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Linekong Interactive Group Co., Ltd.

藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2017**

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This announcement, for which the directors (the “**Directors**”) of Linekong Interactive Group Co., Ltd. (“**the Company**” or “**we**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

HIGHLIGHTS

- Our revenue for the six months ended June 30, 2017 amounted to approximately RMB292.1 million, representing a decrease approximately 11.5% as compared to approximately RMB330.0 million for the six months ended June 30, 2016.
- Our loss for the six months ended June 30, 2017 amounted to approximately RMB50.4 million, as compared to loss of approximately RMB50.6 million for the six months ended June 30, 2016.
- Our adjusted net loss for the six months ended June 30, 2017 amounted to approximately RMB42.2 million, as compared to an adjusted net loss of approximately RMB33.9 million for the six months ended June 30, 2016.
- The board of Directors (the “**Board**”) did not recommend any payment of dividends for the six months ended June 30, 2017.

INTERIM RESULTS (UNAUDITED)

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As of June 30, 2017	As of December 31, 2016
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		9,041	13,649
Intangible assets		34,253	39,406
Films in progress		28,704	24,418
Investments using equity accounting	7	150,398	176,362
An associate measured at fair value through profit or loss		47,051	19,229
Available-for-sale financial assets		105,790	115,125
Financial assets at fair value through profit or loss		16,067	15,637
Deferred income tax assets — net		2,518	1,431
Prepayments and other receivables		20,297	20,389
Restricted deposits		103,008	106,139
		<hr/> 517,127	<hr/> 531,785
Current assets			
Trade receivables	8	55,162	78,947
Prepayments and other receivables		112,602	112,905
Financial assets at fair value through profit or loss		16,314	17,125
Short-term bank deposits		173,560	312,963
Cash and cash equivalents		372,958	338,655
		<hr/> 730,596	<hr/> 860,595
Total assets		<hr/> 1,247,723	<hr/> 1,392,380

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		As of June 30, 2017	As of December 31, 2016
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		59	59
Share premium		1,720,691	1,720,691
Shares held for RSU Scheme		(2,037)	(2)
Reserves	4	418,346	426,480
Accumulated losses		<u>(1,186,436)</u>	<u>(1,135,029)</u>
		950,623	1,012,199
Non-controlling interests		<u>562</u>	<u>(1,909)</u>
Total equity		<u>951,185</u>	<u>1,010,290</u>
Liabilities			
Non-current liabilities			
Bank borrowings		99,100	99,400
Deferred revenue		<u>5,377</u>	<u>7,021</u>
		104,477	106,421
Current liabilities			
Bank borrowings		600	600
Trade and other payables	9	134,940	171,940
Current income tax liabilities		4,199	17,813
Deferred revenue		<u>52,322</u>	<u>85,316</u>
		192,061	275,669
Total liabilities		<u>296,538</u>	<u>382,090</u>
Total equity and liabilities		<u>1,247,723</u>	<u>1,392,380</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Note	Three months ended June 30,		Six months ended June 30,	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	5	124,149	163,108	292,129	330,025
Cost of revenue		<u>(67,903)</u>	<u>(83,978)</u>	<u>(167,730)</u>	<u>(168,215)</u>
Gross profit		56,246	79,130	124,399	161,810
Selling and marketing expenses		(47,756)	(45,008)	(92,517)	(98,922)
Administrative expenses		(20,645)	(27,812)	(42,736)	(48,358)
Research and development expenses		(32,606)	(35,436)	(65,459)	(70,596)
Other gains — net	6	<u>5,421</u>	<u>4,283</u>	<u>31,651</u>	<u>26,034</u>
Operating loss		(39,340)	(24,843)	(44,662)	(30,032)
Finance income/(costs) — net		1,363	(399)	1,448	3,322
Share of loss of investments using equity accounting	7	<u>(17,542)</u>	<u>(6,326)</u>	<u>(21,950)</u>	<u>(11,004)</u>
Loss before income tax		(55,519)	(31,568)	(65,164)	(37,714)
Income tax credit/(expense)	10	<u>17,758</u>	<u>(11,715)</u>	<u>14,799</u>	<u>(12,841)</u>
Loss for the period		<u>(37,761)</u>	<u>(43,283)</u>	<u>(50,365)</u>	<u>(50,555)</u>
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		6,475	(1,839)	22,060	(1,034)
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		(375)	(248)	(17,913)	(414)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		(1,880)	1,276	(2,407)	862
Items that will not be reclassified to profit or loss:					
— Currency translation differences		<u>(13,118)</u>	<u>18,159</u>	<u>(16,651)</u>	<u>12,428</u>
Other comprehensive (loss)/income for the period, net of tax		<u>(8,898)</u>	<u>17,348</u>	<u>(14,911)</u>	<u>11,842</u>
Total comprehensive loss for the period		<u>(46,659)</u>	<u>(25,935)</u>	<u>(65,276)</u>	<u>(38,713)</u>

