

LINEKONG

蓝港互动

Linekong Interactive Group Co., Ltd.

藍港互動集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8267)

QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED MARCH 31, 2016

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*This announcement, for which the directors (the “**Directors**”) of Linekong Interactive Group Co., Ltd. (“**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

	For the three months ended March 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue	166,917	113,375
Loss for the period	(7,272)	(55,658)
Adjusted net profit/(loss)	3,359	(23,316)

- Adjusted net profit/(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 Group for the financial period indicated.
- Our revenue for the three months ended March 31, 2016 amounted to approximately RMB166.9 million, representing an increase of approximately 47.2% as compared to approximately RMB113.4 million for the corresponding period in 2015.
- Loss for the period for the three months ended March 31, 2016 amounted to approximately RMB7.3 million, as compared to a loss of approximately RMB55.7 million for the corresponding period in 2015.
- The adjusted net profit for the three months ended March 31, 2016 amounted to approximately RMB3.4 million, as compared to an adjusted net loss of approximately RMB23.3 million for the corresponding period in 2015.
- The Board does not recommend any payment of dividends for the three months ended March 31, 2016.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors announces the unaudited consolidated quarterly results and the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the three months ended March 31, 2016 together with the comparative figures for the three months ended March 31, 2015. 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 is the chairman of the audit committee.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the three months ended March 31, 2016

		Three months ended	
		March 31,	
	<i>Note</i>	2016	2015
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	166,917	113,375
Cost of revenue		(84,237)	(62,329)
Gross profit		82,680	51,046
Selling and marketing expenses		(53,914)	(65,442)
Administrative expenses		(20,546)	(22,894)
Research and development expenses		(35,160)	(32,273)
Other gains — net	6	21,751	8,801
Operating loss		(5,189)	(60,762)
Finance income — net		3,721	126
Share of loss of an associate		(4,678)	—
Loss before income tax		(6,146)	(60,636)
Income tax (expense)/credit	7	(1,126)	4,978
Loss for the period		(7,272)	(55,658)
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to profit or loss:			
— Changes in fair value of available-for-sale financial assets, net of tax		805	—
— Less: reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax		(166)	—
— Share of other comprehensive income of investments accounted for using the equity method, net of tax		(414)	—
Items that will not be reclassified to profit or loss:			
— Currency translation differences		(5,731)	3,068
Other comprehensive (loss)/income for the period, net of tax		(5,506)	3,068
Total comprehensive loss for the period		(12,778)	(52,590)

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

For the three months ended March 31, 2016

		Three months ended	
		March 31,	
	<i>Note</i>	2016	2015
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Loss attributable to:			
Owners of the Company		(7,272)	(55,657)
Non-controlling interests		—	(1)
		<u> </u>	<u> </u>
Loss for the period		<u>(7,272)</u>	<u>(55,658)</u>
Total comprehensive loss attributable to:			
Owners of the Company		(12,778)	(52,589)
Non-controlling interests		—	(1)
		<u> </u>	<u> </u>
Total comprehensive loss for the period		<u>(12,778)</u>	<u>(52,590)</u>
Loss per share (expressed in RMB per share)			
— Basic	<i>8(a)</i>	<u>(0.02)</u>	<u>(0.17)</u>
— Diluted	<i>8(b)</i>	<u>(0.02)</u>	<u>(0.17)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended March 31, 2016

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the three months ended March 31, 2016

(Unaudited)	Attributable to owners of the Company						Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Shares held for RSU Scheme RMB'000	Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
Balance at January 1, 2015	59	1,726,828	(6)	206,182	(925,746)	1,007,317	(21)	1,007,296
Comprehensive loss								
Loss for the period	-	-	-	-	(55,657)	(55,657)	(1)	(55,658)
Other comprehensive income								
— Currency translation differences	-	-	-	3,068	-	3,068	-	3,068
Total comprehensive income/(loss) for the period	-	-	-	3,068	(55,657)	(52,589)	(1)	(52,590)
Total contributions by and distributions to owners of the Company recognised directly in equity								
RSU Scheme:								
— Value of employee services	-	-	-	32,342	-	32,342	-	32,342
— Vesting of shares	-	(2)	2	-	-	-	-	-
Total contributions by and distributions to owners of the Company for the period	-	(2)	2	32,342	-	32,342	-	32,342
Balance at March 31, 2015	59	1,726,826	(4)	241,592	(981,403)	987,070	(22)	987,048

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Linekong Interactive Group Co., Ltd. (the “Company”), was incorporated in the Cayman Islands on May 24, 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Floor 4, Willow House, Cricket Square, P.O.Box 2804, Grand Cayman KY1-1112, Cayman Islands.

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

The interim condensed consolidated balance sheet of the Group as of March 31, 2016 and the related interim condensed consolidated statements of comprehensive loss, changes in equity and cash flows 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 13, 2016.

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

The Interim Financial Information has been reviewed by the audit committee of the Company.

2. BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2015 as set out in the 2015 annual report of the Company (the “2015 Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

There are no new standards, amendments and interpretations to existing standards that are effective for the first time for this interim period, which have a material impact on the Group.

