



LINEKONG

● FIRST QUARTERLY REPORT ●

藍港互動集團有限公司

Linekong Interactive Group Co.,Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267



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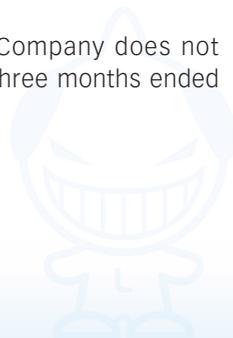
This report, for which the directors (the "Directors") of Linekong Interactive Group Co., Ltd. (the "Company" or "we") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of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



Highlights

	For the three months ended March 31,	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	117,526	167,980
Loss for the period	(54,575)	(12,604)
Adjusted net loss	(52,747)	(5,653)

- Adjusted net loss refers to the loss for the period which excludes share-based compensation. This item is deemed as supplemental information as stated in the consolidated statement of comprehensive loss which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.
- Revenue of the Group for the three months ended March 31, 2018 amounted to approximately RMB117.5 million, representing a decrease of approximately 30.1% as compared to approximately RMB168.0 million for the corresponding period in 2017.
- Loss for the period for the three months ended March 31, 2018 amounted to approximately RMB54.6 million, as compared to a loss of approximately RMB12.6 million for the corresponding period in 2017.
- Adjusted net loss for the three months ended March 31, 2018 amounted to approximately RMB52.7 million, as compared to an adjusted net loss of approximately RMB5.7 million for the corresponding period in 2017.
- The board of Directors (the “**Board**”) of the Company does not recommend any payment of dividends for the three months ended March 31, 2018.



First Quarterly Results (unaudited)

The Board announces the unaudited consolidated quarterly results and the unaudited condensed consolidated financial statements of the Group for the three months ended March 31, 2018 together with the comparative figures for the three months ended March 31, 2017. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Directors, of which one independent non-executive Director serves as the chairman of the audit committee.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the three months ended March 31, 2018

		Three months ended March 31,	
	Note	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	117,526	167,980
Cost of revenue		(75,722)	(99,827)
Gross profit		41,804	68,153
Selling and marketing expenses		(41,633)	(44,761)
Administrative expenses		(21,004)	(22,091)
Research and development expenses		(30,675)	(32,853)
Other gains — net	6	354	26,230
Operating loss		(51,154)	(5,322)
Finance (costs)/income — net		(1,160)	85
Share of loss of investments using equity accounting		(2,135)	(4,408)
Loss before income tax		(54,449)	(9,645)
Income tax expense	7	(126)	(2,959)
Loss for the period		(54,575)	(12,604)
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		-	15,585
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		-	(17,538)
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		(2,372)	(527)
Items that will not be reclassified to profit or loss:			
— Currency translation differences		(18,522)	(3,533)
Other comprehensive loss for the period, net of tax		(20,894)	(6,013)
Total comprehensive loss for the period		(75,469)	(18,617)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (continued)

For the three months ended March 31, 2018

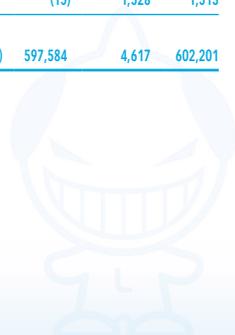
		Three months ended March 31,	
	Note	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Loss attributable to:			
Owners of the Company		(53,950)	(13,924)
Non-controlling interests		(625)	1,320
Loss for the period		(54,575)	(12,604)
Total comprehensive loss attributable to:			
Owners of the Company		(74,798)	(19,909)
Non-controlling interests		(671)	1,292
Total comprehensive loss for the period		(75,469)	(18,617)
Loss per share (expressed in RMB per share)			
— Basic	8(a)	(0.15)	(0.04)
— Diluted	8(b)	(0.15)	(0.04)



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2018

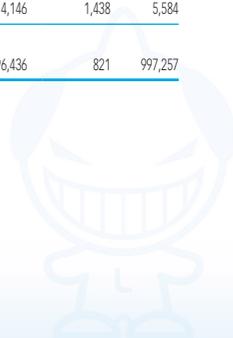
(Unaudited)	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held for		Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			RSU Scheme RMB'000	Reserves RMB'000				
Balance at December 31, 2017	59	1,720,690	(3,578)	390,603	(1,435,377)	672,397	3,760	676,157
Adjustment on adoption of IFRS 9, net of tax	-	-	-	(22,400)	22,400	-	-	-
Balance at January 1, 2018	59	1,720,690	(3,578)	368,203	(1,412,977)	672,397	3,760	676,157
Comprehensive loss								
Loss for the period	-	-	-	-	(53,950)	(53,950)	(625)	(54,575)
Other comprehensive loss								
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(2,372)	-	(2,372)	-	(2,372)
— Currency translation differences	-	-	-	(18,476)	-	(18,476)	(46)	(18,522)
Total comprehensive loss for the period	-	-	-	(20,848)	(53,950)	(74,798)	(671)	(75,469)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Increase in ownership interest in subsidiaries without change of control	-	-	-	(1,528)	-	(1,528)	1,528	-
Employee share option and RSU Scheme:								
— Shares repurchased for RSU Scheme	-	-	(315)	-	-	(315)	-	(315)
— Value of employee services	-	-	-	1,828	-	1,828	-	1,828
Total contributions by and distributions to owners of the Company for the period	-	-	(315)	300	-	(15)	1,528	1,513
Balance at March 31, 2018	59	1,720,690	(3,893)	347,655	(1,466,927)	597,584	4,617	602,201



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the three months ended March 31, 2018