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

	Three months ended June 30,		Six months ended June 30,	
Note	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Loss attributable to:				
Owners of the Company	(37,483)	(43,282)	(51,407)	(50,554)
Non-controlling interests	(278)	(1)	1,042	(1)
Loss for the period	<u>(37,761)</u>	<u>(43,283)</u>	<u>(50,365)</u>	<u>(50,555)</u>
Total comprehensive loss attributable to:				
Owners of the Company	(46,400)	(25,934)	(66,309)	(38,712)
Non-controlling interests	(259)	(1)	1,033	(1)
Total comprehensive loss for the period	<u>(46,659)</u>	<u>(25,935)</u>	<u>(65,276)</u>	<u>(38,713)</u>
Loss per share (expressed in RMB per share)				
— Basic	11(a) <u>(0.11)</u>	<u>(0.12)</u>	<u>(0.15)</u>	<u>(0.15)</u>
— Diluted	11(b) <u>(0.11)</u>	<u>(0.12)</u>	<u>(0.15)</u>	<u>(0.15)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)	Note	Attributable to owners of the Company							Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non- controlling interests RMB'000	
				RMB'000					
Balance at January 1, 2017		<u>59</u>	<u>1,720,691</u>	<u>(2)</u>	<u>426,480</u>	<u>(1,135,029)</u>	<u>1,012,199</u>	<u>(1,909)</u>	<u>1,010,290</u>
Comprehensive (loss)/income									
Loss for the period		-	-	-	-	(51,407)	(51,407)	1,042	(50,365)
Other comprehensive income/(loss)									
— Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	22,060	-	22,060	-	22,060
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	-	-	(17,913)	-	(17,913)	-	(17,913)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	(2,407)	-	(2,407)	-	(2,407)
— Currency translation differences		-	-	-	(16,642)	-	(16,642)	(9)	(16,651)
Total comprehensive (loss)/income for the period		<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,902)</u>	<u>(51,407)</u>	<u>(66,309)</u>	<u>1,033</u>	<u>(65,276)</u>
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:									
— Shares purchased for RSU Scheme		-	-	(2,035)	-	-	(2,035)	-	(2,035)
— Value of employee services	20	-	-	-	8,206	-	8,206	-	8,206
Total contributions by and distributions to owners of the Company for the period		<u>-</u>	<u>-</u>	<u>(2,035)</u>	<u>6,768</u>	<u>-</u>	<u>4,733</u>	<u>1,438</u>	<u>6,171</u>
Balance at June 30, 2017		<u><u>59</u></u>	<u><u>1,720,691</u></u>	<u><u>(2,037)</u></u>	<u><u>418,346</u></u>	<u><u>(1,186,436)</u></u>	<u><u>950,623</u></u>	<u><u>562</u></u>	<u><u>951,185</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(CONTINUED)

(Unaudited)	Note	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
		Share capital	Share premium	Shares held for RSU Scheme	Reserves	Accumulated losses			
		RMB'000	RMB'000	RMB'000	RMB'000	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									
Loss for the period		-	-	-	-	(50,554)	(50,554)	(1)	(50,555)
Other comprehensive (loss)/income									
— Changes in fair value of available-for-sale financial assets, net of tax		-	-	-	(1,034)	-	(1,034)	-	(1,034)
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	-	-	(414)	-	(414)	-	(414)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		-	-	-	862	-	862	-	862
— Currency translation differences		-	-	-	12,428	-	12,428	-	12,428
Total comprehensive income/ (loss) for the period		-	-	-	11,842	(50,554)	(38,712)	(1)	(38,713)
Total contributions by and distributions to owners of the Company recognised directly in equity									
Employee share option and RSU Scheme:									
— Value of employee services	20	-	-	-	16,663	-	16,663	-	16,663
Total contributions by and distributions to owners of the Company for the period		-	-	-	16,663	-	16,663	-	16,663
Balance at June 30, 2016		59	1,722,308	(3)	354,218	(1,028,211)	1,048,371	(1,908)	1,046,463

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash used in operations	(69,093)	(45,629)
Income tax paid	(1,284)	(2,771)
	<u>(70,377)</u>	<u>(48,400)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,575)	(3,621)
Purchase of intangible assets	(15,125)	(12,730)
Net cash received from disposal of property, plant and equipment	–	145
Purchase of available-for-sale financial assets	(200,000)	(133,400)
Proceeds from disposal of available-for-sale financial assets	234,576	133,873
Capital injection in an associate measured at fair value through profit or loss	(15,000)	(15,000)
Purchase of financial assets at fair value through profit or loss	–	(3,887)
Loan granted to a related party	(1,200)	–
Payments for films in progress	(20,934)	(4,600)
Loan repayments received from a third party	–	10,966
Decrease in short term bank deposits	133,191	–
	<u>113,933</u>	<u>(28,254)</u>
Net cash generated from/(used in) investing activities		

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

		Six months ended June 30,	
		2017	2016
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cash flows from financing activities			
Repayments of bank borrowings	<i>21</i>	(300)	–
Interests paid		(1,340)	–
Purchase of shares for RSU Scheme	<i>18</i>	(2,035)	–
		<hr/>	<hr/>
Net cash used in financing activities		(3,675)	–
		<hr/> <hr/>	<hr/> <hr/>
Net increase/(decrease) in cash and cash equivalents			
		39,881	(76,654)
Cash and cash equivalents at beginning of period		338,655	794,461
Exchange (loss)/gain on cash and cash equivalents		(5,578)	11,253
		<hr/>	<hr/>
Cash and cash equivalents at end of the period		372,958	729,060
		<hr/> <hr/>	<hr/> <hr/>

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 June 30, 2017 and the related interim condensed consolidated statements of comprehensive loss for the six-month period and the three-month period then ended, changes in equity for the six-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 August 14, 2017.

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

The Interim Financial Information has not been audited.

2. Basis of preparation

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

3. Summary of significant accounting policies and critical accounting estimates and judgments

3.1 Summary of significant accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the first time for the interim period. The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

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

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

3.2 Critical accounting estimates and judgments

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

When preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2016 Financial Statements.

4. Reserves

(Unaudited)	Capital reserve <i>RMB'000</i>	Currency translation differences <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at April 1, 2017	(9,269)	115,394	9,557	280,941	29,385	426,008
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	6,475	6,475
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (<i>Note 6</i>)	-	-	-	-	(375)	(375)
Share of other comprehensive income of investments using equity method, net of tax (<i>Note 7</i>)	-	-	-	-	(1,880)	(1,880)
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	1,255	-	1,255
Currency translation differences	-	(13,137)	-	-	-	(13,137)
Balance at June 30, 2017	(9,269)	102,257	9,557	282,196	33,605	418,346
Balance at April 1, 2016	(7,831)	68,126	9,557	251,460	9,526	330,838
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(1,839)	(1,839)
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (<i>Note 6</i>)	-	-	-	-	(248)	(248)
Share of other comprehensive income of investments accounted for using the equity method, net of tax (<i>Note 7</i>)	-	-	-	-	1,276	1,276
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	6,032	-	6,032
Currency translation differences	-	18,159	-	-	-	18,159
Balance at June 30, 2016	(7,831)	86,285	9,557	257,492	8,715	354,218

