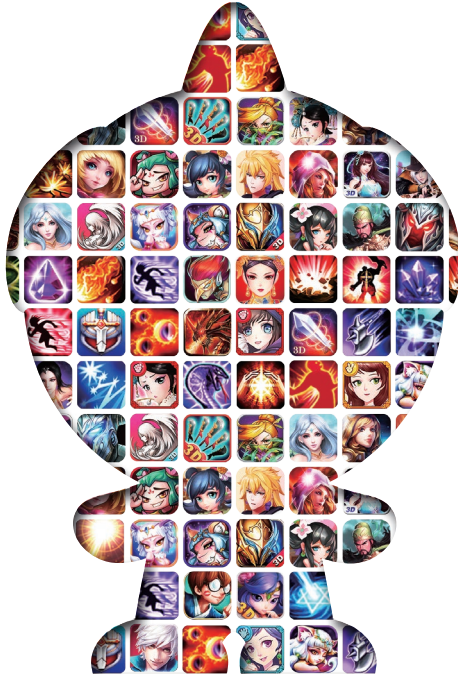


LINEKONG

藍港互動



LINEKONG

2015 INTERIM REPORT

藍港互動集團有限公司

Linekong Interactive Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8267

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

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



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

- Mr. Wang Feng
(*Chairman and chief executive officer*)
- Ms. Liao Mingxiang (*President*)
- Mr. Mei Song
(appointed with effect from June 11, 2015)
- Mr. Zhao Jun
(appointed with effect from June 11, 2015)
- Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

Non-executive Director

- Mr. Qian Zhonghua

Independent Non-executive Directors

- Mr. Ma Ji
- Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
- Mr. Zhang Xiangdong
- Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
- Mr. Chen Tong
(retired with effect from June 11, 2015)

BOARD COMMITTEES

Audit Committee

- Mr. Ma Ji (*Chairman*)
- Mr. Qian Zhonghua
(appointed with effect from June 11, 2015)
- Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
- Mr. Zhang Xiangdong
- Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
- Mr. Chen Tong
(retired with effect from June 11, 2015)

Nomination Committee

- Mr. Wang Feng (*Chairman*)
- Ms. Liao Mingxiang
(appointed with effect from June 11, 2015)
- Mr. Ma Ji
- Mr. Mei Song
(appointed with effect from June 11, 2015)
- Mr. Qian Zhonghua
- Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
- Mr. Zhang Xiangdong
- Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
- Mr. Chen Tong
(retired with effect from June 11, 2015)



CORPORATE INFORMATION

Remuneration Committee

Mr. Zhang Xiangdong (*Chairman*)
Mr. Wang Feng
Ms. Liao Mingxiang
Mr. Ma Ji
Mr. Wang Xiaodong
(appointed with effect from June 11, 2015)
Mr. Zhao Jun
(appointed with effect from June 11, 2015)
Ms. Zhao Yifang
(appointed with effect from June 11, 2015)
Mr. Chen Tong
(retired with effect from June 11, 2015)

COMPANY SECRETARY

Ms. Leung Wing Han Sharon
(appointed with effect from June 30, 2015)
Ms. Lam Wai Yee Sophie
(resigned with effect from June 30, 2015)
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

AUTHORISED REPRESENTATIVES

Mr. Wang Feng
(appointed with effect from June 11, 2015)
Ms. Liao Mingxiang
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

COMPLIANCE OFFICER

Ms. Liao Mingxiang
(appointed with effect from June 11, 2015)
Mr. Mao Zhihai
(resigned with effect from June 11, 2015)

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

8/F, Qiming International Mansion
Wangjing North Road
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong



CORPORATE INFORMATION

AUDITORS

PricewaterhouseCoopers
22/F, Prince's Building
Central
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAWS

Peter Yuen & Associates
(in association with Fangda Partners)
30/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

LEGAL ADVISORS AS TO PRC LAWS

Fangda Partners
21/F, China World Tower
No. 1, Jian Guo Men Wai Avenue
Chaoyang District
Beijing
China

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Offshore Incorporations (Cayman) Limited
Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKS

Pingan Bank Co., Ltd.,
Offshore Banking Department
CITIC Bank, Beijing, Wangjing Sub-branch
China Merchants Bank,
Beijing Datun Road Sub-branch
Industrial and Commercial Bank of China
Tianjin Xiyuan Sub-branch

COMPLIANCE ADVISOR

REORIENT Financial Markets Limited
11/F, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

GEM STOCK CODE

8267

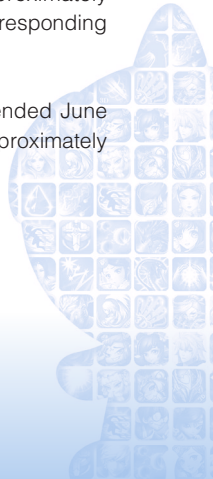
COMPANY WEBSITE

www.linekong.com

HIGHLIGHTS

| | For the six months ended June 30, | |
|--|---|-------------------------------------|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Income | 300,950 | 362,818 |
| Profit/(Loss) for the period attributable to owners of the Company | 9,828 | (78,879) |
| Adjusted net profit (unaudited) | 51,704 | 92,385 |

- Adjusted net profit refers to the profit which excludes share-based compensation expenses and fair value loss of redeemable and convertible preferred shares (the “**Preferred Shares**”). Such Preferred Shares were converted to ordinary shares on December 30, 2014 in accordance with the then applicable articles of association of the Company and were transferred to equity. This item is deemed as a useful compensation as stated in the consolidated statement of comprehensive profit and loss, which reflects the profitability and operating performance of the Company and its subsidiaries (collectively, the “**Group**”) for the financial period indicated.
 - Our revenue for the six months ended June 30, 2015 amounted to approximately RMB301.0 million, representing a decrease of approximately 17.0% as compared to approximately RMB362.8 million for the corresponding period in 2014.
 - Our profit attributable to owners of the Company for six months ended June 30, 2015 amounted to RMB9.8 million, as compared to a loss of approximately RMB78.9 million for the corresponding period in 2014.



HIGHLIGHTS

- Our adjusted net profit for the six months ended June 30, 2015 amounted to approximately RMB51.7 million, representing a decrease of approximately 44.0% as compared to approximately RMB92.4 million for the corresponding period in 2014.
- The board of Directors (the "**Board**") did not recommend any payment of dividends for the six months ended June 30, 2015.

INTERIM RESULTS (UNAUDITED)

The Board announces the unaudited interim consolidated results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended June 30, 2015 together with the comparative figures for the six months ended June 30, 2014. The results were reviewed by the audit committee of the Company, which consists of all independent non-executive Directors and non-executive Director.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

Overview

We have been a leading mobile game developer and publisher in China. The shares of the Company were listed on GEM of the Stock Exchange on December 30, 2014 (the “**Listing**”). As at June 30, 2015, we have commercialized 19 games in total, including 11 self-developed games and 8 licensed games. Among the 6 successfully commercialized mobile games, *Excalibur* (王者戰魂) (formerly known as *Excalibur* (王者之劍), was our first self-developed 2-dimensional action game which was based on the legend of King Arthur and his Knights of the Round Table during the Middle Ages in Europe, was commercialized in March 2013. *Excalibur* broke a peak monthly gross billings of RMB33,000,000 and has been released in over 20 countries and regions as at June 30, 2015. *Sword of Heaven* (蒼穹之劍), a self-developed 3-dimensional role playing game based on the background of Chinese traditional legends of fairies, was commercialized in December 2013. *Sword of Heaven* broke a peak monthly gross billings of RMB31,000,000, and was awarded “the most popular mobile game” at the 2nd Global Mobile Game Congress in 2014. In addition, *Blade of God* (神之刃) (together with the above two mobile games referred to as “Three Swords of Linekong”), a licensed 3-dimensional card game based on the fictional island named Ola, was commercialized in March 2014 broke a peak monthly gross billings of RMB41,000,000. As at June 30, 2015, the Three Swords of Linekong have been successfully commercialized for over 12 to 24 months. It is also worth noting that the three midcore and hardcore mobile games are still contributing stable and remarkable monthly gross billings, which highlighted the advantage of long-life-cycle products. The successful commercialization of the Three Swords of Linekong has enabled the Group to grow with coverage in the mobile games sector and given it more determination and confidence to continue the long-life-cycle product strategy of a variety of high-quality midcore and hardcore mobile games.



MANAGEMENT DISCUSSION AND ANALYSIS

On March 18, 2015, *One Hundred Thousand Bad Jokes* (十萬個冷笑話), a massive 3-dimensional role-playing and turn-based card game, was successfully commercialized and was launched on all platforms on the first day and achieved remarkable results with a daily active user ("DAU") of over 1 million. During the last four years, *One Hundred Thousand Bad Jokes* (十萬個冷笑話) developed from comics to animation, to stage performances, to major films and to mobile games. It has grown to one of the most influential and renowned Chinese original comic intellectual property ("IP"). Within the first 24 hours after its launch on March 18, 2015, it entered the top-15 of the best-selling list of Apple Store. Within three days after its launch, it ranked eighth in the free access list for iPhone in the Apple Store, ninth in the best-selling list of Apple Store, second in free access list for iPad in the Apple Store and fourteenth in the best-selling list of Apple Store. From the success of Three Swords of Linekong to the burst of *One Hundred Thousand Bad Jokes* (十萬個冷笑話), it proves the Group's abilities not only in the outstanding choice of IP, but also the transformation of the products from fairy-themed games to animation-themed games.

During the first half of 2015, revenue from mobile games accounted for approximately 92.7% of our total revenue comparing to approximately 86.6% for the first half of 2014. In addition to working with about 147 third-party game distribution channels in China, the Group has endeavored to strengthen our own game distribution platform, 8864.com and diligently promoted game operation system in order to attract more players. As at June 30, 2015, the 8864.com platform had approximately 88.9 million registered users, compared to approximately 80.3 million registered users as of June 30, 2014.

During the period, the Group has continued to develop new elaborate mobile games as well as to publish high-quality licensed games from third-party game developers. That resulted in the expansion of our player base and multiplied our revenue sources. Furthermore, the Group focused on entertaining content, synergistic business platforms and market internationalization for the development of the Group.



MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, the trend of “Pan-Entertainment” has become more evident and the Group will gradually infiltrate entertainment contents. During the six months ended June 30, 2015, the Group invested RMB23 million in Beijing Chunqiu Yongle Culture and Communication Co., Ltd. (“**Yongle**”) and US\$5 million to SMI Holdings Group Limited (“**SMI**”). The Group will conduct authorized bilateral cooperation with Yongle and SMI in term of major IP licensing projects in games, movies, TV dramas and stage performances and will carry out marketing and brand-building activities by utilizing marketing resources of both parties. Certain SMI shares were disposed during the six months ended June 30, 2015 and up to the date of this report, details of which are set out in the paragraph headed “Subscription and Disposals of Shares in SMI” in this report. In addition, the Group and Strawbear Technology Co., Ltd. (“**Strawbear Technology**”), a company controlled by Mr. Nicky Wu (“**Mr. Wu**”), a Taiwanese singer and actor, established a joint venture company called Beijing Feng & Long Culture Limited (“**Feng & Long**”). Both parties will develop and promote the mobile game adapted from *The Wars of Shushan* (蜀山戰紀), a TV drama series produced by a film company under Mr. Wu.

During the six months ended June 30, 2015, the Group completed the investment of over RMB5,700,000 in TaoShouYou, a third-party mobile game trading platform. The investment was the first step of the Group in synergistic business platforms. Taoshouyou primarily focuses on the trading of game accounts. The cooperation of both parties will enhance the synergy between mobile games development and online trading platform. *Sword of Heroes* (英雄之劍), an existing mobile game, was successfully transformed to console version and officially launched in four major console gaming platforms, namely Letv (樂視), Xiaomi (小米), Alibaba (阿里) and eGame platform of China Telecom (電信愛遊戲). By this move, the Group has become one of the first mainstream gaming developers in China launching console games.

In order to coordinate with the market internationalization development strategy, during the period, the Group successfully published the *Blade of God* (神之刃) and *Sword of Heroes* (英雄之劍) in South Korea. The Group also established a subsidiary in the United States in June 2015 and formed a US local research & development (“**R&D**”) and publishing team to collaborate with the team in China for the further expansion of the R&D and publishing international products of the Group in the US and worldwide. Such moves were to speed up the market internationalization as well as to focus on seizing specialised product categories while exploring new sectors in the market segments. These also represented the direction of our diversified products which maximizes our flexibility and sharpens our sense towards product categories to manage risks in the market segments.

MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, the Group entered into the Series A financing of US\$17,000,000 in Fuze Entertainment Co., Ltd. (“**Fuze Entertainment**”) on June 8, 2015 and held 37.78% of its equity interest. Unsecured loans in two tranches with an aggregate amount of US\$9,000,000 has been granted by the Group to Fuze Entertainment. Fuze Entertainment and its subsidiaries are gaming hardware developers. Such cooperation will further diversify the Group’s gaming publishing channels, and enhance the Company’s reputation in the gaming industry through the offering of new e-Commerce and internet entertainment platform for the Group’s game products. The Group will make further disclosure, where appropriate, in relation to the details of the cooperation.

Prospect

The online game industry remains highly competitive and the future growth of the Group is largely dependant on our ability to continuously develop, license, publish and upgrade games in a timely and effective manner. In the past few years, a significant portion of our revenue derived from a small number of games. Our ability to anticipate and effectively respond to the changing interests of players on mobile games would therefore be one of the important elements for our future growth. We have published increasing number of games in recent years, allowing us to grow from a single game company to one with diversified games.

In the second half of 2015, the Group will further profound its ascendancy in R&D and expand its global R&D cooperation network. Further, the Group will, through the cooperation with third parties and overseas licensing, supplemented with publishing, expand its coverage and step forward into the global market. The Group will establish our ascendancy in games and upgrade the coverage from a game brand to an entertainment brand.