The Group has not early adopted any new standards, amendments and interpretations to existing standards which have been issued but are not yet effective for the financial period beginning January 1, 2016. The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in their initial applications.

4. REVENUE AND SEGMENT INFORMATION

	Three months ended	
	March 31,	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Development and operations of online games:		
— Sales of in-game virtual items	156,925	103,947
— License fee and technical support fee	9,992	9,428
	<u>166,917</u>	<u>113,375</u>

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 for three months ended March 31, 2016 and 2015 is as follows:

	Three months ended	
	March 31,	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of in-game virtual items, license fee and technical support fee:		
— Mobile games	156,202	100,150
— Web-based games	1,367	5,161
— Client-based games	9,348	8,064
	<u>166,917</u>	<u>113,375</u>

The chief operating decision maker of the Company considers that the Group's Game Business are 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 three months ended March 31, 2016 and 2015.

Almost all the Group's non-current assets were located in the PRC as at March 31, 2016 and December 31, 2015. The revenue generated by the Group's overseas entities represents less than 10% of the total revenue of the Group for three months ended March 31, 2016 and 2015.

5. RESERVES

(Unaudited)	Capital reserve <i>RMB'000</i>	Currency translation differences <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Share-based compensation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at January 1, 2016	(7,831)	73,857	9,557	240,829	9,301	325,713
Changes in fair value of available- for-sale financial assets, net of tax	-	-	-	-	805	805
Reclassification of changes in fair value of available-for-sale financial assets to profit or loss upon disposal, net of tax (<i>Note 6</i>)	-	-	-	-	(166)	(166)
Share of other comprehensive income of investments accounted for using the equity method, net of tax	-	-	-	-	(414)	(414)
Employee share option and RSU scheme:						
— Value of employee services	-	-	-	10,631	-	10,631
Currency translation differences	-	(5,731)	-	-	-	(5,731)
Balance at March 31, 2016	<u>(7,831)</u>	<u>68,126</u>	<u>9,557</u>	<u>251,460</u>	<u>9,526</u>	<u>330,838</u>
Balance at January 1, 2015	<u>(7,831)</u>	<u>26,503</u>	<u>9,557</u>	<u>177,947</u>	<u>6</u>	<u>206,182</u>
RSU scheme:						
— Value of employee services	-	-	-	32,342	-	32,342
Currency translation differences	-	3,068	-	-	-	3,068
Balance at March 31, 2015	<u>(7,831)</u>	<u>29,571</u>	<u>9,557</u>	<u>210,289</u>	<u>6</u>	<u>241,592</u>

6. OTHER GAINS — NET

	Three months ended	
	March 31,	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies (<i>Note (a)</i>)	8,384	1,034
Foreign exchange gains, net	146	524
Realised/unrealised fair value gains on financial assets at fair value through profit or loss	13,080	—
Unrealised fair value gain of derivatives (<i>Note (b)</i>)	—	4,623
Gain on disposal of available-for-sale financial assets	196	—
Gain on disposals of property, plant and equipment	138	—
Gain on disposals of intangible assets	210	1,459
Return on short-term investments (<i>Note (c)</i>)	—	769
Others	(403)	392
	<u>21,751</u>	<u>8,801</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.
- (b) On March 12, 2015, the Company entered into a share subscription agreement with SMI Holdings Group Limited (“SMI”), a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company agreed to subscribe 139,582,733 ordinary shares of SMI for a total consideration of USD5,000,000, representing 1.35% of SMI’s issued shares. The subscription agreement is therefore accounted for as a forward contract which was fair valued by taking reference to share price of SMI quoted in the active market. The fair value change of this forward contract of RMB4,623,000 between the date of subscription agreement and March 31, 2015 was charged to profit or loss.
- (c) Return on short-term investments represents return on investments in certain principal protected wealth management products issued by commercial banks in the PRC.

7. INCOME TAX (EXPENSE)/CREDIT

The income tax (expense)/credit of the Group for each of the three months ended March 31, 2016 and 2015 is analysed as follows:

	Three months ended	
	March 31,	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	(244)	(905)
Deferred income tax	(882)	5,883
Income tax (expense)/credit	<u>(1,126)</u>	<u>4,978</u>

(a) **Cayman Islands income tax**

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

(b) **Hong Kong profits tax**

The Group is not subject to Hong Kong profits tax on foreign-sourced income, dividends and capital gains. The subsidiaries incorporated in Hong Kong were subject to 16.5% income tax for the three months ended March 31, 2016 and 2015 on its taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.

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

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 ended March 31, 2016 and 2015, based on the existing legislation, interpretations and practices in respect thereof. Linekong Online (Beijing) Internet Technology Co., Ltd. (“Beijing Linekong Online”), Linekong Entertainment Technology Co., Ltd. (“Linekong Entertainment”), Shouyoutong (Beijing) Technology Co., Ltd. (“Shouyoutong”) and Tianjin Baba Liusi Network Technology Co., Ltd. (“Tianjin 8864”) obtained the Software Enterprise Certificates and were accredited as software enterprises under the relevant PRC laws, regulations and rules. Accordingly, Beijing Linekong Online, Linekong Entertainment, Shouyoutong and Tianjin 8864 are exempt from EIT for two years, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years, commencing from the first year of profitable operation and before 2017, provided that they continue to be qualified as software enterprises during such periods. Beijing Linekong Online obtained the Software Enterprise Certificate in May 2014, and the specific periods when the tax exemption and reduction are applicable are yet to commence.