(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	-	-	-	-	22,060	22,060
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (<i>Note 6</i>)	-	-	-	-	(17,913)	(17,913)
Share of other comprehensive income of investments using equity method, net of tax (<i>Note 7</i>)	-	-	-	-	(2,407)	(2,407)
Decrease in ownership interest in subsidiaries without change of control	(1,438)	-	-	-	-	(1,438)
Employee share option and RSU scheme: — Value of employee services	-	-	-	8,206	-	8,206
Currency translation differences	-	(16,642)	-	-	-	(16,642)
Balance at June 30, 2017	(9,269)	102,257	9,557	282,196	33,605	418,346
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	-	-	-	-	(1,034)	(1,034)
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (<i>Note 6</i>)	-	-	-	-	(414)	(414)
Share of other comprehensive income of investments accounted for using the equity method, net of tax (<i>Note 7</i>)	-	-	-	-	862	862
Employee share option and RSU scheme: — Value of employee services	-	-	-	16,663	-	16,663
Currency translation differences	-	12,428	-	-	-	12,428
Balance at June 30, 2016	(7,831)	86,285	9,557	257,492	8,715	354,218

5. Revenue and segment information

	Three months ended June 30,		Six months ended June 30,	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
Development and operations of online games (<i>Note (a)</i>):				
— Sales of in-game virtual items	96,937	155,610	230,455	312,535
— License fee and technical support fee	27,212	7,498	38,982	17,490
Licensing of film rights (<i>Note (b)</i>)	—	—	22,692	—
	124,149	163,108	292,129	330,025

- (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 June 30,		Six months ended June 30,	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)
Sales of in-game virtual items, license fee and technical support fee:				
— Mobile games	120,867	157,780	262,345	313,982
— Web-based games	716	1,144	1,450	2,511
— Client-based games	2,566	4,184	5,642	13,532
	124,149	163,108	269,437	330,025

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 six months ended June 30, 2017 and 2016.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers:				
— Mainland China	82,557	138,160	219,439	286,012
— Korea	34,095	15,826	59,934	22,264
— Overseas countries and regions	7,497	9,122	12,756	21,749
	<u>124,149</u>	<u>163,108</u>	<u>292,129</u>	<u>330,025</u>

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

	As of June 30, 2017	As of December 31, 2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Mainland China	78,365	81,366
Overseas countries and regions	6,522	7,727
	<u>84,887</u>	<u>89,093</u>

6. Other gains — net

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Government subsidies (<i>Note (a)</i>)	143	1,321	164	9,705
Foreign exchange (loss)/gains, net	(2,714)	877	(3,018)	1,023
Realised/unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	(596)	(629)	144	12,451
Fair value gain from an associate measured at fair value through profit or loss	8,231	1,842	12,822	1,842
Impairment charges on available-for-sale financial assets	—	—	(1,773)	—
Gain on disposal of available-for-sale financial assets	500	277	23,884	473
Gain on disposals of property, plant and equipment	—	—	—	138
Gain on disposals of intangible assets	—	—	—	210
Others	(143)	595	(572)	192
	<u>5,421</u>	<u>4,283</u>	<u>31,651</u>	<u>26,034</u>

Note:

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

7. Investments using equity accounting

	Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Beginning of the period	176,362	180,183
Share of losses	(21,950)	(11,004)
Other comprehensive (loss)/income	(2,407)	862
Currency translation difference	(1,607)	777
End of the period	<u>150,398</u>	<u>170,818</u>

Name	Principal activities/ country of incorporation	% Interest held as of June 30, 2017	% Interest held as of December 31, 2016	Nature of the relationship
Fuze Entertainment Co., Ltd. (“ Fuze ”)	Gaming hardware development and sale/ Cayman Islands	36.82%	36.82%	<i>Note (a)</i>
Huaying Jiashi (Beijing) International Culture Media Co., Ltd. (“ Huaying ”)	Film distribution/PRC	21.05%	21.05%	<i>Note (b)</i>

Notes:

- (a) The Group has been entitled the right to appoint certain directors of the board of directors of Fuze thus the directors of the Company consider that the Group has significant influence exercised on Fuze through the participation in its operational and financial decision-making processes, therefore the investment in Fuze was accounted for using equity accounting method consistently during the six months ended June 30, 2017 and 2016.

Fuze is a limited liability company incorporated in the Cayman Islands and is engaged in gaming hardware development and sale. There is no quoted market price available for its shares.

- (b) In July 2016, a subsidiary of the Company entered into an investment agreement with shareholders of Huaying. and pursuant to which the Group purchased 21.05% equity interests in Huaying with a consideration of RMB12,000,000. The Group has been entitled the right to appoint one director out of four of the board of directors of Huaying thus the directors of the Company consider that the Group has significant influence exercised on Huaying in its operational and financial decision-making processes, therefore the investment in Huaying was accounted for using equity accounting method.

Huaying Jiashi is a limited liability company incorporated in Beijing, PRC and is primarily engaged in film distribution. There is no quoted market price available for its shares.

8. Trade receivables

	As of June 30, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
Trade receivables	56,922	80,221
Less: impairment provision	(1,760)	(1,274)
	<u>55,162</u>	<u>78,947</u>

- (a) The revenue of the Group from the Game Distribution Channels, third-party payment vendors and international game publishers are mainly made on credit term determined on individual basis with normal period up to 60 days. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As of June 30, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
0-60 days	51,531	68,810
61-90 days	1,169	2,706
91-180 days	1,144	5,018
181-365 days	1,366	1,950
over 1 year	1,712	1,737
	<u>56,922</u>	<u>80,221</u>

- (b) As at June 30, 2017 and December 31, 2016, trade receivables of past due but not impaired were RMB8,708,000 and RMB16,160,000 respectively. These related to a number of Game Distribution Channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As of June 30, 2017 RMB'000 (Unaudited)	As of December 31, 2016 RMB'000 (Audited)
Outstanding after due dates:		
0-60 days	6,246	8,729
61-90 days	301	1,015
91-180 days	1,105	5,137
181-365 days	332	816
over 1 year	724	463
	<u>8,708</u>	<u>16,160</u>