The Group will persist in long-life-cycle games and the simultaneous operation model of various games. That can assure the Group’s competitiveness in both R&D and operation, and to maintain a multiple product portfolio. The Group will further optimize the quality of self-developed products with its excellent R&D core capability as the base, the growing R&D team as the support and its proprietary IP operation model as the carrier. The Group is dedicated to ensuring and elevating the quality of its self-developed products even with a longer R&D cycle. After the release of *One Hundred Thousand Bad Jokes* (十萬個冷笑話), the Group plans to launch various popular IP supported games, in particular, *The Legend of Zhen Huan* (後宮•甄嬛傳), *The White Haired Witch* (白髮魔女傳), *The Legend of MiYue* (半月傳) and *The Wars of Shushan* (蜀山戰紀), in the second half of 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, the Group has made courageous attempts into the development of innovative game types with further exploration, innovation and development. The Group will continue to enhance the investment in R&D, and precisely select appropriate licensed games to attract and satisfy players with high-quality and diversified games. The Group will retain players by conducting comprehensive market surveys as well as responding promptly and accurately to the changes in the industry. In addition to the upcoming IP supported games, the Group will further publish innovative games to target high average revenue per paying player (“ARPPU”) products such as the card game *Warrior Crash* (亂彈三國志) themed by pinball, *Rumble Jungle* (星球崛起) themed by interstellar adventure, and the fantasy game *Eternal Wars* (永恒戰記). Such full-covered game types will become another highlight of entertaining content under the pilot strategy – “Pan-Entertainment” of the Group.

In the second half of 2015, the Group will cooperate with various entertainment resources in succession. Following the establishment of the joint venture with Strawbear Technology, a company controlled by Mr. Wu for the co-development of *The Wars of Shushan* (蜀山戰紀), the Group will approach other top entertainment companies and stars for the access of their top quality IP to develop games that the Group specialises in.

The Group plans to establish a PRC subsidiary called Linekong Media (藍港影業) to interact with the Company’s gaming business to complete the integration of content and brand, achieve bilateral synergy on the cross-platform of IP between film and game, and accomplish business filtration into “Pan-Entertainment” by thorough cooperation with the entertainment industry.

Together with the preliminary success of the transplantation of *Sword of Heroes* (英雄之劍) into TV version in June 25, 2015, our products have attracted more attention from manufacturers of consoles, through which the platformization strategy will be more penetrated. The Group expects to publish *Sword of Heaven* (蒼穹之劍) on Sony PS4 platform in the second half of 2015, which will also become the first batch of products in the PRC to be transplanted from mobile game into Sony PS4 console game.

In the second half of 2015, the Group will put more emphasis on expansion of and investment in overseas market. Subsequent to the establishment of subsidiaries in Hong Kong and Korea, the Group has established a subsidiary in the United States. Overseas subsidiaries will continue to publish high-quality games, whilst engaging in the overseas development of international gaming products. The DNA of the Group remains to be R&D which is our core competitiveness. Further, our global strategy will emphasize on the internationalized R&D strategy, developing more products for global market coverage.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of our revenue by (i) game forms, (ii) self-developed games and licensed games, and (iii) development and operation of online games for the period presented:

For the six months ended June 30,

| | 2015 | | 2014 | |
|--------------------|----------------|---------------|----------------|---------------|
| | RMB'000 | approximate % | RMB'000 | approximate % |
| Mobile games | 278,892 | 92.7 | 313,898 | 86.6 |
| Web-based games | 7,875 | 2.6 | 19,724 | 5.4 |
| Client-based games | 14,183 | 4.7 | 29,196 | 8.0 |
| Total | 300,950 | 100.0 | 362,818 | 100.0 |

For the six months ended June 30,

| | 2015 | | 2014 | |
|----------------------|----------------|---------------|----------------|---------------|
| | RMB'000 | approximate % | RMB'000 | approximate % |
| Self-developed games | 126,825 | 42.1 | 263,117 | 72.5 |
| Licensed games | 174,125 | 57.9 | 99,701 | 27.5 |
| Total | 300,950 | 100.0 | 362,818 | 100.0 |



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended June 30,

| | 2015 | | 2014 | |
|---------------------------------------|---------|---------------|---------|---------------|
| | RMB'000 | approximate % | RMB'000 | approximate % |
| Sales of in-game virtual items | 285,540 | 94.9 | 335,953 | 92.6 |
| License fee and technical support fee | 15,410 | 5.1 | 26,865 | 7.4 |
| Total | 300,950 | 100.0 | 362,818 | 100.0 |

Our payment collection channels

We have also continued to expand our business relationships with an increasing number of payment collection channels as our business continued to expand during the first half of 2015. Third-party distribution channels continued to be our largest type of payment collection channels in terms of revenue contribution, representing a growth from approximately 80.9% to 90.1% of the sales of in-game virtual items compared with the first half of 2014. We saw a decrease in the percentage of revenue from sales of in-game virtual items with respect to revenue through third-party payment vendors and prepayment cards, accounting for approximately 8.8% and approximately 1.1% of revenue generated from sales in-game virtual items compared with that of approximately 16.4% and approximately 2.7%, respectively, in the first half of 2014, which was in line with payment preference change of game players. The following table sets forth a breakdown of revenue through our payment collection channels in absolute amounts and as percentages of our sales of in-game virtual items for the period presented, together with the change (expressed in percentages) from the first half of 2014 to the first half of 2015:



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended June 30,

| | 2015 | | 2014 | | Change (approximate %) |
|-----------------------------------|---------|---------------|---------|---------------|---------------------------|
| | RMB'000 | approximate % | RMB'000 | approximate % | |
| Third-party distribution channels | 257,118 | 90.1 | 271,667 | 80.9 | (5.4) |
| Third-party payment vendors | 25,161 | 8.8 | 54,968 | 16.4 | (54.2) |
| Prepayment cards | 3,261 | 1.1 | 9,318 | 2.7 | (65.0) |
| Sales of in-game virtual items | 285,540 | 100 | 335,953 | 100 | (15.0) |

International markets

We have traditionally licensed 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 June 30, 2015, our games were published in 44 countries and regions outside mainland China. In 2014, the Group set up two subsidiaries in Hong Kong and Korea, and published the Korean version of *Sword of Heaven* (蒼穹之劍) in Korea; and also published the Korean version of *Blade of God* (神之刃) and *Sword of Heroes* (英雄之劍) in Korea in the first half of 2015. Revenue generated from overseas markets reached approximately RMB29.7 million in the first half of 2015, remaining at almost the same level compared to approximately RMB29.8 million in the first half of 2014.

Our players

Driven by the continuous success of our games, the total registered players of our games increased from approximately 156.7 million as at June 30, 2014 to over 191.8 million as at June 30, 2015. Since 2015, the active players of our mobile games well exceed those of our client-based games and web-based games.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the operating information relating to our mobile games, web-based games and client-based games for the first half of 2015 and 2014, respectively.

| | For the six months ended June 30, | | |
|--|-----------------------------------|---------|----------------------------|
| | 2015 | 2014 | Changes (approximate %) |
| Average Monthly Active Players (in thousands) | | | |
| Mobile games | 3,736.7 | 4,788.3 | (22.0) |
| Web-based games | 41.3 | 145.0 | (71.5) |
| Client-based games | 289.3 | 409.6 | (29.4) |
| Total | 4,067.3 | 5,342.9 | (23.9) |

| | For the six months ended June 30, | | |
|--|-----------------------------------|-------|----------------------------|
| | 2015 | 2014 | Changes (approximate %) |
| Average Daily Active Players (in thousands) | | | |
| Mobile games | 614.9 | 675.4 | (9.0) |
| Web-based games | 16.0 | 43.7 | (63.4) |
| Client-based games | 95.6 | 121.7 | (21.4) |
| Total | 726.5 | 840.8 | (13.6) |



MANAGEMENT DISCUSSION AND ANALYSIS

| | For the six months ended June 30, | | |
|---------------------------------------|-----------------------------------|---------|-------------------------|
| | 2015 | 2014 | Changes (approximate %) |
| Average Monthly Paying Players | | | |
| Mobile games | 285,343 | 240,501 | 18.6 |
| Web-based games | 1,310 | 4,567 | (71.3) |
| Client-based games | 4,554 | 10,968 | (58.5) |
| Total | 291,207 | 256,036 | 13.7 |

| | For the six months ended June 30, | | |
|--|-----------------------------------|-------|-------------------------|
| | 2015 | 2014 | Changes (approximate %) |
| Monthly average revenue per paying player (RMB) | | | |
| Mobile games | 162.9 | 217.5 | (25.1) |
| Web-based games | 1,001.9 | 719.8 | 39.2 |
| Client-based games | 519.1 | 443.7 | 17.0 |
| All games | 172.2 | 236.2 | (27.1) |



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The following table sets forth our consolidated statement of comprehensive income/(loss) for the six months ended June 30, 2015 and 2014, together with changes (in approximate percentage) in the first half of 2015 and 2014.

| | For the six months ended June 30, | | |
|-----------------------------|--------------------------------------|---------|----------------------------|
| | 2015 | 2014 | Changes (approximate %) |
| Revenue (in RMB'000) | | | |
| Mobile games | 278,892 | 313,898 | (11.2) |
| Web-based games | 7,875 | 19,724 | (60.1) |
| Client-based games | 14,183 | 29,196 | (51.4) |
| Total | 300,950 | 362,818 | (17.0) |

Revenue

Revenue of the Group decreased by approximately 17.0% from approximately RMB362.8 million for the six months ended June 30, 2014 to approximately RMB301.0 million for the six months ended June 30, 2015. The decrease in revenue was mainly due to the change in strategies by the Group in the first half of 2015 to exert more time and resources for research and development of mobile games to improve their qualities. Such change in strategies has caused adjustments to the release time of certain self-developed or licensed mobile games of the Group, and in turn affected the revenue generated.



MANAGEMENT DISCUSSION AND ANALYSIS

Revenue by games

The following table sets forth a breakdown of revenue by games for the six months ended June 30, 2015 and 2014, respectively:

| | For the six months ended June 30, | | | |
|---------------------------------------|-----------------------------------|---------------|----------------|---------------|
| | 2015 | | 2014 | |
| | RMB'000 | approximate % | RMB'000 | approximate % |
| <i>One Hundred Thousand Bad Jokes</i> | 112,046 | 37.2 | – | – |
| <i>Sword of Heaven</i> | 49,756 | 16.5 | 150,911 | 41.6 |
| <i>Blade of God</i> | 47,917 | 15.9 | 77,042 | 21.2 |
| <i>Sword of Heroes</i> | 41,367 | 13.8 | – | – |
| <i>Excalibur</i> | 25,217 | 8.4 | 85,557 | 23.6 |
| <i>Three Kingdoms</i> | 6,033 | 2.0 | 17,176 | 4.7 |
| <i>Daybreak</i> | 4,773 | 1.6 | 12,079 | 3.3 |
| Others | 13,841 | 4.6 | 20,053 | 5.6 |
| Total | 300,950 | 100.0 | 362,818 | 100.0 |

Cost

The Group's cost for the six months ended June 30, 2015 was approximately RMB180.1 million, representing an increase of approximately 2.2% from approximately RMB176.3 million for the corresponding period in 2014. After adjustment, the Group's cost for the six months ended June 30, 2015, excluding share-based compensation expenses of approximately RMB3.9 million, was approximately RMB176.2 million, representing an increase of approximately 1.4% from approximately RMB173.8 million (after adjustment) for the corresponding period in 2014, mainly due to the increase in costs paid for game developers.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The Group's gross profit for the six months ended June 30, 2015 was approximately RMB120.8 million, representing a decrease of approximately 35.2% from approximately RMB186.5 million for the six months ended June 30, 2014. The Group's gross profit for the six months ended June 30, 2015, excluding share-based compensation expenses, was approximately RMB124.7 million, representing a decrease of approximately 34.0% from approximately RMB189.0 million for the six months ended June 30, 2014. The decrease in the Group's gross profit was primarily due to the increase in costs paid for gaming developers.

The Group's gross profit margin for the six months ended June 30, 2015 was approximately 40.1%, representing a decrease of approximately 11.3 percentage points compared to approximately 51.4% for the six months ended June 30, 2014. The Group's gross profit margin for the six months ended June 30, 2015, excluding share-based compensation expenses, was approximately 41.4%, representing a decrease of approximately 10.7 percentage points compared to approximately 52.1% for the six months ended June 30, 2014. The decrease in the Group's gross profit margin for the period was primarily due to the increase in costs paid for gaming developers.

Selling and marketing expenses

The Group's selling and marketing expenses for the six months ended June 30, 2015 were approximately RMB117.1 million, representing an increase of approximately 129.6% from approximately RMB51.0 million for the six months ended June 30, 2014. The Group's selling and marketing expenses for the six months ended June 30, 2015, excluding share-based compensation expenses, were approximately RMB113.9 million, representing an increase of approximately 133.4% from approximately RMB48.8 million for the six months ended June 30, 2014. The increase was primarily due to the significant increase in pre-launch promotion and marketing expenses in *One Hundred Thousand Bad Jokes* (十萬個冷笑話), a licensed game which was launched on March 18, 2015.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The Group's administrative expenses for the six months ended June 30, 2015 were approximately RMB37.1 million, representing a decrease of approximately 22.9% from approximately RMB48.1 million for the six months ended June 30, 2014. Excluding share-based compensation expenses, the Group's administrative expenses for the six months ended June 30, 2015 were approximately RMB20.9 million, representing an increase of approximately 36.6% from approximately RMB15.3 million for the six months ended June 30, 2014. The increase in the Group's administrative expenses was primarily due to the increase in number of administration staff, remuneration and related professional fees after the Listing.

Research and development expenses

The Group's research and development expenses for the six months ended June 30, 2015 were approximately RMB54.8 million, representing an increase of approximately 16.1% from approximately RMB47.2 million for the six months ended June 30, 2014. The Group's research and development expenses for the six months ended June 30, 2015, excluding share-based compensation expenses, were approximately RMB36.1 million, representing an increase of approximately 19.5% from approximately RMB30.2 million for the six months ended June 30, 2014. The increase in the Group's research and development expenses was primarily due to an increase in number of research and development staff and related salaries and welfare expenses arising from improvement in overall research and development capability following the Group's strategic decision during the period.

Other gains – net

The Group's other income gains for the six months ended June 30, 2015 was approximately RMB89.6 million, compared to approximately RMB1.2 million for the corresponding period in 2014. The increase in the Group's other income gains was primarily due to realised and unrealised gains arising from changes of fair value of shares of SMI held by the Group and the grant of specialized funds for technological development and innovation by the PRC local government.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance income – net

Our finance income for the first half of 2015 represented an increase compared to the corresponding period last year. Our finance income increased from approximately RMB1.4 million in the first half of 2014 to approximately RMB2.0 million in 2015. No interest was capitalized during the six months ended June 30, 2015 (2014: Nil).