(Unaudited)	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Shares held for		Accumulated losses	Total	Total		
			RSU Scheme	Reserves					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at January 1, 2017	59	1,720,691	(2)	426,480	(1,135,029)	1,012,199	(1,909)	1,010,290	
Comprehensive (loss)/income									
Loss for the period	-	-	-	-	(13,924)	(13,924)	1,320	(12,604)	
Other comprehensive income									
— Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	15,585	-	15,585	-	15,585	
— Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	(17,538)	-	(17,538)	-	(17,538)	
— Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	(527)	-	(527)	-	(527)	
— Currency translation differences	-	-	-	(3,505)	-	(3,505)	(28)	(3,533)	
Total comprehensive (loss)/income for the period	-	-	-	(5,985)	(13,924)	(19,909)	1,292	(18,617)	
Total contributions by and distributions to owners of the Company recognised directly in equity									
Decrease in ownership interest in subsidiaries without change of control	-	-	-	(1,438)	-	(1,438)	1,438	-	
Employee share option and RSU Scheme:									
— Shares repurchased for RSU Scheme	-	-	(1,367)	-	-	(1,367)	-	(1,367)	
— Value of employee services	-	-	-	6,951	-	6,951	-	6,951	
Total contributions by and distributions to owners of the Company for the period	-	-	(1,367)	5,513	-	4,146	1,438	5,584	
Balance at March 31, 2017	59	1,720,691	(1,369)	426,008	(1,148,953)	996,436	821	997,257	



Notes to Interim Condensed Consolidated Financial Information

1. General information

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

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

The interim condensed consolidated balance sheet of the Group as of March 31, 2018 and the related interim condensed consolidated statements of comprehensive loss for the three-month period then ended, changes in equity for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “**Interim Financial Information**”) have been approved by the Board of Directors on May 11, 2018.

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

The Interim Financial Information has not been audited.



2. Basis of preparation

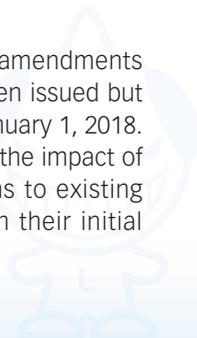
The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2017 as set out in the 2017 annual report of the Company (the “**2017 Financial Statements**”), which have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and requirements of Hong Kong Companies Ordinance Cap. 622.

3. Summary of significant accounting policies

The accounting policies applied in the preparation of the unaudited Interim Financial Information are consistent with those used in the 2017 Financial Statements, as described in the 2017 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 standards, amendments and interpretations 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 financial assets at fair value through profit or loss and an associate measured at fair value through profit or loss which are carried at fair value.

The adoption of standards, amendments and interpretations that are effective for the first time for this interim period does not have a material impact on the Group, except for the adoption of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” from January 1, 2018 as described in the 2017 Financial Statements.

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, 2018. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in their initial applications.



4. Revenue and segment information

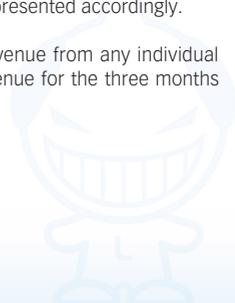
	Three months ended	
	March 31,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Development and operations of online games <i>(Note (a))</i> :		
— Sales of in-game virtual items	111,472	133,518
— License fee and technical support fee	3,895	11,770
Licensing of film rights and others <i>(Note (b))</i>	2,159	22,692
	117,526	167,980

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

	Three months ended	
	March 31,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	112,185	141,478
— Web-based games	658	734
— Client-based games	2,524	3,076
	115,367	145,288

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

The Group has a large number of game players. No revenue from any individual game player exceeded 10% or more of the Group's revenue for the three months ended March 31, 2018 and 2017.



- (b) Revenue from licensing of film rights (including rights of internet drama) was derived from a single external customer in PRC for the three month ended March 31, 2017.

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

	Three months ended	
	March 31,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from external customers:		
— Mainland China	56,841	136,882
— Korea	43,959	25,839
— Other overseas countries and regions	16,726	5,259
	117,526	167,980

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

	As of	As of
	March 31,	December 31,
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
— Mainland China	79,039	80,601
— Korea	2,357	2,685
— Other overseas countries and regions	5,782	6,364
	87,178	89,650



5. Reserves

(Unaudited)	Capital reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve fund RMB'000	Share- based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at December 31, 2017	(14,119)	78,176	15,807	286,797	23,942	390,603
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(22,400)	(22,400)
Balance at January 1, 2018	(14,119)	78,176	15,807	286,797	1,542	368,203
Share of other comprehensive income of investments using equity method, net of tax	-	-	-	-	(2,372)	(2,372)
Increase in ownership interest in subsidiaries without change of control	(1,528)	-	-	-	-	(1,528)
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	1,828	-	1,828
Currency translation differences	-	(18,476)	-	-	-	(18,476)
Balance at March 31, 2018	(15,647)	59,700	15,807	288,625	(830)	347,655
Balance at January 1, 2017	(7,831)	118,899	9,557	273,990	31,865	426,480
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	15,585	15,585
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax	-	-	-	-	(17,538)	(17,538)
Share of other comprehensive income of investments using the equity method, net of tax	-	-	-	-	(527)	(527)
Decrease in ownership interest in subsidiaries without change of control	(1,438)	-	-	-	-	(1,438)
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	6,951	-	6,951
Currency translation differences	-	(3,505)	-	-	-	(3,505)
Balance at March 31, 2017	(9,269)	115,394	9,557	280,941	29,385	426,000

6. Other gains — net

	Three months ended	
	March 31,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies <i>(Note (a))</i>	1,527	21
Foreign exchange losses, net	(512)	(304)
Realised/unrealised fair value (losses)/ gains on financial assets at fair value through profit or loss	(663)	740
Fair value gain from an associate measured at fair value through profit or loss	—	4,591
Impairment charges on available-for-sale financial assets	—	(1,773)
Gain on disposal of available-for-sale financial assets	—	23,384
Others	2	(429)
	354	26,230

Note:

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



7. Income tax expense

The income tax expense of the Group for the three months ended March 31, 2018 and 2017 is analysed as follows:

	Three months ended	
	March 31,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	1,526	1,851
Deferred income tax	(1,400)	1,108
Income tax expense	126	2,959

(a) *Cayman Islands income tax*

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

(b) *Hong Kong profits tax*

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the three months ended March 31, 2018 and 2017 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.