9. Trade and other payables

	As of June 30, 2017 <i>RMB'000</i> (Unaudited)	As of December 31, 2016 <i>RMB'000</i> (Audited)
Trade payables (<i>Note (i)</i>)	53,867	92,754
Other taxes payables	4,334	3,565
Interests payable	67	74
Salary and staff welfare payables	27,770	28,486
Accrued expenses and liabilities	47,537	45,561
Advance received from licence fees	1,187	952
Advance received from sales of prepaid game cards	149	486
Advance from payment vendors	29	62
	<u>134,940</u>	<u>171,940</u>

Note:

- (i) Trade payables are mainly arising from the leasing of Internet Data Center (IDC) and licensing games from game developers. The credit terms of trade payables granted by the vendors are usually up to 30 days. The ageing analysis of trade payables based on recognition date is as follows:

	As of June 30, 2017 <i>RMB'000</i> (Unaudited)	As of December 31, 2016 <i>RMB'000</i> (Audited)
0–180 days	42,343	60,684
181–365 days	948	25,568
1–2 years	7,411	3,405
2–3 years	1,430	1,652
over 3 years	1,735	1,445
	<u>53,867</u>	<u>92,754</u>

10. Income tax (credit)/expense

The income tax expense of the Group for each of the three months and six months ended June 30, 2017 and 2016 is analysed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current income tax	(14,180)	9,147	(12,329)	9,391
Deferred income tax	(3,578)	2,568	(2,470)	3,450
Income tax (credit)/expense	(17,758)	11,715	(14,799)	12,841

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) PRC Enterprise Income Tax (“EIT”)

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

	Six months ended June 30,	
	2017	2016
Tianjin 8864	50% reduction	50% reduction
Feng and Long	EIT exemption	EIT exemption
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 June 30, 2017, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of June 30, 2017 and December 31, 2016, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

11. Loss per share

(a) *Basic*

Basic loss per share for the three months and the six months ended June 30, 2017 and 2016 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company	(37,483)	(43,282)	(51,407)	(50,554)
Weighted average number of ordinary shares in issue (thousand shares)	354,123	349,236	353,100	347,905
Basic loss per share (expressed in RMB per share)	<u>(0.11)</u>	<u>(0.12)</u>	<u>(0.15)</u>	<u>(0.15)</u>

(b) *Diluted*

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the six months ended June 30, 2017 and 2016, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the three months and six months ended June 30, 2017 and 2016, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months and six months ended June 30, 2017 and 2016 are the same as basic loss per share of the period.

12. Dividends

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

REVIEW

During the reporting period, the Group continued to implement its strategy of “pan-entertainment, globalization and platformization” with a focus on its core game business and strive to bring more interesting games to the global players by maintaining its advantages of game development and distribution. Meanwhile, future orientated preparations for various areas such as internet content and intelligent hardware were made to establish diversified business sectors, aiming to achieve sustainable growth.

During the first half of 2017, the Group vigorously developed overseas markets for its game business and achieved remarkable results in Korean and American markets. The Korean version of our mobile game *Daybreak* (黎明之光) reaped fruitful results, ranking 1st on the Free Downloads Chart and 3rd on the Grossing Chart of App Store, 1st in popularity rankings and 5th on the Grossing Chart of Google Play, 1st in popularity rankings of Kakao, and 2nd in the Korean local mall ONE store. Meanwhile, we released *The Fighter Storm* (戰機風暴), a 3D flight simulation game adopting active time battle system, in Korea. The successful commercialized performance in Korea tremendously enhanced the brand value of Linekong Games. In the United States of America, *Supercharged*, a casual and battling game self-developed by Linekong US Inc., has accumulated a lot of popularity during testing stage with its smooth player experience and diverse gameplay, and will soon be commercialized for the global market.

The Group continued to maintain its advantage of R&D and operation of games in the PRC. *Daybreak* (黎明之光), a 3D mobile game featuring action adventure, added King Kong mount and the officially licensed outfits from Assassin’s Creed by UBISOFT, pushing it to rank Top 10 on the Grossing Chart of App Store soon after the release of its new version and making it maintain Top 15 and once rank up to Top 3 on the same list. Ultimate Sea Battle (終極海戰), the new downloadable content of *Daybreak* (黎明之光), ranked up to 11th on the Grossing Chart of App Store soon after release. *Twilight World* (暮光世界) has been ranking Top 30 on the Grossing Chart of App Store since its release in Taiwan and once ranked up to Top 5 on the Grossing Chart and 2nd on the Free Downloads Chart.

Linekong Pictures focuses on internet movie contents. In early 2017, Linekong Pictures came to prominence by launching its first internet drama, *Long For You* (我與你的光年距離), which is adapted from the popular comic work *Snow Girl* (雪姬). The drama recorded over 100 million views shortly after 58 hours of broadcasting and surpassed 1 billion within 30 days, putting it in the third place among all categories of internet dramas in terms of views in the first quarter of 2017.

PROSPECTS

During the second half of 2017, the Group will remain focusing on its core game business by making a constant effort in its R&D and global distribution of games. In particular, the Group will strive to develop the three major IP games, namely *Sword of Heaven 2* (蒼穹之劍2), *Monster Hunt* (捉妖記) and *The Legend of Jade Sword* (莽荒紀), and launch the two games with combined features of recreation and competition, namely Supercharged and *Uproar In Heaven* (鬧鬧天宮), following the three major strategies of “IP Driven, New Category, International Market” for game business. The Group will commercialize 8–10 games.

Sword of Heaven (蒼穹之劍) is the first integration IP invented by the Group based on the concept of “Movie-Comic-Game”. Bai Yicong acted as the chief screenwriter of movie of the same name. *Sword of Heaven 2* (蒼穹之劍2), a self-developed MMORPG mobile game in oriental fantasy and epic style, is expected to be launched officially this year.

As the officially authorized mobile game for the movie of the same name, *Monster Hunt* (捉妖記) creates an oriental fantasy world for monster hunting and has gained much attention and expectation from players with its highly reproduced story, character design for monsters such as Wuba (胡巴) and Blood Demon (血妖) as well as spectacular and fascinating worldview.