The periods that preferential tax rate aforementioned is applicable to Linekong Entertainment were ended in 2015. In July 2015, Linekong Entertainment filed its application for “High and New Technology Enterprise” (“HNTE”) qualification to the related government authorities in order to enjoy a preferential tax rate. This application was approved in November 2015. Linekong Entertainment obtained the HNTE Certificate and was accredited as a HNTE under the relevant PRC laws, regulations and rules. Accordingly, Linekong Entertainment is entitled to a preferential income tax rate at 15% for three years starting from 2015, provided that it continues to be qualified as a HNTE during such periods.

The applicable schedules of preferential income tax rate for Linekong Entertainment, Shouyoutong and Tianjin 8864 are as follows:

	Three months ended	
	March 31,	
	2016	2015
Linekong Entertainment	15%	25%
Shouyoutong	25%	50% reduction
Tianjin 8864	50% reduction	50% reduction

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining tax assessable profits for that year (“Super Deduction”).

(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, 2016, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of March 31, 2016 and December 31, 2015, the PRC Operational Entities did not have available undistributed profit to be remitted to the Company.

8. LOSS PER SHARE

(a) Basic

Basic loss per share for the three months ended March 31, 2016 and 2015 is calculated by dividing the loss of the Group attributable to the owners of the Company of the period by the weighted average number of ordinary shares in issue during the period.

	Three months ended March 31,	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company	(7,272)	(55,657)
Weighted average number of ordinary shares in issue (thousand shares)	<u>346,560</u>	<u>332,971</u>
Basic loss per share (expressed in RMB per share)	<u><u>(0.02)</u></u>	<u><u>(0.17)</u></u>

(b) Diluted

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

For the three months ended March 31, 2016 and 2015, the Company had two categories of potential ordinary shares, restricted share units (“RSUs”) and share options granted to employee. As the Group incurred loss for the three months ended March 31, 2016 and 2015, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive losses per share for the three months ended March 31, 2016 and 2015 are the same as basic loss per share of the period.

9. DIVIDENDS

No dividends have been paid or declared by the Company during each of the three months ended March 31, 2016 and 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Review and Prospects

In the Internet era, the connections and integrations for cultural products becomes a more obvious phenomenon. In recent years, more and more pan-entertainment contents with IP foundations cover games, literature, movies and television as well as animation, and also the pan-entertainment layout based on it has become the development trend of the global culture industry. In 2016, the Group rolled out the “Movies-Animation-Games” three-in-one strategy which aims to forge the full entertainment industry chains by integrating contents and brand in the three different fields of movies, animation and games. This was the Group’s first industry upgrade succeeding the traditional gaming business. In the meantime, the Group put forward a more precise development strategy in respect of community-based products, entertaining business and marketing internationalization.

On April 27, 2016, the Group held a press conference for Linekong Games to announce that ten games, which were successfully commercialized or also will be successively launched in this year. Among these games, ***The Wars of Shushan*** (蜀山戰紀之劍俠傳奇) (hereinafter referred to as ***The Wars of Shushan*** (蜀山戰紀)) was the first cross-industry integration IP product commercialized in 2016. The Group joined hands with Nicky Wu (吳奇隆), iQIYI and Anhui Satellite TV to create a brand new business model of “Platform-Movie-Game” Integration, and made excellent achievements by ranking the first on the App Store Free Games List and ranking among TOP 10 on average and even making it into TOP 5 on the App Store Best Seller List for 41 consecutive days. ***Sword of Heaven II*** (蒼穹之劍2) is a sequel to ***Sword of Heaven*** (蒼穹之劍), a classic mythical heroes-themed MMO mobile game which is regarded as one of the “Three Swords of Linekong”. It will also be the first cross-industry super IP of Linekong Games which covers “movies, animation and games”. ***Monster Hunt*** (捉妖記), a MMO mobile game scheduled for launch towards the end of the year, is based on ***Monster Hunt*** (捉妖記), the 2015 box-office champion in Mainland China. The game product will highly restore the original storyline of the movie. In the future, the Group will also launch iterative products simultaneously with the release of the movie ***Monster Hunt II*** (捉妖記2) produced by Edko Films. ***King Arthur*** (王者戰神), the third ACT mobile game of Linekong following ***Excalibur*** (王者之劍) and ***Sword of Heroes*** (英雄之劍), will achieve a great improvement in the overall quality of games to face the global market with more community-based elements while sowing seeds in the ACT games. ***Big Words of Shushan*** (大話蜀山) is the first 3D turn-based game of Linekong, which adopts adorable mythical heroes themed style. The highlight of the game is the “combination of flying magic and mythical heroes”. ***Alpha Girl*** is a exquisite science fiction-themed 3D ACT mobile game, featuring with beautiful girls in armor, is forged by next generation global illumination rendering technology. It can attract more young users by delivering vivid texture effects, lifelike quality and innovative theme and contents. The licensed game ***Daybreak*** (黎明之光) is the first 3D MMO action mobile game simultaneously launched on terminals of mobile phones, PC and home console. By adopting global illumination and full scene normal baking technology, it creates the most realistic 3D big world with 360 degree panoramic aerial flight. ***The Legend of Adorable MiYue*** (萌萌芈月傳) is a 3D aesthetic dress-up game jointly forged by the Group and Flower Film&TV, which targets at the female game market.