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

Based on the existing legislation, interpretations and practices in respect thereof, the income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the three months ended March 31, 2018 and 2017, except for Tianjin Baba Liusi Network Technology Co., Ltd. (“**Tianjin 8864**”) Beijing Feng and Long Interactive Culture Co., Limited (“**Feng and Long**”) and Horgos Linekong Pictures Corporation (“**Horgos Pictures**”). Tianjin 8864 and Feng and Long were accredited as software enterprises. Horgos Pictures was accredited as a new company in economic development zone. The applicable schedules of preferential income tax rate for these subsidiaries are as follows:

	Three months ended March 31,	
	2018	2017
Tianjin 8864	25%	50% reduction
Feng and Long	50% reduction	EIT exemption
Horgos Pictures	EIT exemption	EIT exemption

(d) *PRC withholding Tax (“WHT”)*

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

As of March 31, 2018, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of March 31, 2018 and December 31, 2017, the PRC operational entities did not have available undistributed profit to be remitted to the Company.

8. Loss per share

(a) Basic

Basic loss per share for the three months ended March 31, 2018 and 2017 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended	
	March 31,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company	(53,950)	(13,924)
Weighted average number of ordinary shares in issue (thousand shares)	352,985	348,576
Basic loss per share (expressed in RMB per share)	(0.15)	(0.04)

(b) Diluted

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

For the three months ended March 31, 2018 and 2017, the Company had two categories of potential ordinary shares, RSUs and share options granted to eligible person. As the Group incurred loss for the three months ended March 31, 2018 and 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months ended March 31, 2018 and 2017 are the same as basic loss per share of the periods.

9. Dividends

No dividends have been paid or declared by the Company during each of the three months ended March 31, 2018 and 2017.

Management Discussion and Analysis

Business Review for First Quarter 2018 and Prospects

Business Review and Prospects

In 2018, the Group continues to focus on its core gaming business while enhancing its strengths in game development and distribution to further consolidate and expand its business in the overseas market with its mission of “have fun, be brilliant”. Meanwhile, the Group has also made great efforts in the pan-entertainment areas such as videos, intelligent hardware, etc.

1. Achieving progress with continuous endeavours in overseas markets

In the first quarter of 2018, the Group continued to vigorously develop the overseas markets. The revenue from the overseas market for the first quarter of 2018 accounts for 51.6% of our total revenue, representing a year-on-year increase of 95.2%. In the first quarter of 2018, **Daybreak Legends** entered the Top 50 chart of the App Store across 23 European countries, and it also achieved dazzling performance in eight Southeast Asian countries, such as ranking 3rd in the best seller list of the game category on the App Store in the Philippines; 8th in the best seller list of the game category on the App Store in Indonesia; and 12th in the best seller list of the game category on the App Store in Singapore. **Daybreak Legends** has started to make progress in the West Asia markets since the first quarter and steady performance was recorded in both America and Australasia with the markets in the U.S., Canada, Australia and New Zealand continuing to contribute revenue to the Group. As at the end of the first quarter of 2018, **Daybreak Legends** has gone online in 140 countries and regions outside China and entered the Top 5 chart on the App Store in 6 different regions, the Top 10 chart on the App Store in 11 different regions and the Top 50 chart on the App Store in 36 different regions.



2. Linekong attaining high popularity with exquisite games

The Group continues to vigorously pursue its principal gaming business by launching more exciting games. The self-developed game of the Group, namely ***Uproar in Heaven*** (鬧鬧天宮), introduces mobile games of Chinese casual battling style. It combines the MOBA and io elements to create exquisite animated personae, horizontal fierce air battles, background story of mythological characters and fast-paced group confrontation, giving players a whole new experience. The second technical test of ***Uproar in Heaven*** (鬧鬧天宮) was conducted on TapTap and it soon ranked first on the Top Chart of TapTap for Android just the next day after the kick-off of such technical test. There were 162,375 players signing up for the trial game which generated positive feedback with an official server rating as high as 9.7. Nearly a hundred hosts of various platforms live-streamed the game which was highly recognised by industry media.

3. Well-positioned for global distribution of top-notch IP products

The Group has been licensed to globally distribute ***Xuan-Yuan Sword: Sunshine from Heaven*** (The official English name has not been decided.) (軒轅劍蒼之曜), which is the official continuation of a 28-year classic Chinese RPG game series, namely ***Xuan-Yuan Sword*** (軒轅劍), and the original TV animation of the same name was produced and distributed by TV Tokyo corporation of Japan. The Group will cooperate with Softstar Technology (Shanghai) to vigorously develop the global markets for ***Xuan-Yuan Sword: Sunshine from Heaven*** (軒轅劍蒼之曜). In addition, the Group has also been granted the global license to distribute the mobile game version of ***Ys VIII*** (伊蘇8), a top-notch Japanese RPG game. ***Ys VIII*** (伊蘇8) is a self-developed intelligent mobile game by Linekong, fully compatible with the whole new second generation Saturn development engine and supported by the supervision and maintenance of the original production team of Falcom Ys. The Ys (伊蘇) series was branded the precursor of Japanese RPG, witnessing the ups and downs of the Japanese game industry and winning extra high popularity and a large number of supporters worldwide. The mobile game ***Ys VIII*** (伊蘇8) is expected to be online in 2019 all over the world.