Meanwhile, the Group has constantly promoted its strategic plan of “Movie-Comic-Game” through the cooperation with iQIYI to jointly release a movie-and-game integration mobile game, *The Legend of Jade Sword* (莽荒紀). It is expected to be launched simultaneously with its TV drama. With special battle system and original voice over artists from the TV drama, classic scenes can be presented once again in the game.

The games and their types mainly include the followings:

1. Self-developed Games

Name of Game	Type of Game	Region	Features
Sword of Heaven 2 (蒼穹之劍2)	MMORPG	PRC	Oriental epic fantasy Gameplay with three routes covering the sea, the land and the sky, constellation, warfare in camping style, scenes designed for immersive interaction, and multi-dimensional socialising experience
Monster Hunt (捉妖記)	MMORPG	PRC	Highly reproduced movie scenes, plots and main characters, creating an oriental fantasy world for monster hunting

Name of Game	Type of Game	Region	Features
The Legend of Jade Sword (莽荒紀)	MMORPG	PRC	Epic and large 3D mobile game with a fantasy world, intelligent fairies and pets with featured combats, remaking classic plots and scenes
Uproar In Heaven (鬧鬧天宮)	MOBA	PRC	3D cartoon characters from Journey to the West in novel ways of battles with smooth experience
Supercharged	MOBA	Global	A combination of recreation, competition and socialising activities with highly enjoyable and rich experience

2. Games Released

Name of Game	Type of Game	Developer	Region	Features
Nueva Salida (大航海之路)	MMORPG	NetEase	Korea	3D nautical game with grand and realistic scenes and rich experience of adventures, trades and wars
Legend of MiYue (芊月傳之宮心計)	3D cards	UTGAME	PRC	Culture of imperial palace and 3D customisation Revisiting classic plots and scenes
One Hundred Thousand Bad Jokes (十萬個冷笑話) (drama version)	3D cards	MQGame	PRC	Playable domestic ironic drama featuring original plots, scenes and characters from the original animation and comics

While continuing to commercialize quality games, the Group will further accelerate its global distribution of games and commence the development of its game business in Southeast Asian market while remaining its advantages in Korean and American markets where the Group developed its game business first, so as to complete the establishment of a new team focusing on the emerging markets and enrich the types of commercialized games.

International markets

As of June 30, 2017, our games have been released in forty-seven countries and regions outside China. For the six months ended June 30, 2017, the revenue from overseas markets was approximately RMB72.7 million, representing a significant increase of approximately 65.2% as compared to the revenue from overseas markets for the same period of 2016. The revenue from overseas markets accounted for approximately 24.9% of our total revenue.

Our players

The total number of registered players of our games increased from approximately 211.8 million as at June 30, 2016 to over approximately 239.5 million as at June 30, 2017. As at June 30, 2017, the number of average monthly active users (MAU) reached approximately 1.75 million and the number of average daily active users (DAU) reached approximately 0.3 million.

FINANCIAL REVIEW

The following table is our interim condensed consolidated statement of loss for the six months ended June 30, 2017 and 2016 together with changes (expressed in approximate percentages) from first half year of 2016 to first half year of 2017 respectively:

	For the six months ended June 30,				Change <i>approximate</i> %
	2017		2016		
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %	
Revenue	292,129	100.0	330,025	100.0	(11.5)
Cost of revenue	(167,730)	(57.4)	(168,215)	(51.0)	(0.3)
Gross profit	124,399	42.6	161,810	49.0	(3.1)
Selling and marketing expenses	(92,517)	(31.7)	(98,992)	(30.0)	(6.5)
Administrative expenses	(42,736)	(14.6)	(48,358)	(14.7)	(11.6)
Research and development expenses	(65,459)	(22.4)	(70,596)	(21.4)	(7.3)
Other gains — net	31,651	10.8	26,034	7.9	21.6
Operating loss	(44,662)	(15.3)	(30,032)	(9.1)	48.7
Finance income — net	1,448	0.5	3,322	1.0	(56.4)
Share of loss of an investment using equity accounting	(21,950)	(7.5)	(11,004)	(3.3)	99.5
Loss before income tax	(65,164)	(22.3)	(37,714)	(11.4)	72.8
Income tax credit/(expense)	14,799	5.1	(12,841)	(3.9)	(215.2)
Loss for the period	(50,365)	(17.2)	(50,555)	(15.3)	(0.4)
Non-IFRS Measure:					
Adjusted net loss (unaudited)	<u>(42,159)</u>	<u>(14.4)</u>	<u>(33,892)</u>	<u>(10.3)</u>	<u>24.4</u>

Revenue

The Group's revenue decreased by approximately 11.5% from approximately RMB330.0 million for the six months ended June 30, 2016 to approximately RMB292.1 million for the six months ended June 30, 2017.

During the six months ended June 30, 2017, the revenue contributed by game business decreased by approximately 18.4% or RMB60.6 million, compared with the corresponding period of 2016, which due to less new games released during the first half year of 2017 than that of 2016, which mainly due to the strategy implemented by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

In respect of movie business, the Group recognised revenue of RMB22.7 million from sales of licensing of film rights during the six months ended June 30, 2017.

Revenue by game forms and sources

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

	For the six months ended June 30, 2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Development and operations of online games	269,437	92.2	330,025	100.0
Licensing of film rights	22,692	7.8	–	–
Total	292,129	100.0	330,025	100.0

	For the six months ended June 30, 2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Mobile games	262,345	97.4	313,982	95.1
Web-based games	1,450	0.5	2,511	0.8
Client-based games	5,642	2.1	13,532	4.1
Total	269,437	100.0	330,025	100.0

	For the six months ended June 30, 2017		2016	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Self-developed games	82,803	30.7	229,276	69.5
Licensed games	186,634	69.3	100,749	30.5
Total	269,437	100.0	330,025	100.0

Cost of revenue

The Group's cost of revenue for the six months ended June 30, 2017 was approximately RMB167.7 million, representing a decrease of approximately 0.3% from approximately RMB168.2 million for the six months ended June 30, 2016. The Group's cost of revenue excluding share-based compensation expense for the six months ended June 30, 2017, was approximately RMB166.8 million, representing a decrease of approximately 0.2% from approximately RMB167.1 million the six months ended June 30, 2016.