Fair value loss of Preferred Shares

Fair value loss of the Preferred Shares significantly decreased to nil for the six months ended June 30, 2015 from approximately RMB116.8 million for the six months ended June 30, 2014. The decrease was mainly due to the automatic conversion of all Preferred Shares into ordinary Shares upon the Listing on December 30, 2014 and there was no further fair value changes recorded for Preferred Shares for six months ended June 30, 2015. It is expected that such cost would not recur in the forthcoming financial year.

Share of loss of joint venture

The Group's share of loss of joint venture for the six months ended June 30, 2015 was approximately RMB0.7 million, which was due to a loss occurred by Fuze Entertainment in its product development stage.

Income tax (credit)/expense

The Group's income tax credit for the six months ended June 30, 2015 was approximately RMB7.1 million representing a decrease of approximately 244.9% as compared to the Group's income tax expense of approximately RMB4.9 million for the six months ended June 30, 2014. The decrease in the Group's income tax expenses was primarily due to the decrease in current income tax expense resulting from the decrease in profit before income tax and increase in deferred tax assets recorded by certain of the Group's subsidiaries for tax losses carried forward from previous years and temporary difference from deferred revenue.

Earnings for the period

As a result of the foregoing, the profit attributable to owners of the Company was approximately RMB9.8 million for the first half of 2015, as compared to a loss of approximately RMB78.9 million for the first half of 2014, representing an increase of approximately 112.5%.

To supplement our unaudited consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("IFRS"), we also use adjusted net profit as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. Our adjusted net profit was derived from our profit for the period excluding share-based compensation expenses, fair value loss of Preferred Shares and Listing-related expenses. The adjusted net profit is an unaudited figure.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets out the reconciliation between the adjusted net profit and the unaudited profits for the six months ended June 30, 2015 and June 30, 2014 calculated in accordance with the IFRS:

| | For the six months ended June 30, | | |
|-------------------------------------|--------------------------------------|-----------------|--------------------------|
| | 2015 RMB'000 | 2014 RMB'000 | Changes approximate % |
| Profit/(Loss) for the period | 9,826 | (78,879) | (112.5) |
| Add: | | | |
| Share-based compensation expenses | 41,878 | 43,554 | (3.8) |
| Listing-related expenses | – | 10,893 | (100.0) |
| Fair value loss of Preferred Shares | – | 116,817 | (100.0) |
| Adjusted net profit (unaudited) | 51,704 | 92,385 | (44.0) |

The Group's adjusted net profit for the six months ended June 30, 2015 was approximately RMB51.7 million, representing a decrease of 44.0% as compared to approximately RMB92.4 million for the six months ended June 30, 2014. The decrease in our adjusted earnings was in line with the decrease in our income during the period, and was also affected by the effect of increase in sales and marketing expenditure during the six months ended June 30, 2015. We have presented adjusted net profit for the six months ended June 30, 2015 in this report as we believe that the adjusted net profit for the period is a meaningful supplement to the income statement data because it enables us to measure our profitability without taking into account of the Listing-related expenses, share-based compensation expenses and fair value loss of Preferred Shares, which were converted to ordinary shares of the Company on December 30, 2014. Accordingly, the Company envisages that it will not incur any further fair value change of the liability component of Preferred Shares or Listing-related expenses. However, adjusted net profit for the period should not be considered in isolation or construed as an alternative to net profit 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 for the period presented in this report may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended June 30, 2015, we financed our operations primarily through cash generated from our operating activities. We have also strengthened our cash position by the net proceeds we received from the Listing which was completed in December 2014. We intend to finance our expansion and business operation with internal resources and through organic and sustainable growth.

Treasury policy

During the six months ended June 30, 2015, the Group's idle capital was invested in short-term wealth management products which are principal protected and are issued by commercial banks in the PRC. For the purpose of generating better return for the Group's idle cash, the Group's treasury policy is to invest in these short-term wealth management products, and not to engage in any investments with high risks or speculative derivative instruments.

Cash and cash equivalents

As of June 30, 2015, we had cash and cash equivalents of approximately RMB816.2 million (December 31, 2014: approximately RMB1,086.5 million), which primarily consisted of cash at bank and in hand and which were mainly denominated in Renminbi (as to approximately 11.5%), Hong Kong dollars (as to approximately 67.8%), U.S. dollars (as to approximately 20.3%) and other currencies (as to approximately 0.4%).



MANAGEMENT DISCUSSION AND ANALYSIS

Capital expenditures

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment, server and other equipment, motor vehicles, leasehold improvements, trademarks and licenses and computer software. For the six months ended June 30, 2015, our total capital expenditure amounted to RMB22.5 million (for the six months ended June 30, 2014: approximately RMB12.3 million), including the purchase of furniture and office equipment of approximately RMB1.9 million (for the six months ended June 30, 2014: approximately RMB0.7 million), server and other equipment of approximately RMB0.9 million (for the six months ended June 30, 2014: approximately RMB2.6 million), vehicles of approximately RMB0.7 million (for the six months ended June 30, 2014: approximately RMB1.6 million), leasehold improvements of approximately RMB2.8 million (for the six months ended June 30, 2014: nil), trademarks and licenses approximately RMB15.8 million (for the six months ended June 30, 2014: approximately RMB7.0 million) and computer software of approximately RMB0.4 million (for the six months ended June 30, 2014: approximately RMB0.4 million). We funded our capital expenditure by using our cash flow generated from our operations.

CAPITAL STRUCTURE

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

BORROWING AND GEARING RATIO

As of June 30, 2015, we did not have any short-term or long-term bank borrowings.

As at June 30, 2015, the gearing ratio of the Group, calculated as total liabilities, divided by total assets, was approximately 20.0% (December 31, 2014: approximately 20.1%).

CHARGE ON GROUP ASSETS

As at June 30, 2015, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (June 30, 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2015, the Group had 612 employees (June 30, 2014: 457), who mainly worked and are located in the PRC. The table below sets forth the number of employees in each functional area as at June 30, 2015 and June 30, 2014, respectively:

| Function | 2015 | | 2014 | |
|----------------------------|---------------------|---------------|---------------------|---------------|
| | Number of Employees | approximate % | Number of Employees | approximate % |
| Research and development | 341 | 55.7 | 253 | 55.4 |
| Game publishing | 185 | 30.2 | 153 | 33.5 |
| – Game licensing | 48 | 7.8 | 23 | 5.0 |
| – Customer service | 60 | 9.8 | 58 | 12.7 |
| – Sales and marketing | 77 | 12.6 | 72 | 15.8 |
| General and administrative | 86 | 14.1 | 51 | 11.2 |
| Total | 612 | 100.00 | 457 | 100.00 |

The total remuneration of the employees of the Group was approximately RMB95.5 million for the six months ended June 30, 2015 (2014 corresponding period: approximately RMB86.7 million).

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

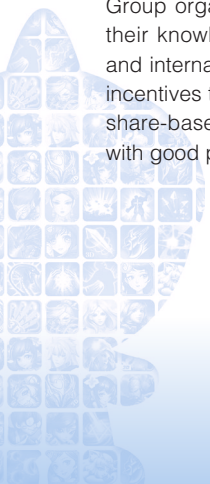
MANAGEMENT DISCUSSION AND ANALYSIS

In determining staff remuneration, the Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions in other similar companies to the Group. The staff remuneration is reviewed regularly.

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

In addition, the Group has adopted a restricted unit share scheme (the “**RSU Scheme**”) on March 21, 2014 with the objective to incentivize Directors, senior management, employees and any person who provides or has provided consultancy or other advisory services 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 six months ended June 30, 2015 were approximately RMB41.9 million, representing a decrease of approximately 3.9% from approximately RMB43.6 million for corresponding period in 2014. The decrease was primarily due to net effect of grant of 2,275,000 restricted share units (the “**RSUs**”) in January 2015 and the resignation of certain employees of Group (being participants of the RSU Scheme).

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, to improve time management and internal communication and to strengthen team building. The Group also provides various incentives to 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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

Save as disclosed herein, there were no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended June 30, 2015.

CONTINGENT LIABILITIES

As at June 30, 2015, the Group did not have any significant contingent liabilities (June 30, 2014: Nil).

FOREIGN EXCHANGE RISK

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HKD.

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

DIVIDEND

The Board did not recommend the payment of dividend for the six months ended June 30, 2015.



MANAGEMENT DISCUSSION AND ANALYSIS

Comparison between Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Company's prospectus (the "Prospectus") dated December 9, 2014 with actual business progress for the six months ended June 30, 2015.

| Business objectives for the period from 1 January 2015 to 30 June 2015 as stated in the Prospectus | Actual business progress for the period from 1 January 2015 to 30 June 2015 |
|--|--|
| <p>Development of new games, on-going optimization and update of existing games, and purchase intellectual properties for popular entertainment franchises</p> | <ul style="list-style-type: none"> <li data-bbox="308 675 624 786"> <p>• Start development of <i>The White Haired Witch</i>, <i>Excalibur II</i> and <i>The Legend of Zhen Huan II</i></p> <li data-bbox="308 1086 624 1166"> <p>• Commercialize <i>The Legend of Zhen Huan II</i>, <i>DT All Star</i> and <i>Warrior Crash</i></p> |
| | <ol style="list-style-type: none"> <li data-bbox="673 675 1016 754">1) We have started development of <i>The White Haired Witch</i>. <li data-bbox="673 794 1016 1050">2) We have not started development of <i>Excalibur II</i> (formerly known as <i>Excalibur II</i>) and <i>The Legend of Zhen Huan II</i>. We are optimizing <i>Excalibur</i> to be a long-life-cycle game and developing <i>The Legend of Zhen Huan</i>. <li data-bbox="673 1086 1016 1198">1) We have started closed beta testing for <i>Warrior Crash</i> and still optimizing it with more internal testings. <li data-bbox="673 1238 1016 1431">2) We have not commercialized <i>The Legend of Zhen Huan II</i> and <i>DT All Star</i>. We have decided to perform more internal testings of <i>DT All Star</i>. |



MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives for the period from 1 January 2015 to 30 June 2015 as stated in the Prospectus

Actual business progress for the period from 1 January 2015 to 30 June 2015

- | | |
|---|--|
| <ul style="list-style-type: none"> Cooperate with online television operators to launch console version of <i>Sword of Heroes</i> | <p>Console version of <i>Sword of Heroes</i> was officially launched on June 25, 2015 and made available on four major console gaming platforms, including Letv (樂視), Xiaomi (小米), Alibaba (阿里) and eGame platform of China Telecom (電信愛遊戲).</p> |
| <ul style="list-style-type: none"> Enter into additional license agreements for the rights to adapt popular entertainment franchises into online games | <p>We have entered into additional license agreements for the rights to adapt popular entertainment franchises into online games, such as <i>The Wars of Shushan</i>, <i>The Legend of MiYue</i> and <i>B.E.E.</i></p> |
| <ul style="list-style-type: none"> Recruit additional talented game R&D personnel | <p>We have recruited more talented game R&D engineers during the six months ended June 30, 2015.</p> |



MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives for the period from 1 January 2015 to 30 June 2015 as stated in the Prospectus

Actual business progress for the period from 1 January 2015 to 30 June 2015

License and publishing of high-quality games from third-party developers

- | | |
|--|--|
| <ul style="list-style-type: none"> • Commercialise <i>The Monkey King</i>, <i>I am Playboy</i>, <i>One Hundred Thousand Bad Jokes</i> and <i>Sharpshooter</i> | <ol style="list-style-type: none"> 1) We have commercialized <i>One Hundred Thousand Bad Jokes</i> and open beta testing for <i>I am Playboy</i>. 2) We have postponed commercializing <i>The Monkey King</i> and <i>Sharpshooter</i> for optimizing purposes. |
| <ul style="list-style-type: none"> • Commercialize at least another three licensed games | <p>We have commercialized one licensed game, namely <i>One Hundred Thousand Bad Jokes</i>. We have postponed commercializing another two games to second half of 2015.</p> |
| <ul style="list-style-type: none"> • Recruit additional talented game operating personnel | <p>We have recruited more talented game operating personnel during the six months ended June 30, 2015.</p> |

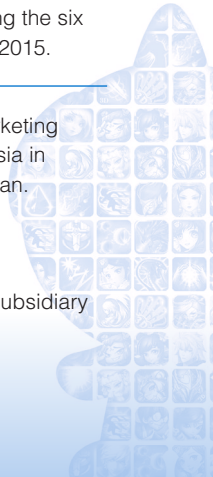


MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives for the period from 1 January 2015 to 30 June 2015 as stated in the Prospectus

Actual business progress for the period from 1 January 2015 to 30 June 2015

| | | |
|---|--|---|
| Enhance and promote our own distribution platform, 8864.com | <ul style="list-style-type: none"> • Recruit additional talented personnel • Increase spending on promotion of 8864.com • Complete development of our software tools package 2.0 | <p>We have recruited more talented personnel during the six months ended June 30, 2015.</p> <p>We have increased the spending on promotion of 8864.com.</p> <p>We have completed development of our software tools package 2.0.</p> |
| Development of our own game development tools, and potential purchase of commercialized game engines developed by third-parties | <ul style="list-style-type: none"> • Enter into license agreements to acquire more foundational development tools from third parties • Recruit additional talented software engineers | <p>We have entered into license agreement to acquire one additional foundational development tools from a third party.</p> <p>We have recruited more talented software engineers during the six months ended June 30, 2015.</p> |
| Expand our business in overseas markets | <ul style="list-style-type: none"> • Initiate the process for establishing a presence in Southeast Asia based on and subject to our market research result • Initiate market research on U.S. online game market | <p>We have completed marketing research of Southeast Asia in Hongkong, Macau, Taiwan.</p> <p>We have established a subsidiary in San Francisco.</p> |



MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds

Net proceeds from our Listing, after deducting the underwriting commission and other estimated expenses in connection with the Listing, which the Company received amounted to approximately HK\$686.2 million. As at the date of this report, the net proceeds from our Listing had not yet been utilised and all of the net proceeds has been deposited into short-term demand deposits in a bank account maintained by the Group. In 2015, the Company will start to apply the proceeds from the Listing for developing self-developed games, according to the use set out in the section headed “Statement of Business Objectives and Use of Proceeds” in the Prospectus.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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

In the opinion of the Board, the Company has complied with the Code for the six months ended June 30, 2015, 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. During the six months ended June 30, 2015, the roles of chairman and chief executive officer of the Company were performed by the executive Director, Mr. Wang Feng. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive Directors (including Mr. Wang Feng), one non-executive Director and four independent non-executive Directors and therefore has a fairly strong independence element in its composition.