4. Focusing on youth market by self-developed casual games

The Group also keeps an eye on the youth market, plotting prospective plans for casual game genres such as H5 games and casual battling games. **Code Name: Abyssal** (代號: Abyssal) is a role-playing H5 mobile game, adopting dark American comics style creating a highly unique atmosphere. The game also introduces Roguelike elements in stage design guaranteeing experience brought by procedurally generated stages. The game also emphasises asynchronous social networking through guilds with an aim to achieve large-scaled spread of reputation among players. **Code Name: Dungeon** (代號: Dungeon) is a set-aside H5 mobile game adopting widely-received western comics style which features with easy controls and fragmented experience. The Group expects to seize the market with low cost and tap into the market of such game genre leveraging on the characteristics of instant gameplay style of H5 games. The games will launch their first trial in the second quarter. **Bowling Clash** is a bowling-themed casual competing game, mainly posing challenges to players on controls of parametres like spinning level, release angles and strength, making the game easy to start up but hard to get proficient. The game also supports multiplayer real-time battles. The game will launch its first trial in the second quarter.

5. Creating next generation fantasy mobile games with great efforts leveraging on "movie-game" synergy

The Legend of Jade Sword HD (莽荒紀HD) is an MMORPG mobile game licensed by both the novel and the TV drama of the same title, which features various animated storylines and PBR technologies, recreating a delicate and vivid abandoned world for its players. The next generation fantasy mobile game, namely **The Legend of Jade Sword HD** (莽荒紀HD), jointly released by the Group and iQIYI will be online in the second quarter of 2018 when a TV drama under the same title will also be released to materialize Internet-TV synergy.



6. Speeding up releases of exciting games under the principle of “product selection, category selection and long product lifespan”

The Group gives priority to “product selection, category selection and long product lifespan (選品質、選品類、做長線)” for game release and focuses its resources on speeding up the releases of exciting games. **Kung Fu Beans** (功夫大黃豆), being the Group’s first cute mobile game with Chinese characteristics, features innovative illustrations combining Chinese aesthetics and cartoon rendering to bring players interesting adventures in cultivating immortality and enlightenment. The game will be released in the second quarter. **Guardians of Territory** (我守護的世界), an infinite horizontal ACT mobile game with exhilarating fighting scenes and eye-catching graphics, succeeded in gaining popularity during its trial period and will also be released in the second quarter.

7. Linekong Pictures’ persistent endeavours claiming repeated victories

Linekong Pictures officially announced that it has entered into an agreement with Mango TV in respect of **Long For You 2** (我與你的光年距離2), a video production of Linekong Pictures produced by Raymond Chiang (江金霖), the most valued young director in Taiwan featuring **You’re The Apple Of My Eye** (那些年，我們一起追的女孩), together with his own production crew. Being Linekong Pictures’ first well-received online drama, **Long For You** (我與你的光年距離) recorded an initial viewership of over a hundred million within 58 hours of screening and wrapped up with a total viewership of over 1.1 billion, making it among the top three online dramas for the first quarter of 2017. In addition, **Unexpected** (來到你的世界), another online drama, signed a contract with Tencent Video. Leveraging on the Group’s diversification of video production, **Apocalypse, the Tomb Guardian** (鎮墓獸天啟) and **As a Fatty** (身為一個胖子) are scheduled to commence shooting this year. **Apocalypse, the Tomb Guardian** (鎮墓獸天啟) is the first co-production of Tian Xia Ba Chang (天下霸唱) and Cai Jun, and is also China’s first online drama with the theme of anti-tomb raiding. **Ancient Music Records** (古樂風華錄) has entered the 2017 List of National Items for Reforms and Development (國家二零一七年改革發展項目庫). It is a highlight of the ritual and musical culture composed by 500 comic writers with ancient drawing style. Linekong Pictures is going to produce 3 online dramas each year as part of its brand building and will form a cultural partnership with Linekong Games to strive for excellence.

8. Linekong Technology Tapping into the Artificial Intelligence (AI) domain in association with Baidu

Linekong Technology, a subsidiary of the Group, and DuerOS of Baidu announced the joint development of Xiaoqing AI Speaker, a quality form of audio interactive entertainment. Leveraging on the state-of-the-art artificial intelligence prospectively, Linekong Technology has made a bold move in the Q&A voice game content and materialized synergy. Xiaoqing AI Speaker, with its aesthetical design comparable to a fine piece of artistic creation, is created by world class acoustic experts. In addition, Linekong Technology will capitalize on the Xiaoqing AI Speaker to initiate the provision of intelligent solutions for the real estate and hotel sectors.

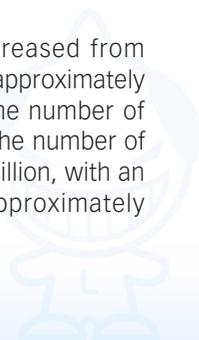
The Group's whole new brand identity is the result of contemplation and renovation, from image to idea. The refreshing Linekong Interactive takes "have fun, be brilliant" as its mission and is committed to "becoming a leading global entertainment enterprise", by focusing on its core gaming operations and eyeing the global market with all-out efforts. Moreover, the Group will also fully embrace blockchain technology by integrating it into its gaming and video IP businesses step by step.

International markets

As at March 31, 2018, our games are published in 140 countries and regions outside China. As at March 31, 2018, the revenue from overseas markets for the first quarter was approximately RMB60.7 million, representing a significant increase by approximately 95.2% as compared to the revenue from overseas markets of approximately RMB31.1 million for the corresponding period of 2017. The revenue from overseas markets accounts for approximately 51.6% of our total revenue.

Our players

The total number of registered players of our games increased from approximately 232.6 million as at December 31, 2017 to over approximately 236.7 million as at March 31, 2018. As at March 31, 2018, the number of average monthly active users (MAU) reached 2.0 million and the number of average daily active users (DAU) reached approximately 0.3 million, with an average monthly revenue per paying users (ARPPU) of approximately RMB417.



Financial Review

Revenue

The Group's revenue decreased by approximately 30.1% from approximately RMB168.0 million for the three months ended March 31, 2017 to approximately RMB117.5 million for the three months ended March 31, 2018.