During the six months ended June 30, 2017, the cost incurred by game business was approximately RMB148.2 million, representing a decrease of approximately 11.9%, or RMB20.0 million, compared with the corresponding period of 2016, which was according to the decrease of our game revenue.

During the six months ended June 30, 2017, the cost incurred by movie business was approximately RMB19.5 million.

Gross profit and gross profit margin

The Group's gross profit for the six months ended June 30, 2017 was approximately RMB124.4 million, representing a decrease of approximately 23.1% from approximately RMB161.8 million for the six months ended June 30, 2016. The Group's gross profit, excluding share-based compensation expense, for the six months ended June 30, 2017 was approximately RMB125.4 million, representing a decrease of approximately 23.0% as compared to approximately RMB162.9 million for the six months ended June 30, 2016. The decrease in the Group's gross profit was primarily due to (1) decrease in revenue generated from game business for the six months ended June 30, 2017 compared with that of the corresponding period of 2016; (2) the additional production cost incurred by movie business for the six months ended June 30, 2017.

The Group's gross profit margin for the six months ended June 30, 2017 was approximately 42.6%, representing a decrease of approximately 6.4 percentage points as compared to approximately 49.0% for the six months ended June 30, 2016. The Group's gross profit margin, excluding share-based compensation expense, for the six months ended June 30, 2017 was approximately 42.9%, representing a decrease of approximately 6.5 percentage points as compared to approximately 49.4% for the six months ended June 30, 2016.

During the six months ended June 30, 2017, the gross profit margin of game business was approximately 45.0%, representing a decrease of approximately 4.0 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 14.1%, which was lower than gross profit margin of game business.

Selling and marketing expenses

The Group's selling and marketing expenses for the six months ended June 30, 2017 were approximately RMB92.5 million, representing a decrease of approximately 6.5% from approximately RMB98.9 million for the six months ended June 30, 2016. The Group's selling and marketing expenses, excluding share-based compensation expense, for the six months ended June 30, 2017 were approximately RMB92.0 million, representing a decrease of approximately 6.1% from approximately RMB98.0 million for the six months ended June 30, 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 six months ended June 30, 2017 were approximately RMB42.7 million, representing a decrease of approximately 11.6% from approximately RMB48.4 million for the six months ended June 30, 2016. The Group's administrative expenses, excluding share-based compensation expense, for the six months ended June 30, 2017 were approximately RMB38.2 million, representing a decrease of approximately 5.2% from approximately RMB40.3 million for the six months ended June 30, 2016. The decrease in the Group's administrative expenses was primarily due to the Group provided impairment of game license fees paid as a result of certain already issued games were ceased the operation for the six months ended June 30, 2016, no such impairment provided in the corresponding period of 2017.

Research and development expenses

The Group's research and development expenses for the six months ended June 30, 2017 were approximately RMB65.5 million, representing a decrease of approximately 7.3% from approximately RMB70.6 million for the six months ended June 30, 2016. The Group's research and development expenses, excluding share-based compensation expense, for the six months ended June 30, 2017 were approximately RMB63.3 million, representing a decrease of approximately 1.2% from approximately RMB64.1 million for the six months ended June 30, 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 six months ended June 30, 2017 was approximately RMB31.7 million, compared to approximately RMB26.0 million for the six months ended June 30, 2016. Such change in the Group's other gains was mainly due to the changes in fair value of the securities assets (including listed and unlisted securities) held by the Company in between the two periods ended June 30, 2016 and 2017 respectively.

Finance income — net

Our finance income decreased from approximately RMB3.3 million for the six months ended June 30, 2016 to approximately RMB1.4 million for the six months ended June 30, 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 six months ended June 30, 2017 (six months ended June 30, 2016: Nil).

Share of loss of an investment using equity accounting

The Group's share of loss of an investment using equity accounting for the six months ended June 30, 2017 was approximately RMB22.0 million, it was approximately RMB11.0 million for the six months ended June 30, 2016, which was mainly due to a loss incurred by the investee, Fuze, as a result of continued expenditure incurred in its early operational stage.

Income tax credit/(expense)

The Group's income tax credit was approximately RMB14.8 million for the six months ended June 30, 2017, while the Group's income tax expense for the six months ended June 30, 2016 was approximately RMB12.8 million. The change in income tax was mainly due to a subsidiary of the Group was accredited as software enterprises in the year of 2017, and subject to relevant preferential tax regulation, the income tax accrued in the year of 2016 was exempted and reversed during the six months ended June 30, 2017 accordingly.

Loss for the period

As a result of the foregoing, the loss was approximately RMB50.4 million for the six months ended June 30, 2017, as compared to a loss of approximately RMB50.6 million for the six months ended June 30, 2016.

Non-IFRSs measure — adjusted net loss

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

The following table reconciles our adjusted net loss for the six months ended June 30, 2017 and 2016 respectively, in accordance with IFRSs:

	For the six months ended		
	June 30,		<i>Change</i>
	2017	2016	<i>approximate</i>
	RMB'000	RMB'000	<i>%</i>
	(Unaudited)	(Unaudited)	
Loss for the period	(50,365)	(50,555)	(0.4)
Add:			
Share-based compensation expenses	8,206	16,663	(50.8)
Adjusted net loss	(42,159)	(33,892)	24.4

The Group's adjusted net loss for the six months ended June 30, 2017 was approximately RMB42.2 million, representing an increase of approximately 24.4% as compared to adjusted net loss of approximately RMB33.9 million for the six months ended June 30, 2016. The increase in adjusted net loss for the periods was mainly due to combined effect of: (i) the decrease of gross profit made during the six months ended June 30, 2017; and (ii) the Group's share of loss of an investment using equity accounting, the investee, Fuze, on its early operational stage. We have presented adjusted net loss in this announcement as we believe that the adjusted net loss 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 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 presented in this announcement 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 six months ended June 30, 2017, we financed our operations primarily through cash generated from our operating activities. The Group maintains a solid cash position since the net proceeds we received from the listing of the Company's shares (the "**Shares**") on the Stock Exchange (the "**Listing**") which was completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the six months ended June 30, 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 of June 30, 2017, we had cash and cash equivalents of approximately RMB373.0 million (December 31, 2016: approximately RMB338.7 million), which primarily consisted of cash at bank, other financial institutions and cash in hand and which were mainly denominated in Renminbi (as to approximately 20.2%), Hong Kong dollars (“**HKD**”) (as to approximately 32.7%), U.S. dollars (“**USD**”) (as to approximately 44.7%) and other currencies (as to approximately 2.4%).