The overseas team will also dedicate two masterpieces. *Thunder Armada* (雷霆艦隊) is a World War II-themed 3D naval battle game commercialized by the Linekong Korean team in February this year. It ranked top 2 and 36 on Korean Google Download List and Best Seller List, respectively. *Raids of Glory*, a licensed Finnish mobile game masterpiece of the Linekong US Inc., is a pirate-themed instant strategy game. By adopting the brand new card design system, it will provide global services.

In 2015, the Group has completed the financing of USD26.25 million for Fuze Entertainment Co., Ltd. (“**Fuze**”) and held 31.92% of its equity interest. Shenzhen Fuze Technology Co., Ltd. (“**Fuze Technology**”, a subsidiary of Fuze) launched *Fuze F1* (戰斧F1), its self-developed product for internet video game console in a press conference on 10 May. *Fuze F1* (戰斧F1) is also the first home-based Internet console and has strategic cooperation relationships with many console game developers in overseas, such as UBISOFT, KOEI TEMCO, etc. In the press conference, Fuze Technology officially announced that it has formed strategic cooperation relationship with LeTV for the purpose of striving for a win-win situation in terms of internet traffic, market penetration and sales network. Meanwhile, the Android development platform of *Fuze F1* (戰斧F1) will be incorporated with certain popular applications such as PandaTV and Douyu. By keeping pace with the development of VR technology, it completed the upgrading of its business model once again.

Linekong Pictures (Tianjin) Corporation (“**Linekong Pictures**”) (a wholly-owned subsidiary of the Group, was established in March this year. It aims to forge the full entertainment industry chain by integrating contents and brand in the three fields of movies, animation and games. Linekong Pictures will launch movie and animation projects by the IPs of Group’s self-developed games and infiltrate inversely with the gaming business by the IPs of the Group’s self-developed movies or animation, thus reaching a virtuous cycle to create “Super IPs”. Linekong Pictures together with Jaywalk-Studio (嘉行傳媒) will co-produce a TV series under the name of *Sword of Heaven* (蒼穹之劍), one of the “Three Swords of Linekong”, and will launch web drama, animation and feature movie in succession. At the same time, Linekong Pictures has obtained the exclusive adaptation rights of *Snow Girl* (雪姬), a popular comics written by Kang Gyeongok (姜京玉), a Korean cartoonist, to produce web drama, feature movie, animation and games. It is expected that the movie will begin shooting in September this year.

Looking forward, Linekong games and Linekong Pictures will synergize with Fuze Technology to become a pan-entertainment company focusing on films and games and covering home entertainment terminal. The Company will make further announcements regarding the cooperation in due course.

International markets

We generally license our games, including our self-developed games and licensed games for which we have global exclusive licenses, to third-party publishers in the international markets. As at March 31, 2016, our games were published in 47 countries and regions outside Mainland China, and the Group has set up subsidiaries in Hong Kong, Korea and the United States. Revenue generated from overseas markets reached approximately RMB19.1 million for the first quarter of 2016, representing an increase of approximately 30.8% as compared to approximately RMB14.6 million for the first quarter of 2015.

Our players

The total number of registered players of our games increased from approximately 187.5 million as at March 31, 2015 to over 208.6 million as at March 31, 2016. In the first quarter of 2016, the monthly average user (MAU) reached approximately 3.2 million users and the daily average users (DAU) reached approximately 0.5 million users with average revenue per paying user (ARPPU) of approximately RMB264.2 per month.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately 47.2% from approximately RMB113.4 million for the three months ended March 31, 2015 to approximately RMB166.9 million for the three months ended March 31, 2016. The increase in revenue was mainly due to the success launch of a new self-developed mobile game, *The Wars of Shushan* (蜀山戰紀), on January 27, 2016.

The following table sets forth the breakdown of our revenue by (i) game forms; (ii) self-developed games and licensed games; and (iii) research and development as well as operations of online games for the three months ended March 31, 2015 and 2016 respectively:

	For the three months ended March 31,			
	2016		2015	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Mobile games	156,202	93.6	100,150	88.3
Web-based games	1,367	0.8	5,161	4.6
Client-based games	9,348	5.6	8,064	7.1
Total	<u>166,917</u>	<u>100.0</u>	<u>113,375</u>	<u>100.0</u>

	For the three months ended March 31,			
	2016		2015	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Self-developed games	117,983	70.7	69,455	61.3
Licensed games	48,934	29.3	43,920	38.7
Total	<u>166,917</u>	<u>100.0</u>	<u>113,375</u>	<u>100.0</u>

	For the three months ended March 31, 2016		2015	
	<i>RMB'000</i>	<i>approximate</i> %	<i>RMB'000</i>	<i>approximate</i> %
Sales of in-game virtual items	156,925	94.0	103,947	91.7
License fee and technical support fee	9,992	6.0	9,428	8.3
Total	166,917	100.0	113,375	100.0

Cost of revenue

The Group's cost of revenue for the three months ended March 31, 2016 was approximately RMB84.2 million, representing an increase of approximately 35.2% from approximately RMB62.3 million for the three months ended March 31, 2015. After adjustment, the Group's cost of revenue (net of share-based compensation expense amounting to approximately RMB0.7 million) for the three months ended March 31, 2016 was approximately RMB83.5 million, representing an increase of approximately 39.4% from approximately RMB59.9 million (after adjustment) for the three months ended March 31, 2015. The increase in cost of revenue of the Group as compared to the corresponding period of 2015 was mainly due to the increase in revenue generated from our gaming products.