During the three months ended March 31, 2018, the revenue contributed by the game business decreased by approximately 20.6%, or RMB29.9 million, compared with the corresponding period of 2017, which was due to fewer new games being released during the first three months ended March 31, 2018 than that of 2017, which was mainly due to the strategy made by the Group to reserve more time to strengthen the quality of game development and roll out competitive games.

The following tables set forth the breakdown of our revenue by game and movie business and other businesses. And for the game business, the other following tables set forth the breakdown of revenue by: (i) game forms; (ii) self-developed games and licensed games; and (iii) development and operations of online games for the three months ended March 31, 2018 and 2017 respectively.

	For the three months ended March 31,			
	2018 approximate		2017 approximate	
	RMB'000	%	RMB'000	%
Development and operations of online games	115,367	98.2	145,288	86.5
Licensing of film rights and others	2,159	1.8	22,692	13.5
Total	117,526	100.0	167,980	100.0

	For the three months ended March 31,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Mobile games	112,185	97.2	141,478	97.4
Web-based games	658	0.6	734	0.5
Client-based games	2,524	2.2	3,076	2.1
Total	115,367	100.0	145,288	100.0

	For the three months ended March 31,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Self-developed games	30,428	26.4	48,978	33.7
Licensed games	84,939	73.6	96,310	66.3
Total	115,367	100.0	145,288	100.0

	For the three months ended March 31,			
	2018		2017	
	approximate		approximate	
	RMB'000	%	RMB'000	%
Sales of in-game virtual items	111,472	96.6	133,518	91.9
License fee and technical support fee	3,895	3.4	11,770	8.1
Total	115,367	100.0	145,288	100.0



Cost of revenue

The Group's cost of revenue for the three months ended March 31, 2018 was approximately RMB75.7 million, representing a decrease of approximately 24.1% from approximately RMB99.8 million for the three months ended March 31, 2017. The Group's cost of revenue for the three months ended March 31, 2018, excluding share-based compensation expenses was approximately RMB75.4 million, representing a decrease of approximately 23.9% from approximately RMB99.1 million for the three months ended March 31, 2017.

During the three months ended March 31, 2018, the cost incurred by the game business was approximately RMB73.1 million, representing a decrease of approximately 10.4%, as compared to approximately RMB81.6 million for the corresponding period of 2017, which was due to the decrease of the revenue of our game business.

During the three months ended March 31, 2018, the cost incurred by movie business and other businesses was approximately RMB2.6 million.

Gross profit and gross profit margin

The Group's gross profit for the three months ended March 31, 2018 was approximately RMB41.8 million, representing a decrease of approximately 38.7% from approximately RMB68.2 million for the three months ended March 31, 2017. The Group's gross profit, excluding share-based compensation expense, for the three months ended March 31, 2018 was approximately RMB42.1 million, representing a decrease of approximately 38.8% as compared to approximately RMB68.8 million for the three months ended March 31, 2017. The decrease in the Group's gross profit was primarily due to the increase in the proportion of revenue from licensed mobile games to the overall revenue for the three months ended March 31, 2018.



The Group's gross profit margin for the three months ended March 31, 2018 was approximately 35.6%, representing a decrease of approximately 5.0 percentage points as compared to approximately 40.6% for the three months ended March 31, 2017. The Group's gross profit margin, excluding share-based compensation expense, for the three months ended March 31, 2018 was approximately 35.8%, representing a decrease of approximately 5.2 percentage points as compared to approximately 41.0% for the three months ended March 31, 2017.

During the three months ended March 31, 2018, the gross profit margin of game business was approximately 36.7%, representing a decrease of approximately 7.1 percentage points compared with the corresponding period of 2017, which was mainly due to the increase in the proportion of revenue from licensed mobile games to the overall revenue.

Selling and marketing expenses

The Group's selling and marketing expenses for the three months ended March 31, 2018 were approximately RMB41.6 million, representing a decrease of approximately 7.1% from approximately RMB44.8 million for the three months ended March 31, 2017. The Group's selling and marketing expenses, excluding share-based compensation expense, for the three months ended March 31, 2018 were approximately RMB41.5 million, representing a decrease of approximately 6.3% from approximately RMB44.3 million for the three months ended March 31, 2017. The decrease was primarily due to the reduction of advertising and promotion expenses incurred by publishing new games.

Administrative expenses

The Group's administrative expenses for the three months ended March 31, 2018 were approximately RMB21.0 million, representing a decrease of approximately 5.0% from approximately RMB22.1 million for the three months ended March 31, 2017. The Group's administrative expenses, excluding share-based compensation expense, for the three months ended March 31, 2018 were approximately RMB20.4 million, representing an increase of approximately 9.1% from approximately RMB18.7 million for the three months ended March 31, 2017. The increase in the Group's administrative expenses was primarily due to the increase in administrative staffs' remuneration, labour costs and other welfare benefits.



Research and development expenses

The Group's research and development expenses for the three months ended March 31, 2018 were approximately RMB30.7 million, representing a decrease of approximately 6.7% from approximately RMB32.9 million for the three months ended March 31, 2017. The Group's research and development expenses, excluding share-based compensation expense, for the three months ended March 31, 2018 were approximately RMB30.0 million, representing a decrease of approximately 1.3% from approximately RMB30.4 million for the three months ended March 31, 2017. The decrease in the Group's research and development expenses was primarily due to decreased expenditures from outsourcing animation and art design.

Other gains — net

The Group's other gains for the three months ended March 31, 2018 were approximately RMB0.4 million, as compared to approximately RMB26.2 million for the three months ended March 31, 2017. The other gains for the three months ended March 31, 2018 mainly represent the government subsidies gains recognised by the subsidiaries of the Group.

Finance (costs)/income — net

Our finance income was approximately RMB85 thousand for the three months ended March 31, 2017, as compared to finance costs of approximately RMB1.2 million for the three months ended March 31, 2018. It was mainly due to the increase in interest cost on borrowings for the period and the increase in exchange losses as a result of the decreased exchange rate of the Hong Kong dollar against the U.S. dollar. No interest was capitalised for the three months ended March 31, 2018 (2017: Nil).