As of June 30, 2017, we had short-term bank deposit of approximately amounting to RMB173.6 million (December 31, 2016: approximately RMB313.0 million).

As of June 30, 2017, approximately RMB103.0 million (December 31, 2016: approximately RMB106.1 million) are restricted deposits held at bank as reserve for serving of a loan facility with total a credit line of approximately RMB100.0 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, which the Company received amounted to approximately HKD686.2 million. As at the date of this interim results announcement, 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 in bank accounts maintained by the Group. We will continue to utilise the net proceeds from our Listing in accordance with the proposed use of proceeds as set out in the “Change in Use of Proceeds” announcement 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 six months ended June 30, 2017, our total capital expenditure amounted to approximately RMB3.6 million (for the six months ended June 30, 2016: approximately RMB31.8 million), including the purchase of furniture and office equipment of approximately RMB0.7 million (for the six months ended June 30, 2016: approximately RMB0.9 million), server and other equipment of approximately RMB0.1 million (for the six months ended June 30, 2016: approximately RMB0.2 million), motor vehicles of approximately RMB0.3 million (for the six months ended June 30, 2016: approximately RMB0.7 million), leasehold improvements of approximately RMB0.1 million (for the six months ended June 30, 2016: approximately RMB1.8 million), trademarks and licenses approximately RMB2.3 million (for the six months ended June 30, 2016: approximately RMB27.5 million) and computer software of approximately RMB0.1 million (for the six months ended June 30, 2016: approximately RMB0.7 million).

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

As of June 30, 2017, long-term bank loan amounting to approximately RMB99.7 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 June 30, 2017, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 23.8% (As at December 31, 2016: approximately 27.4%).

CHARGE ON GROUP ASSETS

As at June 30, 2017, a restricted deposit of approximately RMB103.0 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 of June 30, 2017, the Group had 652 employees (June 30, 2016: 634), mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at June 30, 2017 and June 30, 2016 respectively:

Function	As at June 30,			
	2017		2016	
	<i>Number of Employees</i>	<i>approximate % of total employees</i>	<i>Number of Employees</i>	<i>approximate % of total employees</i>
Research and development	378	58.0	376	59.3
Game publishing	148	22.7	153	24.1
— Game licensing	58	8.9	41	6.5
— Customer service	26	4.0	57	9.0
— Sales and marketing	64	9.8	55	8.6
General and administrative	88	13.5	105	16.6
Movie business	38	5.8	—	—
Total	<u>652</u>	<u>100.0</u>	<u>634</u>	<u>100.0</u>

The total remuneration of the employees of the Group was approximately RMB100.8 million for the six months ended June 30, 2017 (for the six months ended June 30, 2016: approximately RMB99.1 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 regularly.

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

In addition, the Company has adopted a restricted share unit scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

Share-based compensation expenses in connection with the RSU Scheme and share option scheme for the six months ended June 30, 2017 were approximately RMB8.2 million, representing a decrease of approximately 50.8% from approximately RMB16.7 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 Company is able to provide its employees with ample career development choices and opportunities of advancement. The Company 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 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.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In preparation for the Listing, the Company underwent corporate reorganisation, the details of which are set out in the section headed “History, Reorganization and Corporate Structure” of the Company’s prospectus dated December 9, 2014 (the “**Prospectus**”).

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended June 30, 2017.

CONTINGENT LIABILITIES

As at June 30, 2017, the Group did not have any significant contingent liabilities (December 31, 2016: Nil).

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company’s foreign exchange risk primarily arose from the cash and cash equivalents and short-term bank deposits denominated in HKD. The Company’s net assets are exposed to foreign currency translation risk from the translation of the USD denominated net assets into the Group’s presentation currency RMB.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Therefore, foreign exchange risk primarily arose from recognized assets in the Group’s PRC subsidiaries when receiving or to receive foreign currencies from oversea cooperated counterparties. The Group does not hedge against any fluctuation in foreign currency.

DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended June 30, 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As of June 30, 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“**SFO**”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they

were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Total number of Shares	Approximate percentage of shareholding (Note 4)
Mr. Wang Feng ^(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. Zhao Jun ^(Note 3)	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 restricted share units (“RSUs”) granted to him under the RSU Scheme entitling him to receive 8,433,308 shares subject to vesting. As of June 30, 2017, approximately 90.00% of the RSUs granted to him have been vested and the remaining RSUs are subject to vesting.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 106,500 shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 shares subject to vesting. As of June 30, 2017, approximately 90.00% of the RSUs granted to her have been vested and the remaining RSUs are subject to vesting.
- (3) Mr. Zhao Jun holds 28,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of June 30, 2017, approximately 60.00% of the RSUs granted to him have been vested and the remaining RSUs are subject to vesting.
- (4) As of June 30, 2017, the Company issued 368,730,964 shares.