DIRECTORS’ SECURITIES TRANSACTION

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 to 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 enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings during the six months ended June 30, 2015.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at June 30, 2015, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are 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 and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(a) Long positions in Shares and underlying Shares

| Name of Director/ chief executive | Capacity/ Nature of Interest | Total number of Shares | Approximate percentage of shareholding |
|--------------------------------------|------------------------------------|---------------------------|--|
| Mr. Wang Feng (<i>note 1</i>) | Interest of controlled corporation | 66,576,160 | 20.28% |
| | Beneficial owner | 8,433,308 | |
| Ms. Liao Mingxiang (<i>note 2</i>) | Interest of controlled corporation | 12,168,720 | 4.05% |
| | Beneficial owner | 2,811,769 | |
| Mr. Qian Zhonghua | Beneficial owner | 5,000 | 0.001% |
| Mr. Mei Song (<i>note 3</i>) | Interest of controlled corporation | 4,217,154 | 1.14% |
| Mr. Zhao Jun (<i>note 4</i>) | Interest of controlled corporation | 2,811,769 | 0.76% |

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 is interested in 8,433,308 restricted share unit awards (“RSUs”) granted to him under the restricted share unit scheme of the Company (the “RSU Scheme”) entitling him to receive 8,433,308 Shares, and as at June 30, 2015, approximately 54.99% of the RSUs have been vested and the remaining RSUs are subject to vesting. On July 8, 2015, Mr. Wang has purchased an aggregate of 124,000 Shares on the GEM of the Stock Exchange at an average price of approximately HK\$6.78 per share. Immediately after such purchase, Mr. Wang is interested in an aggregate of 75,133,468 Shares, representing approximately 20.32% of the then issued share capital of the Company.
- (2) Ms. Liao Mingxiang holds the entire issued share capital of Liaomingxiang 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 Liaomingxiang Holdings Limited. In addition, Ms. Liao Mingxiang is interested in 2,811,769 RSUs granted to her under the RSU Scheme entitling her to receive 2,811,769 Shares, and as at June 30, 2015, approximately 54.98% of the RSUs have been vested and the remaining RSUs are subject to vesting. On July 8, 2015, July 9, 2015, and July 10, 2015, Ms. Liao has purchased an aggregate of 74,000 Shares on the GEM of the Stock Exchange at an average price of approximately HK\$7.51 per Share. Immediately after such purchase, Ms. Liao is interested in an aggregate of 15,054,489 Shares, representing approximately 4.07% of the then issued share capital of the Company.
- (3) Mr. Mei Song is interested in 4,217,154 RSUs granted to him under the RSU Scheme entitling him to receive 4,217,154 Shares, and as at June 30, 2015, approximately 54.99% of the RSUs have been vested and the remaining RSUs are subject to vesting.
- (4) Mr. Zhao Jun is interested in 2,811,769 RSUs granted to him under the RSU Scheme entitling him to receive 2,811,769 Shares, and as at June 30, 2015, approximately 54.98% of the RSUs have been vested and the remaining RSUs are subject to vesting.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at June 30, 2015, 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.

(b) *Long positions in the shares in other members of the Group*

So far as the Directors are aware, as at June 30, 2015, 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 percentage of shareholding |
|---------------------------|----------------------------|---------------------------|---|
| 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% |



CORPORATE GOVERNANCE AND OTHER INFORMATION

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 at June 30, 2015, 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 positions in the Shares

| Name of Shareholder | Nature of interest | Number of Shares or securities held | Approximate percentage of interest in our Company |
|---|------------------------------------|-------------------------------------|---|
| Wangfeng Management Limited (note 1) | Beneficial owner | 66,576,160 | 18.00% |
| Zhu Li (note 2) | Interest of spouse | 75,009,468 | 20.28% |
| China Momentum Fund, L.P. | Interest of controlled corporation | 52,318,760 | 14.15% |
| Fosun China Momentum Fund GP, Ltd | Interest of controlled corporation | 52,318,760 | 14.15% |
| Fosun Financial Holdings Limited | Interest of controlled corporation | 52,318,760 | 14.15% |
| Fosun Holdings Limited | Interest of controlled corporation | 52,318,760 | 14.15% |
| Fosun International Holdings Limited | Interest of controlled corporation | 52,318,760 | 14.15% |
| Fosun International Limited | Interest of controlled corporation | 52,318,760 | 14.15% |

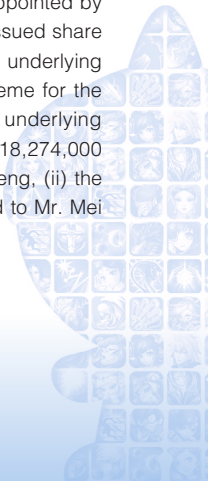
CORPORATE GOVERNANCE AND OTHER INFORMATION

| Name of Shareholder | Nature of interest | Number of Shares or securities held | Approximate percentage of interest in our Company |
|--|------------------------------------|-------------------------------------|---|
| Fosun Momentum Holdings Limited | Interest of controlled corporation | 52,318,760 | 14.15% |
| Guo Guangchang | Interest of controlled corporation | 52,318,760 | 14.15% |
| Starwish Global Limited <i>(note 3)</i> | Beneficial owner | 52,318,760 | 14.15% |
| The Core Trust Company Limited <i>(note 4)</i> | Trustee of a trust | 42,161,541 | 11.40% |
| Premier Selection Limited <i>(note 4)</i> | Nominee for another person | 42,161,541 | 11.40% |
| Ho Chi Sing | Interest of controlled corporation | 29,922,996 | 8.09% |
| IDG-Accel China Growth Fund Associates, L.P. | Interest of controlled corporation | 27,774,323 | 7.51% |
| IDG-Accel China Growth Fund GP Associates Ltd. <i>(note 5,6)</i> | Interest of controlled corporation | 27,774,323 | 7.51% |
| IDG-Accel China Growth Fund L.P. <i>(note 5,6)</i> | Beneficial owner | 23,061,443 | 6.24% |
| Zhou Quan | Interest of controlled corporation | 27,774,323 | 7.51% |
| Fubon Financial Holding Co., Ltd <i>(note 7)</i> | Interest of controlled corporation | 23,739,000 | 6.42% |
| Fubon Life Insurance Co., Ltd. <i>(note 7)</i> | Beneficial owner | 23,739,000 | 6.42% |

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 is interested in 8,433,308 RSUs granted to him under the RSU Scheme entitling him to receive 8,433,308 Shares, and as at June 30, 2015, approximately 54.99% of the RSUs have been vested and the remaining RSUs are subject to vesting.
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). Fosun International Limited is 71.42% owned by Fosun Holdings Limited which is in turn wholly-owned by Fosun International Holdings Ltd. Mr. Guo Guangchang owns approximately 58% 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 the RSU Nominee, is an independent and professional trustee appointed by the Company to act as the trustee of the RSU Scheme, directly holds the entire issued share capital of Premier Selection Limited (the RSU Nominee), which holds 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. The 42,161,541 underlying Shares in respect of the RSUs held by the RSU Nominee includes 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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 35.00% 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 100.00% by Mr. Ho Chi Sing.
6. On December 30, 2014, 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 7,766,440 Shares to the stabilising manager, Citigroup Global Markets Asia Limited, which were used to cover the over-allocation in the international offering of the 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 7,262,444 Shares at the average price of HK\$9.80.
7. Fubon Life Insurance Co., Ltd. is 100% owned by Fubon Financial Holding Co., Ltd..

Save as disclosed above, as at June 30, 2015, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which fell to be disclosed to the Company 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 pursuant to section 336 of the SFO.



CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

The Company adopted a share option scheme on November 20, 2014 (the “**Share Option Scheme**”). As at June 30, 2015, no option was granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

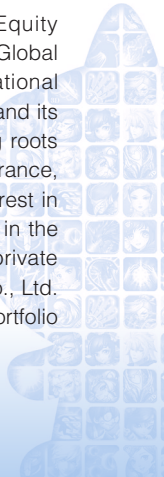
GRANT OF RSUS

On January 21, 2015, the Company granted 2,275,000 RSUs to employees and directors of the Group pursuant to the RSU Scheme, among which, each of Mr. Wang Feng, Ms. Liao Mingxiang, Mr. Mei Song and Mr. Zhao Jun, being our executive Directors, was granted 1,000 RSUs. The underlying Shares involved by the grant of RSUs will be settled by existing Shares held by the trustee of the RSU Scheme. For details, please refer to the announcement of the Company dated January 21, 2015.

COMPETING INTEREST

Mr. Wang Feng holds approximately 4.02% of the total equity interest in Beijing Locojoy Technology Co., Ltd (“**Locojoy**”), an Internet company operating in the PRC, which is primarily engaged in developing and publishing online games. Mr. Wang does not hold any directorship, nor is he entitled to any special shareholder’s rights (such as information right or management right) in Locojoy. There is no overlapping management between Locojoy and our Company.

Mr. Qian Zhonghua, a non-executive Director, is a managing director of Fosun Equity Investment Management Ltd. 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 four business engines comprising insurance, industrial operations, investment and asset management. The Fosun Group has an interest in a portfolio of online and mobile game companies with headquarters and/or operations in the PRC, including a listed company, Perfect World Co., Ltd. (NASDAQ: PWRD) and in private mobile game companies including Joyme.com, Shanghai MUYOU Internet Technology Co., Ltd. and LL Games PTE LTD. Fosun Group does not hold a controlling interest in any of the portfolio companies.



CORPORATE GOVERNANCE AND OTHER INFORMATION

In addition, Fosun Group does not hold any board seat in the two listed online and mobile game portfolio companies. On the other hand, 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 and the Fosun Group 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 during six months ended June 30, 2015.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended June 30, 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

On July 9, 2015, the Company repurchased on-market (i) 140,000 Shares at the highest and lowest prices of HK\$8.95 and HK\$8.00 per Share, respectively; and (ii) 61,000 Shares on July 10, 2015 at the highest and lowest prices of HK\$8.74 and HK\$8.727222 per Share, respectively (altogether the "**Share Repurchase**"). The aggregate purchase price paid (before brokerage and expenses) for the Share Repurchase was approximately HK\$1,676,045, which was funded by internal resources of the Company and not from any of the proceeds raised from its listing. The Shares repurchased were cancelled on July 16, 2015, which represents approximately 0.05% of the total number of issued Shares as at the date of this report.

Details of the Share Repurchase are set out in the announcement of the Company dated July 10, 2015.

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. Wang Xiaodong, Ms. Zhao Yifang and Mr. Zhang Xiangdong, our independent non-executive Directors and Mr. Qian Zhonghua, our non-executive Director. The written terms of reference of the Audit Committee are posted on the GEM website and on the Company's website.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

The Group's unaudited financial statements for the six months ended June 30, 2015 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the unaudited financial statements of the Group for the six months ended June 30, 2015 comply with applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance advisor, REORIENT Financial Markets Limited (the "**Compliance Advisor**"), save as the compliance adviser agreement entered into between the Company and the Compliance Advisor dated August 20, 2014, none of the Compliance Advisor 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 AND OTHER INFORMATION

EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

Subscription and Disposals of Shares in SMI

On March 12, 2015 (after trading hours), the Company as the subscriber entered into a subscription agreement (the "**Subscription Agreement**") with SMI as the target company, pursuant to which the Company has conditionally agreed to subscribe and SMI has conditionally agreed to issue 139,582,733 SMI's shares (the "**Subscription Shares**") for the total consideration of US\$5,000,000 (equivalent to approximately HK\$38,804,000), equivalent to approximately HK\$0.278 per Subscription Share (together the "**Subscription**").

On April 13, 2015, the Subscription had been completed and the Subscription Shares had been issued to the Company.

Up to the date of this report, the Company disposed an aggregate of 114,240,000 SMI's shares at an aggregate consideration of HK\$109,194,825 (the "**Disposals**"). The Company currently holds 25,342,733 SMI's shares, representing approximately 0.20% of the issued share capital of SMI as at the date of this report.

The Company recognised an unaudited gain from the Disposals in the amount of approximately HK\$77,436,105, which is calculated on the basis of (i) total purchase cost of US\$4,092,196 (equivalent to approximately HK\$31,758,720) for 114,240,000 SMI shares of approximately HK\$0.278 per SMI share, and (ii) the aggregated consideration of the Disposals amounted to HK\$109,194,825. The amount of the actual gain or loss as a result of the Disposals is subject to audit.

As certain applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) were more than 5% but less than 25%, each of the Subscription and the Disposals constituted a discloseable transaction of the Company and was subject to the requirements under Chapter 19 of the GEM Listing Rules.

Details of the Subscription and the Disposals are set out in the announcements of the Company dated March 12, 2015, March 26, 2015, April 13, 2015 and July 10, 2015.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Cooperation with Strawbear Technology

On April 13, 2015, Linekong Entertainment and Strawbear Technology, a company controlled by Mr. Wu, have agreed to establish a new company in Beijing, PRC. The new company, Feng & Long, has been established to conduct research and development as well as to promote a mobile game called *The Wars of Shushan* (蜀山戰紀). The registered capital of Feng & Long is RMB12,500,000, and contributed as to RMB10,000,000 by Linekong Entertainment and RMB2,500,000 by Strawbear Technology in cash. As at the date of this report, Linekong Entertainment and Strawbear Technology own 80% and 20% equity interest in Feng & Long, respectively.

Details of the cooperation with Strawbear Technology are set out in the announcement of the Company dated April 14, 2015.

Investment in Guizhou Zhiqu

On April 30, 2015, Linekong Entertainment entered into an investment agreement (the “**Investment Agreement**”) with Guizhou Zhiqu Network Technology Co., Ltd. (“**Guizhou Zhiqu**”), the existing shareholders of the Guizhou Zhiqu and the investors, pursuant to which Linekong Entertainment agreed to acquire 6% of the shareholding of Guizhou Zhiqu at the consideration of RMB5,714,300. Guizhou Zhiqu is a company established in the PRC with limited liability and is primarily engaged in the development of online trading platforms, including Taoshouyou (<http://www.taoshouyou.com/>). Taoshouyou is a third party mobile games trading platform which primarily focuses on the trading of gaming accounts.

Details of the Investment Agreement are set out in the announcement of the Company dated April 30, 2015.

Investments in Fuze Entertainment Co., Ltd.

On March 6, 2015, the Company entered into a secured convertible note purchase agreement, with among others, Fuze Entertainment, to purchase the convertible promissory notes in the principal sum of US\$5,000,000 (approximately HK\$39,000,000) with interest accrued on the outstanding principal amount (the “**Convertible Promissory Notes**”).