Share of loss of investments using equity accounting

The Group's share of loss of investment using equity accounting for the three months ended March 31, 2018 was approximately RMB2.1 million, which was mainly due to the operating losses incurred by an investee, the Fuze Entertainment Co., Ltd ("**Fuze**").



Income tax expense

The Group's income tax expense for the three months ended March 31, 2018 was approximately RMB0.1 million, representing a decrease of approximately 96.7% as compared to the income tax of approximately RMB3.0 million for the three months ended March 31, 2017. The decrease in the Group's income tax expense was primarily due to: (i) the accreditation of certain subsidiaries of the Group as software enterprises in 2017, which makes them enjoy preferential tax treatment; and (ii) the increase in recognised deferred income tax assets in respect of the temporary differences of deferred revenue of certain subsidiaries.

Loss for the period

As a result of the foregoing, the loss for the period was approximately RMB54.6 million for the three months ended March 31, 2018, representing an increase of approximately 333.0% as compared to a loss of approximately RMB12.6 million for the three months ended March 31, 2017.

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

The following table reconciles the adjusted net loss for the three months ended March 31, 2018 and 2017 respectively, in accordance with the International Financial Reporting Standards:

	For the three months ended March 31,		Change
	2018	2017	(approximate %)
	RMB'000	RMB'000	
Loss for the period	(54,575)	(12,604)	333.0
Share-based compensation expenses	1,828	6,951	(73.7)
Adjusted net loss (unaudited)	(52,747)	(5,653)	833.1

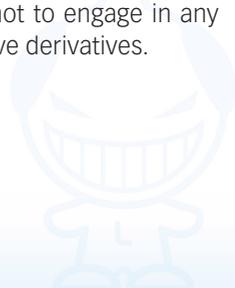
The Group's adjusted net loss for the three months ended March 31, 2018 was approximately RMB52.7 million, as compared to adjusted net loss of approximately RMB5.7 million for the three months ended March 31, 2017. The increase in our adjusted net loss was mainly due to the decrease in gross profit and the fact that no gain on disposal of available-for-sale financial assets was generated for the three months ended March 31, 2018. We have presented adjusted net loss in this quarterly report 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 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 quarterly report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

Liquidity and Financial Resources

During the three months ended March 31, 2018, we financed our operations primarily through cash generated from our past operating activities. We have maintained a solid cash position since we received the net proceeds from the listing of the Company's shares (the "**Shares**") 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 three months ended March 31, 2018, the 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 returns 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 and restricted deposits

As at March 31, 2018, we had cash and cash equivalents of approximately RMB325.5 million (December 31, 2017: approximately RMB349.6 million), primarily consisting of cash at banks and other financial institutions and cash in hand and mainly denominated in Renminbi (as to approximately 20.8%), Hong Kong dollars (as to approximately 53.4%), U.S. dollars (as to approximately 22.5%) and other currencies (as to approximately 3.3%).

As at March 31, 2018, approximately RMB182.6 million (December 31, 2017: approximately RMB188.2 million) are restricted deposits held at a bank as a reserve for the provision of a loan facility with a total credit line of RMB180.0 million (December 31, 2017: RMB180.0 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, received by the Company amounted to approximately HK\$686.2 million. As at the date of this quarterly report, some of the net proceeds (see "Use of IPO Proceeds") from our listing had been utilised and the rest has been deposited into short-term demand deposits and other deposits in a bank account maintained by the Group. We will start utilising the net proceeds from our listing in accordance with the proposed use of proceeds as set out in the "Change in Use of Proceeds" announcement dated March 29, 2016.



Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, servers and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the three months ended March 31, 2018, our total capital expenditures amounted to approximately RMB2.4 million (for the three months ended March 31, 2017: approximately RMB0.8 million), including the purchase of furniture and office equipment of approximately RMB0.1 million (for the three months ended March 31, 2017: approximately RMB0.3 million), motor vehicles: Nil (for the three months ended March 31, 2017: RMB0.3 million), servers and other equipment of approximately RMB0.1 million (for the three months ended March 31, 2017: approximately RMB0.1 million), leasehold improvements: Nil (for the three months ended March 31, 2017: Nil), trademarks and licenses of approximately RMB1.9 million (for the three months ended March 31, 2017: Nil) and computer software of approximately RMB0.3 million (for the three months ended March 31, 2017: approximately RMB0.1 million).

Capital Structure

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

Borrowing and Gearing Ratios

As at March 31, 2018, bank loans borrowed by the Group amounted to approximately RMB174.3 million (as at December 31, 2017: approximately RMB136.7 million). As at March 31, 2018, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 39.0% (as at December 31, 2017: approximately 34.6%).

Charge on Group Assets

As at March 31, 2018, restricted deposits of approximately RMB182.6 million of the Group were pledged to secure bank borrowings (as at December 31, 2017: approximately RMB188.2 million).



Information on Employees and Remuneration Policy

As at March 31, 2018, the Group had 695 employees (March 31, 2017: 708), and most of them worked and were stationed in the PRC. The table below sets forth the number of employees in each functional area as at March 31, 2018 and March 31, 2017, respectively:

Function	As at March 31, 2018		2017	
	Number of Employees	% of total employees	Number of Employees	% of total employees
Research and development	381	54.8	409	57.8
Game publishing	186	26.8	172	24.3
— Game licensing	88	12.7	56	7.9
— Customer services	26	3.7	47	6.6
— Sales and marketing	72	10.4	69	9.7
General and administrative	90	13.0	84	11.9
Movie business	38	5.4	43	6.1
Total	695	100.0	708	100.0

The total remuneration of the employees of the Group was approximately RMB56.9 million for the three months ended March 31, 2018 (2017 corresponding period: approximately RMB52.8 million).