Gross profit and gross profit margin

The Group's gross profit for the three months ended March 31, 2016 was approximately RMB82.7 million, representing an increase of approximately 62.2% from approximately RMB51.0 million for the three months ended March 31, 2015. The Group's gross profit, excluding share-based compensation expense, for the three months ended March 31, 2016 was approximately RMB83.4 million, representing an increase of approximately 56.2% as compared to approximately RMB53.4 million for the three months ended March 31, 2015. The increase in the Group's gross profit was primarily due to the proportion of revenue from self-developed games has increased in terms of total revenue generation.

The Group's gross profit margin for the three months ended March 31, 2016 was approximately 49.6%, representing an increase of approximately 4.6 percentage points as compared to approximately 45.0% for the three months ended March 31, 2015. The Group's gross profit margin, excluding share-based compensation expense, for the three months ended March 31, 2016 was approximately 50.0%, representing an increase of approximately 2.9 percentage points as compared to approximately 47.1% for the three months ended March 31, 2015. The increase in the Group's gross profit margin for the period (excluding share-based compensation expense) was due to relative reduction in content fees paid to third party game developers as a result of increase in revenue from self-developed games.

Selling and marketing expenses

The Group's selling and marketing expenses for the three months ended March 31, 2016 were approximately RMB53.9 million, representing a decrease of approximately 17.6% from approximately RMB65.4 million for the three months ended March 31, 2015. The Group's selling and marketing expenses, excluding share-based compensation expense, for the three months ended March 31, 2016 were approximately RMB53.3 million, representing a decrease of approximately 15.9% from approximately RMB63.4 million for the three months ended March 31, 2015. The decrease was primarily due to reduction over spending regarding advertising and promotion expenses. During the first quarter of 2016, advertising and promotion expense was mainly used for the launch of a self-developed game, *The Wars of Shushan* (蜀山戰紀), such spending was reduced as compared with the launch of a licensed game, *One Hundred Thousand Bad Jokes* (十萬個冷笑話) in the first quarter of 2015.

Administrative expenses

The Group's administrative expenses for the three months ended March 31, 2016 were approximately RMB20.5 million, representing a decrease of approximately 10.5% from approximately RMB22.9 million for the three months ended March 31, 2015. The Group's administrative expenses, excluding share-based compensation expense, for the three months ended March 31, 2016 were approximately RMB15.6 million, representing an increase of approximately 92.6% from approximately RMB8.1 million for the three months ended March 31, 2015. The increase in the Group's administrative expenses, excluding share-based compensation expense, was primarily due to the increase in both the headcount of administrative staff and their labour costs, and professional service expenses.

Research and development expenses

The Group's research and development expenses for the three months ended March 31, 2016 were approximately RMB35.2 million, representing an increase of approximately 9.0% from approximately RMB32.3 million for the three months ended March 31, 2015. The Group's research and development expenses, excluding share-based compensation expense, for the three months ended March 31, 2016 were approximately RMB30.9 million, representing an increase of approximately 60.9% from RMB19.2 million for the three months ended March 31, 2015. The increase in the Group's research and development expenses was primarily due to the increase in the headcount, salary and welfare expenses of research and development staff, and the outsourcing of animation and art design activities relating to the development of a new game, *The Wars of Shushan* (蜀山戰紀).

Other gains — net

The Group's other gains for the three months ended March 31, 2016 were approximately RMB21.8 million, as compared to approximately RMB8.8 million for the three months ended March 31, 2015. The increase in the Group's other gains was primarily due to realised and unrealised gains for the period arising from equity interests of Yongle and Gameone invested by the Group, and the return of previous year's tax expense from the PRC local tax authority.

Finance income — net

Our finance income increased from approximately RMB0.1 million for the three months ended March 31, 2015 to approximately RMB3.7 million for the three months ended March 31, 2016 mainly attributable to the interest income generated from an offshore flexible deposit account and other wealth management products. No interest was capitalised for the three months ended March 31, 2016 (2015: Nil).

Share of loss of an associate

The Group's share of loss of an associate for the three months ended March 31, 2016 was approximately RMB4.7 million, which was due to a loss incurred by the investee, Fuze, in its product research and development stage.

Income tax credit/(expense)

The Group's income tax expense for the three months ended March 31, 2016 were approximately RMB1.1 million whilst the income tax credit were approximately RMB5.0 million for the three months ended March 31, 2015. The increase in the Group's income tax expense was primarily due to increase in deferred income tax charge, as a result of reverse back of deferred tax asset recognised in previous period.