CORPORATE GOVERNANCE AND OTHER INFORMATION

To make further investment in Fuze Entertainment, on June 8, 2015, the Company entered into a series A preferred share purchase agreement (the “**Series A Preferred Shares Agreement**”) with, among others, Fuze Entertainment, pursuant to which the Company conditionally agreed to cancel the Convertible Promissory Notes and purchase 61,818,182 series A preferred shares (the “**Series A Preferred Shares**”) in Fuze Entertainment for the aggregate consideration of US\$17,000,000 (being approximately US\$0.275 per each Series A Preferred Share, and in aggregate, equivalent to approximately HK\$132,600,000), which is payable by (i) approximately US\$5,078,333 (equivalent to approximately HK\$39,610,997) resulting from the cancellation of indebtedness owed by Fuze Entertainment to the Company under the Convertible Promissory Notes and (ii) the cash payment of approximately US\$11,921,667 (equivalent to approximately HK\$92,989,000). As at the date of this report, Fuze Entertainment is owned by the Company as to approximately 37.78%, taking into account all the ordinary shares and Series A Preferred Shares of Fuze Entertainment issued.

On July 7, 2015 (after trading hours), a loan agreement was also entered into between the Company as the lender, and Fuze Entertainment as the borrower. The Company agreed to grant an unsecured loan in the amount of US\$9,000,000 (or its equivalent in other currencies) to the Borrower for a period of 12 months from the date of advance of the Loan amount. As agreed between the Company and Fuze Entertainment, the loan comprises US\$4,500,000 and a sum of RMB equivalent to US\$4,500,000.

The loan was fully advanced to Fuze Entertainment by several instalments in July 2015 in the currency of USD and RMB. The interest rate of the amount issued in USD and in RMB is 3% per annum and 4.85% per annum respectively.

Details of the investments in Fuze Entertainment are set out in the announcements of the Company dated March 10, 2015, June 8, 2015, July 7, 2015 and July 14, 2015.

Update on Trademark Dispute

On April 30, 2015, the Group received a notice from the Trademark Office of the State Administration For Industry and Commerce of the PRC (the “**SAIC Trademark Office**”) dated April 8, 2015, stating that the application to register the trademark “王者之劍” by another company, Shishou Ditanke Electronics Business Department (石首市低碳客電子經營部) was approved and the objection to this application filed by the Group in March 2013 was rejected. On May 12, 2015, the Group has changed the Chinese name of Excalibu from “王者之劍” to “王者戰魂” to mitigate impact of any potential infringement claim on the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Change of Company Name

On May 11, 2015, the Board proposed to change the name of the Company from “Linekong Interactive Co., Ltd. 藍港互動有限公司” to “Linekong Interactive Group Co., Ltd. 藍港互動集團有限公司” (the “**Change of Company Name**”).

The Change of Company Name was duly passed as a special resolution at the annual general meeting on June 11, 2015. The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on June 19, 2015, certifying the Change of Company Name. The Certificate of Registration of Alternation of Name of Registered Non-Hong Kong Company has issued by the Registration of Companies in Hong Kong on July 21, 2015, confirming the registration of the Company's new name in Hong Kong.

Details of the Change of Name are set out in the announcements of the Company dated May 11, 2015 and June 25, 2015 and July 30, 2015 and the supplemental circular of the Company dated May 20, 2015.

Investment in Beijing Tianqu

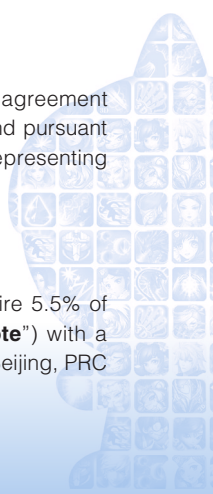
On July 1, 2015, Linekong Entertainment entered into an agreement to acquire 5% of the equity interests in Beijing Tianqu Hudong Technology Development Co., Ltd. (“**Beijing Tianqu**”) with a consideration of RMB3,500,000. Beijing Tianqu is a limited liability company registered in Beijing, PRC and is primarily engaged in game research and development.

Investment in Hehe Fund

On July 23, 2015, Linekong Entertainment entered into an assets management agreement with Hehe Black Ant Film Fund Specific Asset Management Plan (“**Hehe Fund**”) and pursuant to which, committed to invest in Hehe Fund in the amount of RMB10,000,000, representing approximately 5.00% equity interests of the Hehe Fund.

Investment in Coyote

On August 6, 2015, Linekong Entertainment entered into an agreement to acquire 5.5% of the equity interests in Coyote Games Information Technology Co., Ltd. (“**Coyote**”) with a consideration of RMB1,925,000. Coyote is a limited liability company registered in Beijing, PRC and is primarily engaged in game research and development.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT, AND UPDATE ON DIRECTOR'S INFORMATION

Mr. Mao Zhihai, an executive Director, has resigned as an executive Director, the chief financial officer, the joint company secretary, the authorised representative, the compliance officer and the secretary to the Board with effect from June 11, 2015.

Mr. Chen Tong, an independent non-executive Director, has retired as an independent non-executive Director, member of the Audit Committee, Nomination Committee and Remuneration Committee, all with effect from June 11, 2015.

Mr. Wang Feng, an executive Director, will assume the role as an authorised representative of the Company, and Ms. Liao Mingxiang, an executive Director, will assume the role of compliance officer of the Company, all with effect from June 11, 2015.

Mr. Mei Song and Mr. Zhao Jun were appointed as executive Directors, and Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as independent non-executive Directors, all with effect from June 11, 2015.

Mr. Ma Ji, an independent non-executive Director, has served as the chief financial officer at Autonavi Holdings Limited, a company previously listed on Nasdaq Stock Market (NASDAQ: AMAP) from August 2013 to October 2014 before it was delisted as a result of an acquisition in July 2014 by Alibaba Group Holding Limited ("**Alibaba**"), a company listed on the New York Stock Exchange (NYSE: BABA). Mr. Ma ceased to hold any position in Alibaba group since July 30, 2015.

With regards to the Board committees, Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as members of the Audit Committee. Mr. Zhao Jun, Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as members of the Remuneration Committee. Ms. Liao Mingxiang, Mr. Mei Song, Mr. Wang Xiaodong and Ms. Zhao Yifang were appointed as members of the Nomination Committee, all with effect from June 11, 2015.

Mr. Leung Hoi Kin has been appointed as the chief financial officer of the Company with effect from June 11, 2015.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Details of the changes in directors and senior management are set out in the announcements of the Company dated March 25, 2015, April 24, 2015 and June 11, 2015.

CHANGE OF COMPANY SECRETARY

Ms. Lam Wai Yee Sophie has resigned as the company secretary of the Company (the "**Company Secretary**") and authorised representative of the Company for acceptance of service of process and notice under the Companies Ordinance (Cap. 622) of the Laws of Hong Kong (the "**Authorised Representative**") with effect from June 30, 2015.

Ms. Leung Wing Han Sharon has been appointed as the Company Secretary and Authorised Representative of the Company with effect from June 30, 2015.

Details of the Change of Company Secretary are set out in the announcement of the Company dated June 30, 2015.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

To the Board of Directors of Linekong Interactive Group Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 52 to 116, which comprises the interim condensed consolidated balance sheet of Linekong Interactive Group Co., Ltd. (the “**Company**”, formerly known as Linekong Interactive Co., Ltd.) and its subsidiaries (together, the “**Group**”) as of June 30, 2015 and the related interim condensed consolidated statements of comprehensive income/(loss), changes in equity/(deficit) and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION (Continued)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, August 11, 2015



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | <i>Note</i> | As of June 30, 2015 RMB'000 (Unaudited) | <i>As of December 31, 2014 RMB'000 (Audited)</i> |
|--|-------------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 14,527 | 11,367 |
| Intangible assets | 7 | 39,996 | 37,127 |
| Investments in joint ventures | 8 | 103,257 | – |
| Available-for-sale financial assets | 9 | 7,964 | – |
| Financial assets at fair value through profit or loss | 10 | 24,912 | – |
| Deferred income tax assets – net | 11 | 14,725 | 5,358 |
| Prepayments and other receivables | 13 | 19,612 | 5,110 |
| | | 224,993 | 58,962 |
| Current assets | | | |
| Trade receivables | 12 | 77,119 | 62,829 |
| Prepayments and other receivables | 13 | 113,917 | 51,917 |
| Available-for-sale financial assets | 9 | 64,500 | – |
| Financial assets at fair value through profit or loss | 10 | 25,668 | – |
| Cash and cash equivalents | 14 | 816,166 | 1,086,532 |
| | | 1,097,370 | 1,201,278 |
| Total assets | | 1,322,363 | 1,260,240 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | <i>Note</i> | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|---|-------------|--|---|
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 15 | 59 | 59 |
| Share premium | 15 | 1,726,826 | 1,726,828 |
| Share capital for RSU Scheme | 15 | (4) | (6) |
| Reserves | 16 | 247,571 | 206,182 |
| Accumulated losses | | (915,918) | (925,746) |
| | | 1,058,534 | 1,007,317 |
| Non-controlling interests | | (23) | (21) |
| Total equity | | 1,058,511 | 1,007,296 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred revenue | 19 | 4,549 | 9,048 |
| | | 4,549 | 9,048 |



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | <i>Note</i> | As of June 30, 2015 RMB'000 (Unaudited) | <i>As of December 31, 2014 RMB'000 (Audited)</i> |
|--|-------------|--|--|
| Current liabilities | | | |
| Trade and other payables | 18 | 146,875 | 151,466 |
| Current income tax liabilities | | 4,964 | 3,769 |
| Deferred revenue | 19 | 107,464 | 88,661 |
| | | 259,303 | 243,896 |
| Total liabilities | | 263,852 | 252,944 |
| Total equity and liabilities | | 1,322,363 | 1,260,240 |
| Net current assets | | 838,067 | 957,382 |
| Total assets less current liabilities | | 1,063,060 | 1,016,344 |

The interim condensed consolidated financial information on pages 52 to 116 were approved for issue by the Board of Directors on August 11, 2015 and was signed on its behalf.

Wang Feng
Director

Liao Mingxiang
Director

The notes on pages 61 to 116 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

| Six months ended June 30, | | | |
|---|-------------|---|---------------------------------------|
| | <i>Note</i> | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Revenue | 5 | 300,950 | 362,818 |
| Cost of revenue | 21 | (180,145) | (176,330) |
| Gross profit | | 120,805 | 186,488 |
| Selling and marketing expenses | 21 | (117,103) | (50,983) |
| Administrative expenses | 21 | (37,099) | (48,109) |
| Research and development expenses | 21 | (54,768) | (47,173) |
| Other gains – net | 22 | 89,638 | 1,214 |
| Operating profit | | 1,473 | 41,437 |
| Finance income – net | 23 | 1,964 | 1,384 |
| Fair value loss of preferred shares | 24 | – | (116,817) |
| Share of loss of joint ventures | 8 | (674) | – |
| Profit/(loss) before income tax | | 2,763 | (73,996) |
| Income tax credit/(expense) | 25 | 7,063 | (4,883) |
| Profit/(loss) for the period | | 9,826 | (78,879) |
| Other comprehensive loss for the period that will not be reclassified subsequently to profit or loss | | | |
| – Currency translation differences | | (489) | (6,881) |
| Total comprehensive income/(loss) for the period | | 9,337 | (85,760) |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) (Continued)

| | | Six months ended June 30, | |
|---|--------------------------------|------------------------------|--|
| Note | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) | |
| Profit/(loss) attributable to: | | | |
| | 9,828 | (78,879) | |
| | (2) | – | |
| | 9,826 | (78,879) | |
| Profit/(loss) for the period | | | |
| Total comprehensive income/(loss) attributable to: | | | |
| | 9,339 | (85,760) | |
| | (2) | – | |
| | 9,337 | (85,760) | |
| Earnings/(loss) per share <i>(expressed in RMB per share)</i> | | | |
| – Basic | 26(a) 0.03 | (4.54) | |
| – Diluted | 26(b) 0.03 | (4.54) | |
| Dividends | | | |
| | 27 – | – | |

The notes on pages 61 to 116 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT)

| (Unaudited) | Note | Attributable to owners of the Company | | | | | | Non-controlling interests | Total equity |
|--|---------|---------------------------------------|---------------|----------------|----------|--------------------|-----------|---------------------------|--------------|
| | | Share capital | Share premium | Shares held | | Accumulated losses | Total | | |
| | | | | for RSU Scheme | Reserves | | | | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Balance at January 1, 2015 | | 59 | 1,726,828 | (6) | 206,182 | (925,746) | 1,007,317 | (21) | 1,007,296 |
| Comprehensive (loss)/income | | | | | | | | | |
| Income for the period | | - | - | - | - | 9,828 | 9,828 | (2) | 9,826 |
| Other comprehensive loss | | | | | | | | | |
| – Currency translation differences | | - | - | - | (489) | - | (489) | - | (489) |
| Total comprehensive (loss)/income for the period | | - | - | - | (489) | 9,828 | 9,339 | (2) | 9,337 |
| Total contributions by and distributions to owners of the Company recognised directly in equity | | | | | | | | | |
| RSU Scheme: | | | | | | | | | |
| – Value of employee services | 17 | - | - | - | 41,878 | - | 41,878 | - | 41,878 |
| – Vesting of shares | | - | (2) | 2 | - | - | - | - | - |
| Total contributions by and distributions to owners of the Company | | - | (2) | 2 | 41,878 | - | 41,878 | - | 41,878 |
| Balance at June 30, 2015 | | 59 | 1,726,826 | (4) | 247,571 | (915,918) | 1,058,534 | (23) | 1,058,511 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/(DEFICIT) (Continued)

| (Audited) | Note | Attributable to owners of the Company | | | | | | Total deficit RMB'000 |
|--|------|---------------------------------------|----------------|----------|--------------------|-----------|---------------------------|--------------------------|
| | | Shares held | | Reserves | Accumulated losses | Total | Non-controlling interests | |
| | | Share capital | for RSU Scheme | | | | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at January 1, 2014 | | 18 | – | 86,909 | (768,227) | (681,300) | (20) | (681,320) |
| Comprehensive loss | | | | | | | | |
| Loss for the period | | – | – | – | (78,879) | (78,879) | – | (78,879) |
| Other comprehensive loss | | | | | | | | |
| – Currency translation differences | | – | – | (6,881) | – | (6,881) | – | (6,881) |
| Total comprehensive loss for the period | | – | – | (6,881) | (78,879) | (85,760) | – | (85,760) |
| Total contributions by and distributions to owners of the Company recognised directly in equity | | | | | | | | |
| Issuance of shares held for | | | | | | | | |
| RSU Scheme | 17 | 6 | – | – | – | 6 | – | 6 |
| Deemed contribution from shareholders for the shares issued for RSU Scheme | 17 | – | (6) | 6 | – | – | – | – |
| RSU Scheme: | | | | | | | | |
| – Value of employee services | 17 | – | – | 43,554 | – | 43,554 | – | 43,554 |
| Total contributions by and distributions to owners of the Company | | 6 | (6) | 43,560 | – | 43,560 | – | 43,560 |
| Balance at June 30, 2014 | | 24 | (6) | 123,588 | (847,106) | (723,500) | (20) | (723,520) |