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

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

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

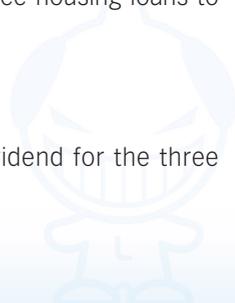
In addition, the Group has adopted a restricted unit share scheme (the “**RSU Scheme**”) with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to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

Share-based compensation expenses in connection with the RSU Scheme and Share Option Scheme for the three months ended March 31, 2018 were approximately RMB1.8 million, representing a decrease of approximately 73.7% from approximately RMB7.0 million for corresponding period in 2017.

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

Dividend

The Board did not recommend the payment of a dividend for the three months ended March 31, 2018.



Corporate Governance and Other Information

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

As of March 31, 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares of the Company, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Total number of Shares	Approximate percentage of shareholding (Note 3)
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	4.10%
	Beneficial owner	2,931,769	



Notes:

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 Shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 2,213,000 Shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 Shares subject to vesting. As of March 31, 2018, 100% of the RSUs have been vested.
- (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 120,000 Shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares subject to vesting. As of March 31, 2018, 100% of the RSUs have been vested.
- (3) As of March 31, 2018, the Company issued 368,730,964 Shares.

Save as disclosed above, on March 31, 2018, none of the Directors and chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as the Directors are aware, as of March 31, 2018, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

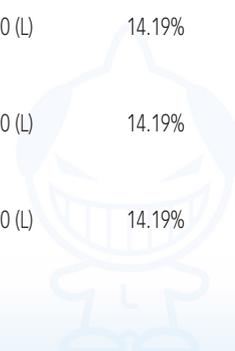
Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Linekong Online (Beijing) Technology Co., Ltd. ("Linekong Online")	Mr. Wang Feng	RMB7,545,000	75.45%
Linekong Online	Ms. Liao Mingxiang	RMB1,364,000	13.64%
Linekong Online	Mr. Zhang Yuyu	RMB1,091,000	10.91%

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

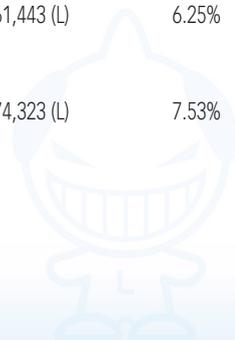
So far as is known to the Directors or chief executive of the Company, as of March 31, 2018, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall 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 7)
Wangfeng Management Limited (Note 1)	Beneficial owner	66,576,160 (L)	18.06%
Zhu Li (Note 2)	Interest of spouse	77,222,468 (L)	20.94%
China Momentum Fund, L.P. (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun China Momentum Fund GP, Ltd. (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Financial Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun International Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 7)
Fosun International Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Fosun Momentum Holdings Limited (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Guo Guangchang (Note 3)	Interest of controlled corporation	52,318,760 (L)	14.19%
Starwish Global Limited (Note 3)	Beneficial owner	52,318,760 (L)	14.19%
The Core Trust Company Limited (Note 4)	Trustee of a trust	40,859,158 (L)	11.08%
Premier Selection Limited (Note 4)	Nominee for another person	40,859,158 (L)	11.08%
Chi Sing Ho (Note 5)	Interest of controlled corporation	29,922,996 (L)	8.12%
IDG-Accel China Growth Fund GP Associates Ltd. (Note 5)	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund Associates, L.P. (Note 5)	Interest of controlled corporation	27,774,323 (L)	7.53%
IDG-Accel China Growth Fund L.P. (Note 5)	Beneficial owner	23,061,443 (L)	6.25%
Quan Zhou (Note 5)	Interest of controlled corporation	27,774,323 (L)	7.53%



Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in the Company (Note 7)
Fubon Financial Holding Co., Ltd. (Note 6)	Interest of controlled corporation	23,739,000 (L)	6.44%
Fubon Life Insurance Co., Ltd. (Note 6)	Beneficial owner	23,739,000 (L)	6.44%

(L) Long position (S) Short position

Notes:

1. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 Shares. Accordingly, 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 in by Mr. Wang Feng under the SFO. For details of Mr. Wang Feng's interests, please refer to the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of this report.
3. Starwish Global Limited is wholly-owned by China Momentum Fund, L.P., an exempted limited partnership in Cayman Islands. Fosun China Momentum Fund GP, Ltd. is the general partner of China Momentum Fund, L.P.. Fosun China Momentum Fund GP, Ltd. is in turn wholly-owned by Fosun Momentum Holdings Limited. Fosun Momentum Holdings Limited is wholly-owned by Fosun Financial Holdings Limited which is in turn wholly-owned by Fosun International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00656). As of March 31, 2018, Fosun International Limited is 71.72% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of March 31, 2018, Mr. Guo Guangchang owns approximately 64.45% in the issued share capital of Fosun International Holdings Ltd..
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 44,789,541 underlying Shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of March 31, 2018, 3,930,383 underlying Shares have been sold by the RSU participants and the RSU nominee currently holds 40,859,158 underlying Shares, including a total of 11,245,077 underlying Shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng and (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang. On March 29, 2018, the Company had directed The Core Trust Company Limited to purchase and hold on-market 415,000 Shares of the ordinary Shares of the Company, which will be used to satisfy the RSUs upon exercise.

5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund Associates, L.P. and IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. (directly holds 23,061,443 Shares) and IDG-Accel China Growth Fund-A L.P. (directly holds 4,712,880 Shares) are controlled by their sole general partner, IDG-Accel China Growth Fund Associates L.P., which in turn is controlled by its sole general partner, IDG-Accel China Growth Fund GP Associates Ltd.. IDG-Accel China Growth Fund GP Associates Ltd. is held as to 35.00% by each of Mr. Quan Zhou and Mr. Chi Sing Ho; and (ii) IDG-Accel China Investors L.P. (directly holds 2,148,673 Shares) is controlled by its sole general partner, IDG-Accel China Investor Associates Ltd., which in turn is held as to 100.00% by Mr. Chi Sing Ho. Hence, IDG-Accel China Growth Fund Associates L.P., IDG-Accel China Growth Fund GP Associates Ltd. and Mr. Quan Zhou are deemed to be interested in 27,774,323 Shares, and Mr. Chi Sing Ho is deemed to be interested in 29,922,996 Shares by virtue of SFO.
6. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
7. As of March 31, 2018, the Company issued 368,730,964 Shares.