Loss for the period

As a result of the foregoing, the loss for the period was approximately RMB7.3 million for the three months ended March 31, 2016, representing a decrease of approximately 86.9% as compared to a loss of approximately RMB55.7 million for the three months ended March 31, 2015.

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

The following table reconciles our adjusted net profit/(loss) for the three months ended March 31, 2015 and 2016 respectively, in accordance with the International Financial Reporting Standards:

	For the three months		
	ended March 31,		Change (<i>approximate</i> %)
	2016	2015	
	RMB'000	RMB'000	
Loss for the period	(7,272)	(55,658)	(86.9)
Add:			
Share-based compensation expenses	10,631	32,342	(67.1)
Adjusted net profit/(loss) (unaudited)	3,359	(23,316)	(114.4)

The Group's adjusted net profit for the three months ended March 31, 2016 was approximately RMB3.4 million, profit increased by approximately 26.7 million, representing a change of approximately 114.4% as compared to adjusted net loss approximately RMB23.3 million for the three months ended March 31, 2015. The increase in our adjusted net profit was mainly attributable to the increase in our revenue, and also affected by the decreased amount of selling and marketing expenses. We have presented adjusted net profit/(loss) in this announcement as we believe that the adjusted net profit/(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 profit/(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 profit/(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 three months ended March 31, 2016, we financed our operations primarily through cash generated from our past operating activities. We maintain a solid cash position since the net proceeds we received from the Listing completed in December 2014. We intend to finance our expansion and business operations with internal resources and through organic and sustainable growth.

Treasury policy

During the three months ended March 31, 2016, the Group's idle capital was invested in short-term wealth management products issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or transactions of speculative derivatives.

Cash and cash equivalents

As at March 31, 2016, we had cash and cash equivalents of approximately RMB699.7 million (March 31, 2015: approximately RMB908.0 million), primarily consisted of cash at bank and in hand and mainly denominated in Renminbi (as to approximately 13.5%), Hong Kong dollars (as to approximately 84.7%), U.S. dollars (as to approximately 1.0%) and other currencies (as to approximately 0.8%).

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 announcement, the net proceeds from our listing had not yet been utilised and all of which has been deposited into short-term demand deposits in a bank account maintained by the Group. In 2016, we will start utilising the net proceeds from our listing in accordance with the proposed use of proceeds as set out in the "Change in Use of Proceeds" announcement dated March 29, 2016.

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the three months ended March 31, 2016, our total capital expenditures amounted to approximately RMB33.5 million (2015 corresponding period: approximately RMB14.2 million), including the purchase of furniture and office equipment of approximately RMB0.7 million (2015 corresponding period: approximately RMB0.6 million), server and other equipment of approximately RMB0.2 million (2015 corresponding period: approximately RMB0.1 million), leasehold improvements of approximately RMB1.5 million (2015 corresponding period: approximately RMB0.7 million), trademarks and licenses approximately RMB31.0 million (2015 corresponding period: approximately RMB12.4 million) and computer software of approximately RMB0.1 million (2015 corresponding period: approximately RMB0.4 million). We funded our capital expenditures by using cash flow generated from our operations.

CAPITAL STRUCTURE

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

BORROWINGS AND GEARING RATIO

As at March 31, 2016, we did not have any short-term or long-term bank borrowings.

As at March 31, 2016, the gearing ratio of the Group, calculated as total liabilities, excluding the preferred shares, divided by total assets, was approximately 19.5% (2015 corresponding period: approximately 21.2%).

Charge on group assets

As at March 31, 2016, no asset of the Group was pledged as a security for bank borrowings or any other financing facilities (March 31, 2015: Nil).

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As at March 31, 2016, the Group had 649 employees (March 31, 2015: 565), mainly worked and stationed in the PRC. The table below sets forth the number of employees in each functional area as at March 31, 2015 and March 31, 2016, respectively:

Function	As at March 31, 2016		2015	
	Number of Employees	approximate % of total employees	Number of Employees	approximate % of total employees
Research and development	387	59.6	330	58.4
Game publishing	164	25.3	173	30.6
— Game licensing	41	6.3	33	5.8
— Customer services	55	8.5	61	10.8
— Sales and marketing	68	10.5	79	14.0
General and administrative	98	15.1	62	11.0
Total	<u>649</u>	<u>100.0</u>	<u>565</u>	<u>100.0</u>

The total remuneration of the employees of the Group was approximately RMB49.6 million for the three months ended March 31, 2016 (2015 corresponding period: approximately RMB60.7 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 the remuneration and compensation of the Directors and the senior management of the Group. The Group offers competitive remuneration package commensurate with industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus.

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

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

In addition, the Group has adopted a restricted unit share scheme (the “**RSU Scheme**”) on March 21, 2015 with the objective to incentivise Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services to the Group for their contribution to the Group, and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Share-based compensation expenses in connection with the RSU Scheme for the three months ended March 31, 2016 were approximately RMB10.6 million, representing a decrease of approximately 67.2% from approximately RMB32.3 million for corresponding period in 2015. The decrease was primarily due to there were no additional restricted share units (the RSUs) and share options granted during the first quarter of 2016.