The notes on pages 61 to 116 are integral parts of the interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Six months ended June 30, | |
|---|--------------------|----------------------------------|--|
| <i>Note</i> | 2015 | 2014 | |
| | RMB'000 | RMB'000 | |
| | (Unaudited) | (Audited) | |
| Cash flows from operating activities | | | |
| | (48,033) | 72,488 | |
| | (1,109) | (10,841) | |
| | (49,142) | 61,647 | |
| Cash flows from investing activities | | | |
| | (6,610) | (4,656) | |
| | (14,817) | (2,085) | |
| | (30,767) | – | |
| 8 | (72,884) | – | |
| 9 | (72,464) | – | |
| 10 | (53,796) | – | |
| 10 | 43,762 | – | |
| | (10,000) | – | |
| | (230,000) | – | |
| | 230,000 | – | |
| | 2,000 | – | |
| | 821 | – | |
| | – | 5,000 | |
| | (214,755) | (1,741) | |
| | (214,755) | (1,741) | |

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

| | | Six months ended June 30, | |
|--|-------------|---|---------------------------------------|
| | <i>Note</i> | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of convertible preferred shares | 20 | – | 306,906 |
| Subscription received on par value of ordinary shares | | – | 15 |
| Contribution received on par value of the shares held for RSU Scheme | | – | 6 |
| Payments for issuance costs of convertible preferred shares | | – | (300) |
| Payment of issuance costs of ordinary shares relating to IPO | | (6,087) | (1,906) |
| Net cash (used in)/generated from financing activities | | (6,087) | 304,721 |
| Net (decrease)/increase in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of period | | 1,086,532 | 364,627 |
| Exchange (loss)/gain on cash and cash equivalents | | (382) | 111,777 |
| Cash and cash equivalents at end of the period | | 816,166 | 742 |
| | | 477,146 | |

The notes on pages 61 to 116 are integral parts of the interim financial information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Linekong Interactive Group Co., Ltd. (the “**Company**”, formerly known as Linekong Interactive Co., Ltd.), 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 in the People’s Republic of China (the “**PRC**”), Hong Kong and other countries and regions.

The Company’s shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since December 30, 2014 by way of its initial public offering (“**IPO**”). Upon the completion of the IPO on December 30, 2014, all of the Company’s 153,264,523 outstanding convertible preferred shares (“**Preferred Shares**”) were converted into ordinary shares on a one-to-one basis immediately as of the same date (Note (20)).

The interim condensed consolidated balance sheet of the Group as of June 30, 2015 and the related interim condensed consolidated statements of comprehensive income/(loss), changes in equity/(deficit) and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “**Interim Financial Information**”) have been approved by the Board of Directors on August 11, 2015.

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

The Interim Financial Information has been reviewed, not audited.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

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, 2014 as set out in the 2014 annual report of the Company (the “**2014 Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 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 2014 Financial Statements, which have been prepared in accordance with IFRSs. The Interim Financial Information have 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 that could be expected to 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, 2015. 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.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

3.2 Critical accounting estimates and judgments

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

When preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2014 Financial Statements.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group is subject to a variety of financial risks: foreign exchange risk, credit risk, concentration risk and others.

(a) Foreign exchange risk

Most of the transactions of the Company are denominated and settled in its functional currency, USD. The Company's foreign exchange risk primarily arose from the cash and cash equivalents denominated in HKD.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group's exposure to credit risk mainly comes from trade receivables and other receivables.

For trade receivables, a significant portion of trade receivables at the end of each reporting period was due from those game distribution channels in cooperation with the Group. If the strategic relationship with game distribution channels is terminated or scaled-back; or if the co-operative arrangements with the game distribution channels are altered; or if they experience financial difficulties in paying the Group, the Group's trade receivables might be adversely affected in terms of recoverability.

To manage this risk, the Group maintains frequent communications with the game distribution channels to ensure the effective credit control. In view of the history of cooperation with the game distribution channels and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from game distribution channels is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. The Group assesses the credit quality of and sets credit limits on its debtors by taking into account their financial position, the availability of guarantees from third parties, their credit history and other factors such as current market conditions.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors *(Continued)*

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2014 Financial Statements.

There have been no changes in the risk management policies during the six months ended June 30, 2015.

4.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value estimation (Continued)

The Group did not have any liabilities that measured at fair value as of June 30, 2015. The following table presents the Group's assets that are measured at fair value as of June 30, 2015:

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|--------------------|--------------------|--------------------|------------------|
| (Unaudited) | | | | |
| At June 30, 2015 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Listed securities | 25,668 | – | – | 25,668 |
| – Unlisted securities | – | – | 24,912 | 24,912 |
| Available-for-sale financial assets | – | – | 72,464 | 72,464 |
| | <u>25,668</u> | <u>–</u> | <u>97,376</u> | <u>123,044</u> |

The Group did not have any financial assets or liabilities that were measured at fair value as of December 31, 2014.

There were no transfers among level 1, 2 and 3 during the six months ended June 30, 2015.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is determined based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments
- discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate
- a combination of observable inputs and unobservable inputs, including discount rate, risk-free interest rate, expected volatility and market multiples.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Fair value estimation (Continued)

There were no changes in valuation techniques used during the six months ended June 30, 2015.

The changes in level 3 instruments for the six months ended June 30, 2015 and 2014 are presented in Notes 9 and 10.

5. REVENUE AND SEGMENT INFORMATION

| | Six months ended June 30, | |
|---|---------------------------------------|-------------------------------------|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Development and operations of online games: | | |
| – Sales of in-game virtual items | 285,540 | 335,953 |
| – License fee and technical support fee | 15,410 | 26,865 |
| | 300,950 | 362,818 |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

5. REVENUE AND SEGMENT INFORMATION (Continued)

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 during the six months ended June 30, 2015 and 2014 is as follows:

| | Six months ended June 30, | |
|---|---|---|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Sales of in-game virtual items, license fee and technical support fee: | | |
| – Mobile games | 278,892 | 313,898 |
| – Web-based games | 7,875 | 19,724 |
| – Client-based games | 14,183 | 29,196 |
| | 300,950 | 362,818 |

The chief operating decision makers of the Company consider that the Group's operations 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 during the six months ended June 30, 2015 and 2014.

Almost all the Group's non-current assets were located in the PRC as at June 30, 2015. Revenue from overseas customers was only generated by the entities located in the PRC before March 31, 2014 and generated by both the entities located in the PRC and the Group's oversea entities since April 2014. The revenue generated by the Group's oversea entities represents less than 10% of the total revenue of the Group for the six months ended June 30, 2015.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

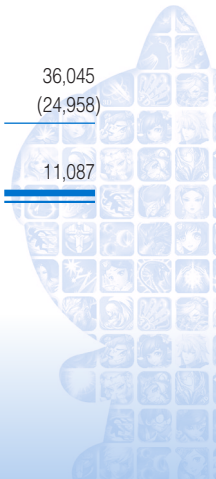
6. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and office equipment RMB'000 | Server and other equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---------------------------|---|---|------------------------------|--------------------------------------|------------------|
| (Unaudited) | | | | | |
| At January 1, 2015 | | | | | |
| Cost | 7,434 | 22,556 | 3,654 | 5,069 | 38,713 |
| Accumulated depreciation | (4,311) | (18,363) | (1,075) | (3,597) | (27,346) |
| Net book amount | <u>3,123</u> | <u>4,193</u> | <u>2,579</u> | <u>1,472</u> | <u>11,367</u> |
| Six months ended | | | | | |
| June 30, 2015 | | | | | |
| Opening net book amount | 3,123 | 4,193 | 2,579 | 1,472 | 11,367 |
| Additions | 1,945 | 916 | 670 | 2,798 | 6,329 |
| Depreciation | (768) | (1,506) | (285) | (610) | (3,169) |
| Closing net book amount | <u>4,300</u> | <u>3,603</u> | <u>2,964</u> | <u>3,660</u> | <u>14,527</u> |
| At June 30, 2015 | | | | | |
| Cost | 9,379 | 23,472 | 4,324 | 7,867 | 45,042 |
| Accumulated depreciation | (5,079) | (19,869) | (1,360) | (4,207) | (30,515) |
| Net book amount | <u>4,300</u> | <u>3,603</u> | <u>2,964</u> | <u>3,660</u> | <u>14,527</u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Furniture and office equipment RMB'000 | Server and other equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---------------------------|---|---|------------------------------|--------------------------------------|------------------|
| (Audited) | | | | | |
| At January 1, 2014 | | | | | |
| Cost | 5,126 | 21,351 | 1,220 | 3,433 | 31,130 |
| Accumulated depreciation | (3,789) | (14,751) | (607) | (2,197) | (21,344) |
| Net book amount | <u>1,337</u> | <u>6,600</u> | <u>613</u> | <u>1,236</u> | <u>9,786</u> |
| Six months ended | | | | | |
| June 30, 2014 | | | | | |
| Opening net book amount | 1,337 | 6,600 | 613 | 1,236 | 9,786 |
| Additions | 695 | 2,610 | 1,610 | - | 4,915 |
| Depreciation | (266) | (2,255) | (147) | (946) | (3,614) |
| Closing net book amount | <u>1,766</u> | <u>6,955</u> | <u>2,076</u> | <u>290</u> | <u>11,087</u> |
| At June 30, 2014 | | | | | |
| Cost | 5,821 | 23,961 | 2,830 | 3,433 | 36,045 |
| Accumulated depreciation | (4,055) | (17,006) | (754) | (3,143) | (24,958) |
| Net book amount | <u>1,766</u> | <u>6,955</u> | <u>2,076</u> | <u>290</u> | <u>11,087</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

7. INTANGIBLE ASSETS

| | Trademarks and licenses <i>RMB'000</i> | Computer software <i>RMB'000</i> | Total <i>RMB'000</i> |
|---------------------------|--|--|-------------------------|
| (Unaudited) | | | |
| At January 1, 2015 | | | |
| Cost | 42,240 | 2,737 | 44,977 |
| Accumulated amortisation | (6,167) | (1,683) | (7,850) |
| Net book amount | <u>36,073</u> | <u>1,054</u> | <u>37,127</u> |
| Six months ended | | | |
| June 30, 2015 | | | |
| Opening net book amount | 36,073 | 1,054 | 37,127 |
| Additions | 15,843 | 376 | 16,219 |
| Disposal | (7,170) | – | (7,170) |
| Amortisation | (5,887) | (293) | (6,180) |
| Closing net book amount | <u>38,859</u> | <u>1,137</u> | <u>39,996</u> |
| At June 30, 2015 | | | |
| Cost | 50,083 | 3,113 | 53,196 |
| Accumulated amortisation | (11,224) | (1,976) | (13,200) |
| Net book amount | <u>38,859</u> | <u>1,137</u> | <u>39,996</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

7. INTANGIBLE ASSETS (Continued)

| | Trademarks and licenses RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---------------------------|---------------------------------------|---------------------------------|------------------|
| (Audited) | | | |
| At January 1, 2014 | | | |
| Cost | 8,656 | 2,130 | 10,786 |
| Accumulated amortisation | (3,025) | (1,062) | (4,087) |
| Net book amount | <u>5,631</u> | <u>1,068</u> | <u>6,699</u> |
| Six months ended | | | |
| June 30, 2014 | | | |
| Opening net book amount | 5,631 | 1,068 | 6,699 |
| Additions | 7,000 | 385 | 7,385 |
| Amortisation | (985) | (220) | (1,205) |
| Closing net book amount | <u>11,646</u> | <u>1,233</u> | <u>12,879</u> |
| At June 30, 2014 | | | |
| Cost | 15,656 | 2,515 | 18,171 |
| Accumulated amortisation | (4,010) | (1,282) | (5,292) |
| Net book amount | <u>11,646</u> | <u>1,233</u> | <u>12,879</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

8. INVESTMENTS IN JOINT VENTURES

| | Six months ended June 30, | |
|------------------------|--------------------------------|------------------------------|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| As of January 1 | – | – |
| Addition of the period | 103,931 | – |
| Share of loss | (674) | – |
| As of June 30 | <u>103,257</u> | <u>–</u> |

| Name | Principal activities/ country of incorporation | % Interest held as of June 30, 2015 | % Interest held as of December 31, 2014 | Nature of the relationship | Measurement method |
|---|---|--|--|-------------------------------|-----------------------|
| Fuze Entertainment Co.,Ltd. ("Fuze") | Gaming hardware developer/PRC | 37.78% | | – Note(i) | Equity |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

8. INVESTMENTS IN JOINT VENTURES *(Continued)*

Note:

- (i) On March 6, 2015, the Company entered into a secured convertible note purchase agreement with, among others, Fuze Entertainment Co., Ltd. ("**Fuze**") to purchase convertible promissory note ("**Note**") issued by Fuze in the principal amount of USD5,000,000 with interest rate of 6% per annum and a maturity period of one year ending on March 6, 2016.

On June 8, 2015, the Company entered into a series A preferred share purchase agreement with, among others, Fuze, to subscribe 61,818,182 Series A Preferred Shares newly issued by Fuze ("**Series A Preferred Shares**") with a consideration of USD17,000,000 (equivalent to RMB103,931,000), which accounted for 37.78% equity shares of Fuze, on a fully diluted basis. The consideration of Series A Preferred Shares was settled by the company on June 9, 2015 with the carrying amount of the Note of USD5,078,333 (equivalent to RMB31,047,000) and cash of USD11,921,667 (equivalent to RMB72,884,000).

According to the shareholders agreement of Fuze effected on June 9, 2015, all matters subject to the board of directors' approval require unanimous consent of all directors of the board. Since the Company has the right to appoint two directors out of three, the directors of the Company consider that the Group has joint control of Fuze and therefore its investment in Fuze is accounted for as a joint venture of the Group accordingly.