Share Option Scheme

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

As of March 31, 2018, 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, 2018	During the reporting period				Outstanding balance as at March 31, 2018	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 ^{HKD} 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 ^{HKD} 3	7.18	6.896	3,865,625	0	0	0	237,500	3,628,125	0	0
Employees	June 15, 2016	June 15, 2016 to June 14, 2026	1,750,000 ^{HKD} 4	4.366	4.366	1,412,500	0	0	0	0	1,412,500	0	0
Employees	January 18, 2017	January 18, 2017 to January 17, 2027	9,225,000 ^{HKD} 5	3.10	3.084	7,700,000	0	0	0	442,500	7,257,500	0	1,925,000



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:

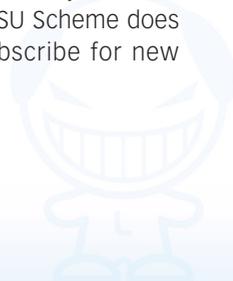
<u>Vesting Dates</u>	<u>Maximum Cumulative Percentage of Share Options Vested</u>
i. 12 months upon the acceptance of the offer for grant of share options	25% (rounded down to the nearest integral number of shares) of the share options granted
ii. 18 months upon the acceptance of the offer for grant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

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

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

Share Incentive Scheme

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



As at March 31, 2018, RSUs in respect of 35,471,879 underlying Shares have been granted to 461 grantees (two of which are Directors of the Company). Total RSUs in respect of 1,197,770 underlying Shares granted to 3 grantees had been lapsed during the three months ended March 31, 2018. As of March 31, 2018, 29,560,044 RSUs have been vested unconditionally and there were 365,000 RSUs granted and outstanding.

Events during the Reporting Period and Subsequent Events

Share Purchase by RSU Trustee

On March 29, 2018, April 3, 2018 and April 4, 2018, 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 415,000 Shares, 320,000 Shares and 250,000 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 March 29, 2018, April 3, 2018 and April 4, 2018, respectively.

Resignation of Executive Directors

On February 15, 2018, Mr. Qian Zhonghua has resigned as an executive Director with effect from February 15, 2018 due to personal development. On the same day, Mr. Zhao Jun has also resigned as an executive Director and a member of the remuneration committee with effect from February 15, 2018 due to physical considerations.



Use of IPO Proceeds

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

As of March 31, 2018, a total amount of approximately HKD385.5 million from the IPO Proceeds had been utilised for the purposes and approximately in the amount set out below:

- (a) approximately HKD81.7 million was used for overseas expansions, expanding the business in overseas markets;
- (b) approximately HKD46.0 million was used for potential strategic acquisition or investment in companies in online game and related businesses;
- (c) approximately HKD58.2 million was used for creating pan-entertainment environment;
- (d) approximately HKD64.1 million was used for licensing more high-quality games with different genres and themes from China and overseas game developers and the operation of such games; and
- (e) approximately HKD135.5 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 March 31, 2018, approximately HKD300.7 million, being the residual part of the IPO Proceeds, remains unutilized. The unutilized IPO Proceeds have been deposited into short-term demand deposits in a bank account maintained by the Group.

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



Interests in Competing Business

Mr. Qian Zhonghua, a non-executive Director (re-designated as executive Director with effect from February 3, 2017 and resigned as an executive Director with effect from February 15, 2018), had been a managing director of Fosun Equity Investment Management Ltd. from October 2014 to January 2017 and a director of Starwish Global Limited from April 2015 to January 2017 before the re-designation as executive Director. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 00656)) and its subsidiaries (together, the **"Fosun Group"**). Fosun Group is an investment group taking roots in China with a global foothold. It has established two principal businesses comprising integrated finance (including insurance, investment, wealth management and internet finance) and industrial operation (including health, happiness, steel, property development and sales, and resources). Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including private mobile game and network game companies including Shanghai MUYOU Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies. In addition, Fosun Group has nominated representatives to hold directorship in the board of directors of the aforementioned companies after the appointment. On the other hand, although Fosun Group has the right to nominate one of its representatives to act as a non-executive director in each of the private portfolio companies, it does not control any of the board of directors of the private portfolio companies.

Save as the aforementioned, none of the Directors or controlling shareholders of the Company or any of their respective associates, as defined in the GEM Listing Rules, has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group for the three months ended March 31, 2018.



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

Save as disclosed in this report, there was no significant investment, material acquisition and disposal of subsidiaries and affiliated companies by the Company during the three months ended March 31, 2018.

Purchase, Sale or Redemption of Listed Securities of the Company

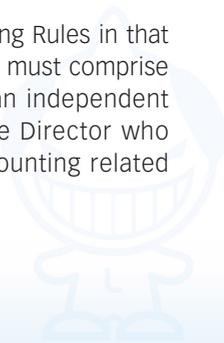
During the three months ended March 31, 2018, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The audit committee was established on April 24, 2014. The chairman of the audit committee is Mr. Ma Ji, an independent non-executive Director, and other members include Mr. Pan Donghui, 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 three months ended March 31, 2018 have been reviewed by the audit committee. The audit committee is of the opinion that the unaudited financial statements of the Group for the three months ended March 31, 2018 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Corporate Governance

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

In the opinion of the Board, the Company has complied with the Code for the three months ended March 31, 2018, except for the deviation of code provision A.2.1 of the Code.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. From the date of listing to the date of this report, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. As at March 31, 2018, the Board comprised two executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element.

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 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.

Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standards of dealings for the three months ended March 31, 2018.