	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	4,742,500	0	0	0	480,000	4,262,500	0	1,195,000
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 ⁽¹⁾⁽²⁾	4.366	4.366	1,450,000	0	0	0	0	1,450,000	0	0
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 ⁽¹⁾⁽²⁾	3.1	3.084	N/A	9,225,000	0	0	180,000	9,045,000	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

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
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.



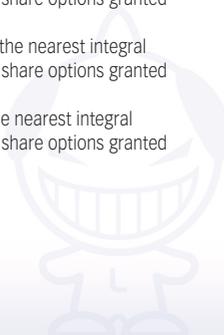
- (4) The options granted on June 15, 2016 may be exercised in accordance with the following vesting timetable:

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) The options granted on January 18, 2017 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



Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
vi. 42 months upon the acceptance of the offer for grant of share options	87.5% (rounded down to the nearest integral number of shares) of the share options granted
vii. 48 months upon the acceptance of the offer for grant of share options	100% (rounded down to the nearest integral number of shares) of the share options granted

The closing price of the shares immediately before the date on which the share options were granted was HKD3.10 per share.

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

Share Incentive Scheme

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

On March 31, 2017, RSUs in respect of 35,471,879 underlying shares has been granted to 461 grantees (four of which are our Directors). Total RSUs in respect of 38,075 underlying shares granted to 3 grantees had been lapsed during the three months ended March 31, 2017. On March 31, 2017, 27,023,165 RSUs have been vested unconditionally and there were 4,951,292 RSUs granted and outstanding.



Events during the Reporting Period and Subsequent Events

Share Purchase by RSU Trustee

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

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

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017 and April 6, 2017, respectively.

Grant of Share Options

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



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

On February 3, 2017 the Board announced the following changes to the Board, with effect from February 3, 2017: 1) Mr. Qian Zhonghua was re-designated from the non-executive Director of the Company to the executive Director of the Company. Mr. Qian Zhonghua, following his redesignation, ceased to be a member of the audit committee of the Board and the nomination committee of the Board; and 2) Mr. Pan Donghui was appointed as the non-executive Director of the Company, a member of the audit committee of the Board and a member of the nomination committee of the Board.

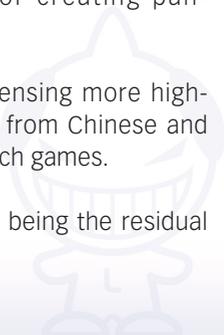
Use of IPO Proceeds

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 March 31, 2017, a total amount of approximately HKD194.9 million from the IPO Proceeds had been utilised for the purposes and approximately in the amount set out below:

- (a) approximately HKD77.0 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD16.5 million was used for potential strategic acquisition or investment in companies in online game and related businesses;
- (c) approximately HKD58.2 million was used for creating pan-entertainment environment; and
- (d) approximately HKD43.2 million was used for licensing more high-quality games with different genres and themes from Chinese and overseas game developers and the operation of such games.

As of March 31, 2017, approximately HKD491.3 million, being the residual part of the IPO Proceeds, remains unutilised.



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

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



Save as the aforementioned, none of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group for the three months ended March 31, 2017.

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 affiliated companies by the Company for the three months ended March 31, 2017.

Purchase, Sale or Redemption of Listed Securities of the Company

During the three months ended March 31, 2017, 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 (resigned with effect from February 3, 2017), Mr. Pan Donghui (appointed with effect from February 3, 2017), non-executive Directors, 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 three months ended March 31, 2017 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited financial statements of the Group for the three months ended March 31, 2017 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Corporate Governance

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

In the opinion of the Board, the Company has complied with the Code for the three months ended March 31, 2017, except for the deviation of Code provision A.2.1 and A.5.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. From the date of listing to the date of this 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 five 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.



Code Provision A.5.1 of Code provides that issuers should establish a nomination committee which is chaired by the chairman of the Board or an independent non-executive Director and comprises a majority of independent non-executive Directors. During the three months ended March 31, 2017, the Nomination Committee of the Company comprised Mr. Wang Feng (Chairman of Nomination Committee), Ms Liao Mingxiang, Mr. Mei Song as executive Directors; Mr. Qian Zhonghua (re-designated as executive Directors and ceased to be a member of the Nomination Committee with effect from February 3, 2017) and Mr. Pan Donghui (appointed as non-executive Director and a member of the Nomination Committee with effect from February 3, 2017) as non-executive Directors; and Mr. Ma Ji, Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang as independent non-executive Directors. Although the independent non-executive Directors only account for half of the members, the Company considers that this composition can operate more effectively and the overall independence will not be affected.

Directors' Securities Transactions

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings for the three months ended March 31, 2017.