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|--|--|---|
| Included in current assets | | |
| Unlisted debt investment (<i>Note (a)</i>) | <u>64,500</u> | — |
| Included in non-current assets | | |
| Unlisted equity investment (<i>Note (b) and (c)</i>) | <u>7,964</u> | — |
| | Six months ended June 30, | |
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Beginning of the period | — | — |
| Additions (<i>Note (a) (b) and (c)</i>) | <u>72,464</u> | — |
| End of the period | <u><u>72,464</u></u> | <u>—</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Note:

The additions of the available-for-sale financial assets mainly include:

- (a) The Group invested in certain wealth management products issued by commercial banks in the PRC. These wealth management products are principal protected, return non-guaranteed and redeemable on demand or with a term less than one month. The Group has classified its investments in such wealth management products as available-for-sale financial assets. Fair values of these investments were estimated based on the statements provided by the banks. As of June 30, 2015, the fair values of these investments approximated to their respective carrying amount.
- (b) On February 4, 2015, Linekong Entertainment Technology Co., Ltd. ("**Linekong Entertainment**") entered into an agreement to acquire 5% of the equity interests in Shanghai Newbility Games Co., Ltd ("**Newbility**") with a consideration of RMB1,750,000 and pursuant to which, Linekong Entertainment paid the consideration on February 15, 2015. Newbility is a limited liability company incorporated in Shanghai, PRC and is primarily engaged in game research and development.

Linekong Entertainment does not have control nor significant influence over the operating and financial decisions of Newbility. Therefore the Group classified its investment in Newbility as an available-for-sale financial asset.

Newbility is a private company and there is no quoted market price available for its shares. The Group has used the valuation method disclosed in Note 4.2 to determine the fair value of this investment and there was no significant change in the fair value of the investment from the date of acquisition to June 30, 2015.

- (c) On April 30, 2015, Linekong Entertainment entered into an agreement to acquire 6% of the equity interests in Guizhou Zhiqiu Network Technology Co., Ltd. ("**Guizhou Zhiqiu**") with a consideration of RMB5,714,300 and pursuant to which, paid the consideration on May 15, 2015. Guizhou Zhiqiu is a limited liability company incorporated in Guizhou, PRC and is primarily engaged in development of online games trading platforms.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Note: (Continued)

Linekong Entertainment does not have control nor significant influence over the operating and financial decisions of Guizhou Zhiqu. Therefore the Group classified its investment in Guizhou Zhiqu as an available-for-sale financial asset.

Guizhou Zhiqu is a private company and there is no quoted market price available for its shares. The Group has used the valuation method disclosed in Note 4.2 to determine the fair value of this investment and there was no significant change in the fair value of the investment from the date of acquisition to June 30, 2015.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|---------------------------------------|--|---|
| Included in current assets | | |
| Listed securities (Note (a)) | 25,668 | – |
| Included in non-current assets | | |
| Unlisted securities (Note (b)) | 24,912 | – |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The following table presents the changes of current financial assets at fair value through profit or loss for the six months ended June 30, 2015 and 2014:

| | Six months ended June 30, | |
|---|---------------------------------------|-------------------------------------|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Beginning of the period | – | – |
| Additions (<i>Note(a)</i>) | 45,336 | – |
| Fair value gains recognised in profit or loss (<i>Note22</i>) | 62,896 | – |
| Disposals (<i>Note22</i>) | (82,584) | – |
| Currency translation differences | 20 | – |
| End of the period | 25,668 | – |
| | <hr/> <hr/> | <hr/> <hr/> |
| Fair value gains for the period recognised in profit or loss under “other gains-net” | 62,896 | – |
| | <hr/> <hr/> | <hr/> <hr/> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The following table presents the changes of non-current financial assets at fair value through profit or loss for the six months ended June 30, 2015 and 2014:

| | Six months ended June 30, | |
|--|---|---|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Beginning of the period | – | – |
| Additions (Note(b)) | 23,000 | – |
| Fair value gains recognised in profit or loss (Note22) | 1,912 | – |
| End of the period | 24,912 | – |
| | <hr style="border-top: 3px double #0070C0;"/> | <hr style="border-top: 3px double #0070C0;"/> |
| Fair value gains for the period recognised in profit or loss under “other gains-net” | 1,912 | – |
| | <hr style="border-top: 3px double #0070C0;"/> | <hr style="border-top: 3px double #0070C0;"/> |

Note:

- (a) 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 shares of SMI for a total consideration of USD5,000,000, equivalent to approximately HKD0.278 per share, representing 1.35% of SMI's issued shares as enlarged by the issue and allotment of the subscribed shares. The subscription agreement is therefore accounted for as a forward contract which has been fair valued by taking reference to share price of SMI quoted in the active market. The fair value change of this forward contract of RMB14,540,000 between the date of subscription agreement and the date of the issuance of the subscribed shares was charged to profit or loss (Note 22). On April 13, 2015, the subscribed 139,582,733 shares of SMI were issued by SMI to the Company, of which, 109,240,000 shares have been sold by the Company as of June 30, 2015.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Note: (Continued)

- (b) On March 12, 2015, Linekong Entertainment entered into an agreement to acquire 5.51% of the equity interests in Beijing Chunqiu Yongle Culture and Communication Co., Ltd. ("**Yongle**") with a consideration of RMB23,000,000 and pursuant to which, Linekong Entertainment paid the consideration on March 23, 2015. Yongle is a limited liability company incorporated in Beijing, PRC and is primarily engaged in operation of sports, arts and recreational events and tickets marketing. The shares of Yongle held by Linekong Entertainment are redeemable upon occurrence of certain future events which are at option of Linekong Entertainment. Therefore, the Group has designated this investment as a financial asset at fair value through profit or loss upon initial recognition.

Yongle is a private company and there is no quoted market price available for its shares. The Group has used the valuation method disclosed in Note 4.2 to determine the fair value of its investment in Yongle.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

11. DEFERRED INCOME TAX

The analysis of deferred income tax assets and liabilities is as follows:

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|---|--|---|
| Deferred income tax assets: | | |
| – To be recovered within 12 months | 14,248 | 4,854 |
| – To be recovered after 12 months | 1,205 | 580 |
| | <u>15,453</u> | <u>5,434</u> |
| Deferred income tax liabilities: | | |
| – To be settled within 12 months | (250) | (76) |
| – To be settled after 12 months | (478) | – |
| | <u>(728)</u> | <u>(76)</u> |
| | <u>14,725</u> | <u>5,358</u> |

The net movement of the Group's deferred income tax accounts is as follows:

| | Six months ended June 30, 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
|------------------------------|---|------------------------------|
| Beginning of the period | 5,358 | 3,443 |
| Recognised in profit or loss | 9,367 | (1,335) |
| End of the period | <u>14,725</u> | <u>2,108</u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

11. DEFERRED INCOME TAX (Continued)

Movement in deferred income tax assets and liabilities without taking into consideration of the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets:

| | Deferred revenue <i>RMB'000</i> | Accrued employee benefit expenses <i>RMB'000</i> | Tax losses <i>RMB'000</i> | Provision and others <i>RMB'000</i> | Total <i>RMB'000</i> |
|---------------------------------------|---------------------------------------|--|------------------------------|---|-------------------------|
| (Unaudited) | | | | | |
| Six months ended June 30, 2015 | | | | | |
| Beginning of the period | 4,571 | 610 | – | 253 | 5,434 |
| Credited/(charged) to profit or loss | 5,437 | (610) | 5,310 | (118) | 10,019 |
| End of the period | <u>10,008</u> | <u>–</u> | <u>5,310</u> | <u>135</u> | <u>15,453</u> |
| (Audited) | | | | | |
| Six months ended June 30, 2014 | | | | | |
| Beginning of the period | 2,320 | 159 | – | 1,178 | 3,657 |
| Charged to profit or loss | (212) | (159) | – | (1,047) | (1,418) |
| End of the period | <u>2,108</u> | <u>–</u> | <u>–</u> | <u>131</u> | <u>2,239</u> |

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax credits through future taxable profits is probable. The Group did not recognise deferred income tax assets for accumulated tax losses of certain subsidiaries carried forward with the amount of RMB73,796,000 and RMB70,145,000 as of December 31, 2014 and June 30, 2015 as insufficient future taxable profit being available at each of these subsidiaries. These tax losses will expire from 2015 to 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

11. DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities:

| | Trademarks and licenses RMB'000 | Fair value changes of financial assets at fair value through profit or loss RMB'000 | Total RMB'000 |
|---------------------------------------|---------------------------------------|---|------------------|
| (Unaudited) | | | |
| Six months ended June 30, 2015 | | | |
| Beginning of the period | (76) | – | (76) |
| Charged to profit or loss | (174) | (478) | (652) |
| End of the period | <u>(250)</u> | <u>(478)</u> | <u>(728)</u> |
| (Audited) | | | |
| Six months ended June 30, 2014 | | | |
| Beginning of the period | (214) | – | (214) |
| Credited to profit or loss | 83 | – | 83 |
| End of the period | <u>(131)</u> | <u>–</u> | <u>(131)</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

12. TRADE RECEIVABLES

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|----------------------------|--|---|
| Trade receivables | 77,174 | 63,909 |
| Less: impairment provision | (55) | (1,080) |
| | 77,119 | 62,829 |

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

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|-------------------|--|---|
| 0-60 days | 47,342 | 45,935 |
| 61-90 days | 9,392 | 6,570 |
| 91-180 days | 15,358 | 7,003 |
| 181 days-365 days | 2,861 | 2,386 |
| over 1 year | 2,221 | 2,015 |
| | 77,174 | 63,909 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

12. TRADE RECEIVABLES (Continued)

- (b) As of June 30, 2015 and December 31, 2014, trade receivables of past due but not impaired were approximately RMB44,031,000 and RMB26,541,000, respectively. These related to a number of third-party game distribution channels, third-party payment vendors and international game publishers which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|------------------------------|--|---|
| Outstanding after due dates: | | |
| 0-60 days | 23,646 | 16,218 |
| 61-90 days | 10,329 | 3,030 |
| 91-180 days | 6,533 | 4,236 |
| 181 days-365 days | 1,389 | 1,953 |
| over 1 year | 2,134 | 1,104 |
| | 44,031 | 26,541 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

12. TRADE RECEIVABLES (Continued)

- (c) Movements of on the Group's provision for impairment of trade receivables are as follows:

| | Six months ended June 30, | |
|---|---|--|
| | 2015 RMB'000 (Unaudited) | 2014 <i>RMB'000</i> <i>(Audited)</i> |
| Beginning of the period | (1,080) | (1,103) |
| Provision for impairment | – | – |
| Receivables written off during the period as uncollectible | 1,025 | 182 |
| End of the period | (55) | (921) |

The provision and reversal of provision for impaired trade receivables have been included in "administrative expenses" in the consolidated statement of comprehensive loss. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

13. PREPAYMENTS AND OTHER RECEIVABLES

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|--|---|---|
| Current | | |
| Prepaid service charges to game distribution channels | 32,532 | 22,724 |
| Prepayments to game developers | 18,515 | 11,220 |
| Staff advance (<i>Note (a)</i>) | 2,801 | 2,464 |
| Amount due from a related party (<i>Note 28(a)</i>) | 2,000 | – |
| Prepaid rental, advertising costs and others | 15,146 | 10,839 |
| Rental and other deposits | 1,989 | 3,927 |
| Other receivables arising from disposal of SMI shares (<i>Note 10</i>) | 38,583 | – |
| Others | 2,506 | 743 |
| | 114,072 | 51,917 |
| Less: provision for impairment of other receivables | (155) | – |
| | 113,917 | 51,917 |
| Non-current | | |
| Prepaid service charges by game distribution channels | 8 | – |
| Prepayments to game developers | – | 39 |
| Staff advance (<i>Note (a)</i>) | 1,080 | – |
| Rental and other deposits | 5,910 | 2,472 |
| Loans to a third party (<i>Note (b)</i>) | 10,120 | – |
| Others | 2,494 | 2,599 |
| | 19,612 | 5,110 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

13. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Note:

- (a) Staff advance mainly includes advances to employees for various expenses to be incurred in the ordinary course of business and housing loans provided to certain employees. These loans are unsecured, interest-free and with a term ranging from 2 to 5 years.
- (b) On May 25, 2015, Linekong Entertainment, as the lender, entered into a loan agreement with the borrower, Jiangsu Strawbear Pictures Co. Ltd. Pursuant to the agreement, Linekong Entertainment granted an unsecured loan to the borrower in the principal amount of RMB10,000,000 with interest rate of 12% per annum. Maturity period of the loan is no longer than two years from May 25, 2015.