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

DIVIDEND

The Board did not recommend the payment of dividend for the three months ended March 31, 2016.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of March 31, 2016, the interests and short positions of the Directors and chief executives 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 notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in Shares and underlying Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Total number of Shares	Approximate percentage of shareholding (Note 5)
Mr. Wang Feng ^(Note 1)	Interest of controlled corporation	66,576,160	20.93%
	Beneficial owner	10,646,308	
Ms. Liao Mingxiang ^(Note 2)	Interest of controlled corporation	12,168,720	4.09%
	Beneficial owner	2,918,269	
Mr. Qian Zhonghua	Beneficial owner	5,000	0.001%
Mr. Mei Song ^(Note 3)	Beneficial owner	4,226,154	1.15%
Mr. Zhao Jun ^(Note 4)	Beneficial owner	2,839,769	0.77%

Notes:

- (1) Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited. In addition, Mr. Wang Feng holds 2,213,000 shares and is interested in 8,433,308 RSUs awards granted to him under the RSU Scheme entitling him to receive 8,433,308 shares subject to vesting. As of March 31, 2016, approximately 75.00% of the RSUs have been vested and the remaining RSU are subject to vesting.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liao Mingxiang Holdings Limited, which in turn directly holds 12,168,720 shares. Accordingly, Ms. Liao Mingxiang is deemed to be interested in the 12,168,720 shares held by Liao Mingxiang Holdings Limited. In addition, Ms. Liao Mingxiang holds 106,500 shares and is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 shares subject to vesting. As of March 31, 2016, approximately 75.01% of the RSUs have been vested and the remaining RSU are subject to vesting.

- (3) Mr. Mei Song holds 9,000 shares and is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 shares, and as of March 31, 2016, approximately 75.01% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (4) Mr. Zhao Jun holds 28,000 shares and is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 shares, and as of March 31, 2016, approximately 75.01% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (5) As of March 31, 2016, the Company issued 368,868,464 shares.

Save as disclosed above, on March 31, 2016, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture 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, 2016, the following persons (excluding the Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Subsidiary	Name of Shareholder	Registered Capital	Approximate % of Interest
Linekong Entertainment	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 executives of the Company, as of March 31, 2016, the following persons (other than Directors or chief executives of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long and short positions in the Shares

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company (Note 8)
Wangfeng Management Limited <i>(Note 1)</i>	Beneficial owner	66,576,160	18.05%
Zhu Li <i>(Note 2)</i>	Interest of spouse	77,222,468	20.93%
China Momentum Fund, L.P.	Interest of controlled corporation	52,318,760	14.18%
Fosun China Momentum Fund GP, Ltd.	Interest of controlled corporation	52,318,760	14.18%
Fosun Financial Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun International Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun International Limited	Interest of controlled corporation	52,318,760	14.18%
Fosun Momentum Holdings Limited	Interest of controlled corporation	52,318,760	14.18%
Guo Guangchang	Interest of controlled corporation	52,318,760	14.18%

Name of shareholder	Nature of interest	Number of Shares or securities held	Approximate percentage of interest in our Company <i>(Note 8)</i>
Starwish Global Limited <i>(Note 3)</i>	Beneficial owner	52,318,760	14.18%
The Core Trust Company Limited <i>(Note 4)</i>	Trustee of a trust	41,804,041	11.33%
Premier Selection Limited <i>(Note 4)</i>	Nominee for another person	41,804,041	11.33%
Ho Chi Sing	Interest of controlled corporation	29,922,996	8.11%
IDG-Accel China Growth Fund Associates, L.P. <i>(note 5, 6)</i>	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund GP Associates Ltd. <i>(note 5, 6)</i>	Interest of controlled corporation	27,774,323	7.53%
IDG-Accel China Growth Fund L.P. <i>(note 5, 6)</i>	Beneficial owner	23,061,443	6.25%
Zhou Quan	Interest of controlled corporation	27,774,323	7.53%
Fubon Financial Holding Co., Ltd. <i>(Note 7)</i>	Interest of controlled corporation	23,739,000	6.44%
Fubon Life Insurance Co., Ltd. <i>(Note 7)</i>	Beneficial owner	23,739,000	6.44%

Notes:

1. Mr. Wang Feng holds the entire issued share capital of Wangfeng Management Limited, which in turn directly holds 66,576,160 shares. Accordingly, Mr. Wang Feng is deemed to be interested in the 66,576,160 shares held by Wangfeng Management Limited.
2. Ms. Zhu Li is the wife of Mr. Wang Feng and is deemed to be interested in the shares which are interested by Mr. Wang Feng under the SFO.