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

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

So far as the Directors are aware, as of June 30, 2017, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members 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 June 30, 2017, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long and short positions in the shares

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

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 8)
The Core Trust Company Limited ^(Note 4)	Trustee of a trust	407,700,158	11.04%
Premier Selection Limited ^(Note 4)	Nominee for another person	407,700,158	11.04%
Chi Sing Ho ^(Note 5)	Interest of controlled corporation	29,922,996	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. ^(Note 5)	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund Associates, L.P. ^(Note 5)	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund L. P. ^(Note 5)	Beneficial owner	23,061,443	6.25%
Quan Zhou ^(Note 5)	Interest of controlled corporation	27,774,323	7.53%
Fubon Financial Holding Co., Ltd. ^(Note 6)	Interest of controlled corporation	23,739,000	6.44%
Fubon Life Insurance Co., Ltd. ^(Note 6)	Beneficial owner	23,739,000	6.44%
JPMorgan Chase & Co. ^(Note 7)	Interest of controlled corporation	25,771,564	6.98%
J. P. Morgan Broker-Dealer Holdings Inc ^(Note 7)	Interest of controlled corporation	25,771,564	6.98%
J. P. Morgan Securities LLC ^(Note 7)	Beneficial owner	25,771,564	6.98%

Notes:

1. Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited.
2. Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in all of the shares which are interested by Mr. Wang Feng under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

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 June 30, 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 June 30, 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 43,406,041 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 June 30, 2017, 2,705,883 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 40,700,158 underlying Shares, including a total of 15,462,231 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, and (iii) the 4,217,154 RSUs granted to Mr. Zhao Jun. On January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 12, 2017 and June 22, 2017 the Company had directed the Core Trust Company Limited to purchase and hold on-market 115,000 Shares, 50,000 Shares, 70,500 Shares, 54,000 Shares, 129,000 Shares, 10,000 Shares, 1,000 Shares, 72,000 Shares, 140,000 Shares and 100,000 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. J.P. Morgan Securities LLC is 100% owned by J.P. Morgan Broker-Dealer Holdings Inc. J.P. Morgan Broker-Dealer Holdings Inc is 100% owned by JPMorgan Chase & Co..
8. As of June 30, 2017, the Company issued 368,730,964 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.

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

Category	Date of Grant	Option Period	Share options granted	Exercise price per share HKD	The weighted average closing price of the shares HKD	Outstanding balance as at January 1, 2017	During the reporting period				Outstanding balance as at June 30, 2017	Number of new shares issued during the reporting period	Number of new shares which may be issued during the reporting period
							Granted	Exercised	Cancelled	Lapsed			
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 ^(Note 2)	8.10	8.028	462,298	0	0	0	0	462,298	0	0
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 ^(Note 3)	7.18	6.896	4,742,500	0	0	0	480,000	4,262,500	0	511,250
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 ^(Note 4)	4.366	4.366	1,450,000	0	0	0	37,500	1,412,500	0	362,500
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 ^(Note 5)	3.10	3.084	N/A	9,225,000	0	0	615,000	8,610,000	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 HKD4.366 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
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 June 30, 2017, RSUs in respect of 35,471,879 underlying shares has been granted to 461 grantees (three of which are our Directors). Total RSUs in respect of 633,456 underlying shares granted to 9 grantees had been lapsed during the six months ended June 30, 2017. On June 30, 2017, 27,025,665 RSUs have been vested unconditionally and there were 4,353,411 RSUs granted and outstanding.

EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

Share Purchase by RSU Trustee

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

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

Details of the Share Purchases by RSU Trustee are set out in the announcements of the Company dated January 3, 2017, January 4, 2017, January 5, 2017, January 6, 2017, January 17, 2017, January 19, 2017, March 27, 2017, April 6, 2017, June 13, 2017 and June 22, 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 redesignated from the non-executive Director of the Company to the executive Director of the Company. Mr. Qian Zhonghua, following his redesignation, ceased to be a member of the audit committee of the Board and a member of the nomination committee of the Board. He has entered into a director’s service agreement with the Company, pursuant to which, he has been appointed as an executive Director for a term of three years commencing from February 3, 2017. He is currently entitled to a remuneration of RMB137,500 per month , which is determined with reference to his duties and responsibilities within the Group and the prevailing market condition; and (2) Mr. Pan Donghui was appointed as the non-executive Director of the Company, a member of the audit committee of the Board and a member of the nomination committee of the Board.

Resignation of Executive Director

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

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 June 30, 2017, a total amount of approximately HKD234.7 million from the IPO Proceeds had been utilized for the purposes and approximately in the amount set out below:

- (a) approximately HKD81.7 million was used for overseas expansions, expanding our business in overseas markets;
- (b) approximately HKD35.2 million was used for potential strategic acquisition or investment in companies in online game and related businesses;
- (c) approximately HKD58.2 million was used for creating pan-entertainment environment;
- (d) approximately HKD48.1 million was used for licensing more high-quality games with different genres and themes from Chinese and overseas game developers and the operation of such games; and
- (e) approximately HKD11.5 million was used for the research and development of games, the operation of existing and brand new self-developed games, and the purchase of intellectual property rights of popular entertainment content.

As of June 30, 2017, approximately HKD451.5 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 (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 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 six months ended June 30, 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 associated companies by the Company during the six months ended June 30, 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended June 30, 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), an executive Director, Mr. Pan Donghui (appointed with effect from February 3, 2017), a non-executive Director, and Mr. Wang Xiaodong, Mr. Zhang Xiangdong and Ms. Zhao Yifang, the independent non-executive Directors. The written terms of reference of the audit committee are posted on the GEM website and on the Company's website.

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

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

The Group's unaudited financial statements for the six months ended June 30, 2017 have been reviewed by the audit committee. The audit committee is of the opinion that the unaudited financial statements of the Group for the six months ended June 30, 2017 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

CORPORATE GOVERNANCE

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

In the opinion of the Board, the Company has complied with the Code for the six months ended June 30, 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 announcement, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element.

Code Provision A.5.1 of Code provides that issuers should establish a nomination committee which is chaired by the chairman of the Board or an independent non-executive Director and comprises a majority of independent non-executive Directors. For the period from January 1, 2017 to June 16, 2017, the nomination committee of the Company comprised Mr. Wang Feng (Chairman of nomination committee), Ms. Liao Mingxiang, Mr. Mei Song (resigned with effect from June 16, 2017) as executive Directors; Mr. Qian Zhonghua (re-designated as executive 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. During the period from January 1, 2017 to June 16, 2017, 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 has not been affected. On June 16, 2017, Mr. Mei Song resigned as an executive Director and a member of the nomination committee with effect from 16 June 2017. For the period from June 17, 2017 to June 30, 2017, the Company has complied with the Code provision A.5.1 of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. After specific enquiries were made with all Directors, all Directors confirmed that they have complied with the required standards of dealings for the six months ended June 30, 2017.

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

Beijing, PRC, August 14, 2017

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

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