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, 2016, Fosun International Limited is 71.37% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. As of March 31, 2016, Mr. Guo Guangchang owns 64.45% equity interest in 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 42,161,541 underlying shares in respect of the RSUs granted and to be granted under the RSU Scheme for the benefit of eligible participants pursuant to the RSU Scheme. As of March 31, 2016, 357,500 relevant shares have been sold to the RSUs participants and the RSU Nominee currently holds 41,810,041 shares, including a total of 18,274,000 underlying shares in respect of (i) the 8,433,308 RSUs granted to Mr. Wang Feng, (ii) the 2,811,769 RSUs granted to Ms. Liao Mingxiang, (iii) the 4,217,154 RSUs granted to Mr. Mei Song, and (iv) the 2,811,769 RSUs granted to Mr. Zhao Jun.
5. The controlling structure of each of IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and, IDG-Accel China Growth Fund GP Associates Ltd. is as follows: (i) IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. 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% by each of Mr. Zhou Quan and Mr. Ho Chi Sing; 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% by Mr. Ho Chi Sing.
6. As of March 31, 2016, IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P., pursuant to the stock borrowing agreement entered into on December 22, 2014, lent an aggregate of 11,095,000 shares to the stabilising manager, Citigroup Global Markets Asia Limited, which were used to cover the over-allocations in the international offering of the Company's shares. On January 9, 2015, the stabilising manager returned all the borrowed shares to the above respective funds. On the same date, the above funds disposal an aggregate of 10,375,000 shares at the average price of HKD9.80.
7. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..
8. As of March 31, 2016, the Company issued 368,868,464 shares.

SHARE OPTION SCHEME

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

Category	Date of Grant	Exercise Period	Share options granted	Exercise price per share HKD	The weighted average closing price of the shares HKD	Outstanding balance as at January 1, 2016	During the Period				Outstanding balance as at March 31, 2016
							Granted	Exercised	Cancelled	Lapsed	
Employees	August 12, 2015	August 12, 2015 to August 11, 2025	1,849,192 ^(Note 3)	8.10	8.028	1,849,192	0	0	0	0	1,849,192
Employees	October 9, 2015	October 9, 2015 to October 8, 2025	6,010,000 ^(Note 4)	7.18	6.896	5,860,000	0	0	0	390,000	5,470,000

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) For the three months ended March 31, 2016, no shares options were exercised or cancelled, there were 390,000 share options in aggregate lapsed.
- (3) Such options may be exercised in accordance with the following vesting timetable:

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
i. Upon 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. Upon 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. Upon 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

Vesting Dates	Maximum Cumulative Percentage of Share Options Vested
iv. Upon 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. Upon 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. Upon 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. Upon 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.

- (4) Such options 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.

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

EVENTS DURING THE FIRST QUARTER OF 2016 AND SUBSEQUENT EVENTS

Change of Logo of the Company

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

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

Change in Use of Proceeds

On March 29, 2016, the Company has resolved to change the use of the actual net proceeds from the public offering, after deducting the underwriting commission and other estimated expenses in connection with the public offering, being amounted to approximately HK\$686.2 million (the “**IPO Proceeds**”). All of the IPO Proceeds remain unutilized as of March 29, 2016.

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

RE-ELECTION OF DIRECTORS

On May 13, 2016, the Company proposed that each of Mr. Mei Song, Mr. Zhao Jun, Mr. Wang Xiaodong and Ms. Zhao Yifang will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on June 14, 2016 (the “**General Meeting**”) pursuant to article 16.3 of our articles of association. Further, each of Ms. Liao Mingxiang and Mr. Ma Ji will retire from office as Directors at the General Meeting pursuant to article 16.18 of our articles of association. All the aforementioned Directors, being eligible, will offer themselves for re-election.

INTERESTS IN COMPETING BUSINESS

Mr. Qian Zhonghua, a non-executive Director, is a managing director of Fosun Equity Investment Management Ltd. and has been a director of Starwish Global Limited since November 3, 2015. Fosun Equity Investment Management Ltd. and Starwish Global Limited (a substantial shareholder of the Company) are members of Fosun International Limited (a company listed on the main board of the Stock Exchange (stock code: 656)) and its subsidiaries (together the “**Fosun Group**”). Fosun Group is an investment group taking roots in China with a global foothold. It has established two principal businesses comprising integrated finance (wealth) (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 three months ended March 31, 2016.

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

Save as disclosed herein, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the three months ended March 31, 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the three months ended March 31, 2016, neither the Company, nor any of its subsidiaries 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, our independent non-executive Director, and other members included Mr. Qian Zhonghua (appointed with effect from June 11, 2015), our non-executive Director, Mr. Wang Xiaodong (appointed with effect from June 11, 2015), Mr. Zhang Xiangdong and Ms. Zhao Yifang (appointed with effect from June 11, 2015), our 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, 2016 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited financial statements of the Group for the three months ended March 31, 2016 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

INTERESTS OF THE COMPLIANCE ADVISOR

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

CORPORATE GOVERNANCE

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

In the opinion of the Board, the Company has complied with the Code for the three months ended March 31, 2016, except for the deviation of code provision A.2.1 of the Code.

Under the code provision A.2.1, 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 of the Company 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 senior management and the Board of the Company, which comprises experienced and high-calibre individuals. The Board of the Company currently comprises four executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. After specific enquiries were made with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the three months ended March 31, 2016.

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

Beijing, PRC, May 13, 2016

As at the date of this announcement, the executive Directors are Mr. WANG Feng, Ms. LIAO Mingxiang, Mr. MEI Song and Mr. ZHAO Jun; the non-executive Director is Mr. QIAN Zhonghua; 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.