14. CASH AND CASH EQUIVALENTS

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|--------------------------|--|---|
| Cash at bank and in hand | 816,166 | 1,086,532 |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

15. SHARE CAPITAL AND SHARE PREMIUM

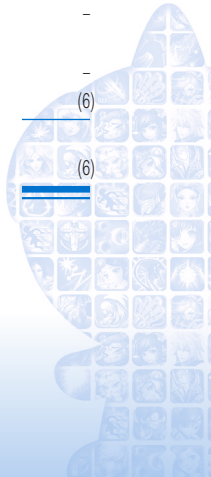
| <i>Note</i> | Number of ordinary shares (<i>'000</i>) | Nominal value of ordinary shares <i>USD'000</i> | Number of preferred shares (<i>'000</i>) | Nominal value of preferred shares <i>USD'000</i> |
|---|--|---|---|--|
| (Unaudited) | | | | |
| Authorised: | | | | |
| As of January 1, 2015 and June 30, 2015 | | | | |
| | <u>2,000,000</u> | <u>50</u> | <u>-</u> | <u>-</u> |
| (Audited) | | | | |
| Authorised: | | | | |
| As of January 1, 2014 | | | | |
| | <u>47,161</u> | <u>47</u> | <u>2,839</u> | <u>3</u> |
| Reclassification and re-designation on issuance of series C Preferred Shares | (a) (623) | (1) | 623 | 1 |
| Share split | (b) 1,814,991 | - | 135,009 | - |
| Reclassification and re-designation on issuance of series D Preferred Shares | (c) (14,794) | - | 14,794 | - |
| As of June 30, 2014 | <u>1,846,735</u> | <u>46</u> | <u>153,265</u> | <u>4</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

15. SHARE CAPITAL AND SHARE PREMIUM (Continued)

| | Note | Number of ordinary shares ('000) | Nominal value of ordinary shares USD'000 | Equivalent nominal value of shares RMB'000 | Share premium RMB'000 | Shares held for RSU Scheme RMB'000 |
|--|-------|----------------------------------|--|--|-------------------------|------------------------------------|
| (Unaudited) | | | | | | |
| Issued: | | | | | | |
| As of January 1, 2015 | | <u>369,839</u> | <u>10</u> | <u>59</u> | <u>1,726,828</u> | <u>(6)</u> |
| Vesting of shares held for RSU Scheme | 17(b) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2)</u> | <u>2</u> |
| As of June 30, 2015 | | <u><u>369,839</u></u> | <u><u>10</u></u> | <u><u>59</u></u> | <u><u>1,726,826</u></u> | <u><u>(4)</u></u> |
| (Audited) | | | | | | |
| Issued: | | | | | | |
| As of January 1, 2014 | | <u>2,511</u> | <u>3</u> | <u>18</u> | <u>-</u> | <u>-</u> |
| Share split | (b) | <u>97,933</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Issuance of shares held for RSU Scheme | 17(b) | <u>42,162</u> | <u>1</u> | <u>6</u> | <u>-</u> | <u>-</u> |
| Shares transferred to RSU Scheme | 17(b) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(6)</u> |
| As of June 30, 2014 | | <u><u>142,606</u></u> | <u><u>4</u></u> | <u><u>24</u></u> | <u><u>-</u></u> | <u><u>(6)</u></u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

15. SHARE CAPITAL AND SHARE PREMIUM (Continued)

Note:

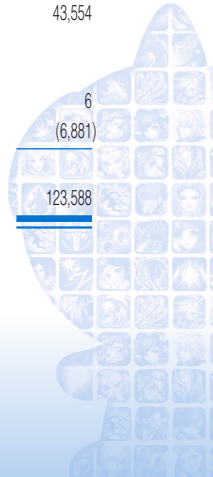
- (a) On January 15, 2014, the Company entered into a share purchase agreement with Starwish Global Limited, Profitable Century International Limited, Orchid Asia V, L.P., Orchid Asia V Co-Investment Limited, SAIF IV Hong Kong (China Investments) Limited, Famous Sino Ltd. and Eager Info Investments Limited and pursuant to which, the Company issued 622,637 shares of convertible series C Preferred Shares at a price of USD48.1822 per share to these investors with total amount of USD30,000,000 (equivalent to approximately RMB183,786,000).
- (b) On January 15, 2014, the Board of Directors of the Company approved a share split of the Company's share capital at a ratio of 1 to 40 (the "**Share Split**"). Immediately after such split, the authorised share capital of the Company has been re-classified and re-designated into 1,861,529,000 ordinary shares with par value of USD0.000025 each and 138,471,000 Preferred Shares with par value of USD0.000025 each.
- (c) On May 8, 2014, the Company entered into a share purchase agreement with Baidu Holdings Limited and pursuant to which, the Company issued 14,793,523 shares of series D Preferred Shares at a price of USD1.3519 per share to Baidu Holdings Limited with total consideration of USD20,000,000 (equivalent to approximately RMB123,120,000).



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

16. RESERVES

| | Capital reserve RMB'000 | Currency translation differences RMB'000 | Statutory surplus reserve fund RMB'000 | Share-based compensation reserve RMB'000 (Note 17) | Other Reserves RMB'000 (Note 17(b)) | Total RMB'000 |
|--|-------------------------------|---|---|--|--|------------------|
| (Unaudited) | | | | | | |
| 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 | – | – | – | 41,878 | – | 41,878 |
| Currency translation differences | – | (489) | – | – | – | (489) |
| Balance at June 30, 2015 | <u>(7,831)</u> | <u>26,014</u> | <u>9,557</u> | <u>219,825</u> | <u>6</u> | <u>247,571</u> |
| (Audited) | | | | | | |
| Balance at January 1, 2014 | <u>(7,831)</u> | <u>29,026</u> | <u>6,620</u> | <u>59,094</u> | <u>–</u> | <u>86,909</u> |
| RSU scheme: | | | | | | |
| – Value of employee services | – | – | – | 43,554 | – | 43,554 |
| Deemed contribution from shareholders for the shares issued for RSU Scheme | – | – | – | – | 6 | 6 |
| Currency translation differences | – | (6,881) | – | – | – | (6,881) |
| Balance at June 30, 2014 | <u>(7,831)</u> | <u>22,145</u> | <u>6,620</u> | <u>102,648</u> | <u>6</u> | <u>123,588</u> |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

17. SHARE-BASED PAYMENTS

(a) Restricted share units (“RSUs”)

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company set up a restricted share unit scheme (“**RSU Scheme**”) with the objective to incentivize 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, 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.

On March 21, 2014 and January 21, 2015, 31,371,494 and 2,275,000 RSUs were granted to employees, directors and consultants, respectively.

The 31,371,494 RSUs granted on March 21, 2014 are vested in four different ways as provided in respective grant letters:

- (i) 4-year vesting: 20% on the date ending one month after the date of listing, 35% on the date ending 12 months from the grant date, 10% each on the date ending 18 and 24 months from the grant date, 7.5% each on the date ending 30 and 36 months from the grant date, 5% each on the date ending 42 and 48 months from the grant date.
- (ii) 4-year vesting: 10% on the date ending one month after the date of listing, 20% on the date ending 12 month from the grant date, 12.5% each on the date ending 18, 24, 30 and 36 months from the grant date, 10% each on the date ending 42 and 48 months from the grant date.
- (iii) 4-year vesting: 25% on the date ending 12 months from the grant date, 12.5% on every six months from 12 months from the grant date.
- (iv) 3-year vesting: 33.33% on January 10, 2015, and 8.33% on every three months from the first month after January 10, 2015.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

17. SHARE-BASED PAYMENTS (Continued)

(a) Restricted share units (“RSUs”) (Continued)

The 2,275,000 RSUs granted on January 21, 2015 are vested in three different ways as provided in respective grant letters:

- (i) 4-year vesting: 25% on September 11, 2015, 12.5% on every six months from September 11, 2015.
- (ii) 2-year vesting: 25% on every six months from the grant date.
- (iii) one-off vesting: 100% on July 1, 2015.

The RSUs are exercisable only if the grantees remain engaged by the Group. The RSU Scheme will be valid and effective for a period of ten years commencing from March 21, 2014, unless it is terminated earlier in accordance with the rules of RSU Scheme.

Movements in the number of RSUs outstanding:

| | Number of RSUs | |
|-------------------------|----------------------------------|------------------|
| | Six months ended June 30, | |
| | 2015 | 2014 |
| | (Unaudited) | (Audited) |
| Beginning of the period | 31,276,072 | – |
| Granted | 2,275,000 | 31,371,494 |
| Lapsed | (1,796,955) | (62,518) |
| Vested | (15,485,512) | – |
| End of the period | 16,268,605 | 31,308,976 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

17. SHARE-BASED PAYMENTS (Continued)

(a) Restricted share units (“RSUs”) (Continued)

On June 11, 2015, Mr. Mao Zhihai resigned from his role as the Company's director and chief financial officer, accordingly unvested RSUs of 1,405,386 that was previously granted to Mr. Mao Zhihai lapsed and corresponding share-based compensation expenses of RMB4,131,000 recorded in previous periods was reversed in the second quarter of 2015.

As of June 30, 2015, 15,485,512 RSUs have been vested unconditionally. As of December 31, 2014, no RSUs had been vested.

(b) Shares held for RSU Scheme

Pursuant to a resolution passed by the Board of Directors of the Company on March 21, 2014, the Company entered into a trust deed (the “**Trust Deed**”) with The Core Trust Company Limited (the “**RSU Trustee**”) and Premier Selection Limited (the “**RSU Nominee**”) to assist with the administration of the RSU Scheme. On March 21, 2014, the Company issued 42,161,541 ordinary shares to the RSU Nominee at a par value of USD0.000025 each, totalling RMB6,488 funded by the Mr. Wang Feng. Accordingly, 42,161,541 ordinary shares of the Company underlying the RSUs were held by the RSU Nominee for the benefit of eligible participants pursuant to the RSU Scheme and the Trust Deed.

The above shares held for RSU Scheme were regarded as treasury shares and had been deducted from shareholders' equity; the costs of these shares totalling approximately RMB6,488 were credited to “other reserves” as deemed contribution from shareholders. As a result of the vesting of 15,485,512 RSUs during the six months ended June 30, 2015 (see Note (a) above), approximately RMB2,381 was transferred out from treasury shares upon vesting of these RSUs.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

17. SHARE-BASED PAYMENTS (Continued)

(c) Fair value of RSUs

The directors used the discounted cash flow method to estimate the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the RSUs granted on March 21, 2014. The fair value of the RSUs granted on March 21, 2014 was assessed to be RMB203,925,228.

The key assumptions used in the valuation of RSUs as of the grant date are set out in the table below:

| | March 21, 2014 |
|---|----------------|
| Discount rate used to determine the underlying share value of the Company | 20% |
| Risk-free interest rate | 0.08% |
| Volatility | 52.97% |

The fair value of RSUs granted on January 21, 2015 was assessed to approximate to the market price of the grant date in the amount of HKD9.80 per share, equivalent to RMB17,595,600 in total.

(d) Expected retention rate of grantees

The Group estimates the expected yearly percentage of RSU grantees that will stay within the Group at the end of vesting periods (the “**Expected Retention Rate**”) in order to determine the amount of share-based compensation expenses to be recorded in the condensed consolidated statements of comprehensive loss. As of June 30, 2015, the Expected Retention Rate of employees was assessed to be 90% (December 31, 2014: 95%) and the Expected Retention Rate of existing directors and senior management was assessed to be 100% (December 31, 2014: 100%).



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

18. TRADE AND OTHER PAYABLES

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|---|--|---|
| Trade payables (<i>Note (i)</i>) | 76,050 | 66,069 |
| Other taxes payables | 7,289 | 9,693 |
| Salary and staff welfare payables | 24,949 | 36,275 |
| Accrued expenses and liabilities | 31,236 | 32,796 |
| Advance received from licence fees | 3,730 | 2,790 |
| Advance received from sales of prepaid game cards | 3,105 | 3,391 |
| Advance from payment vendors | 516 | 452 |
| | 146,875 | 151,466 |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

18. TRADE AND OTHER PAYABLES (Continued)

Note:

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

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|--------------|--|---|
| 0-180 days | 69,934 | 60,140 |
| 181-365 days | 1,658 | 2,688 |
| 1-2 years | 2,828 | 2,395 |
| 2-3 years | 784 | 458 |
| over 3 years | 846 | 388 |
| | 76,050 | 66,069 |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

19. DEFERRED REVENUE

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|--|--|---|
| Current | | |
| – License fee and technical support fee | 10,546 | 12,584 |
| – Sales of in-game virtual items (<i>Note (i)</i>) | 96,835 | 75,980 |
| – Government subsidies | 83 | 97 |
| | 107,464 | 88,661 |
| Non-current | | |
| – License fee and technical support fee | 3,183 | 6,689 |
| – Sales of in-game virtual items (<i>Note (i)</i>) | 1,269 | 2,220 |
| – Government subsidies | 97 | 139 |
| | 4,549 | 9,048 |

Note:

- (i) Deferred revenue from sales of in-game virtual items includes primarily service fees prepaid by the game players for the Group's online games for which the related services had not been rendered as of June 30, 2015 and December 31, 2014. In particular, the Group did not possess relevant information and data to differentiate revenue attributable to permanent ownership virtual items from consumable virtual items of certain games. Accordingly, revenue relating to these games was recognised on an aggregate basis by taking reference to the player relationship period of the respective game or other similar types of games. Included in the deferred revenue balance above, deferred revenue arising from such treatment was approximately RMB7,392,000 and RMB7,883,000 as of June 30, 2015 and December 31, 2014, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

20. CONVERTIBLE PREFERRED SHARES

As detailed in Note 21 to the 2014 Financial Statements, the Company issued Preferred Shares in prior years, which were measured as financial liability at the fair value through profit or loss.

Upon completion of the Company's IPO on December 30, 2014, all of the Preferred Shares were automatically converted into ordinary shares on an one-to-one basis. As a result, 153,264,523 ordinary shares were issued, and the balance of Preferred Shares was transferred to share capital and share premium of the Company on that date. All preferential rights entitled to the holders of the Preferred Shares lapsed and such holders thereafter hold rights pari passu to all other ordinary shareholders.

Movement of the Preferred Shares for the six months ended June 30, 2014 is set out as below:

| <i>(Audited)</i> | Six months ended June 30, 2014 <i>RMB'000</i> |
|---|--|
| Beginning of the period | 719,831 |
| Issuance of preferred shares | 306,906 |
| Changes in fair value | 116,817 |
| Currency translation differences | 7,518 |
| End of the period | 1,151,072 |
| Change in fair value of the Preferred Shares for the period included in profit or loss | 116,817 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

21. EXPENSES BY NATURE

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analysed as follows:

| | Six months ended June 30, | |
|---|----------------------------------|-----------|
| | 2015 | 2014 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Service charges by game distribution channels | 112,174 | 124,883 |
| Content fee to game developers | 39,091 | 18,947 |
| Bandwidth and server custody fees | 6,194 | 4,938 |
| Payment handling costs | 563 | 969 |
| Employee benefit expenses (excluding share-based compensation expenses) | 53,670 | 43,150 |
| Share-based compensation expenses | 41,878 | 43,554 |
| Depreciation of property, plant and equipment (Note 6) | 3,169 | 3,614 |
| Amortization of intangible assets (Note 7) | 6,180 | 1,205 |
| Impairment charges of other receivables | 155 | – |
| Business tax and related surcharges (Note (a)) | 752 | 12,560 |
| Promotion and advertising expenses | 106,256 | 41,100 |
| Traveling and entertainment expenses | 2,180 | 3,238 |
| Office rental expenses | 6,938 | 4,030 |
| Other professional service fees | 4,527 | 3,161 |
| Game development outsourcing costs | 379 | 641 |
| Utilities and office expenses | 836 | 565 |
| Statutory auditors' remuneration | 2,200 | 78 |
| Listing-related expenses | – | 10,893 |
| Others | 1,973 | 5,069 |
| Total | 389,115 | 322,595 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

21. EXPENSES BY NATURE (Continued)

Note:

- (a) Business tax, value-added tax and related surcharges that are applicable to the Group are as follows:

| Category | Tax rate | Basis of levies |
|------------------------------|----------|---|
| Business tax | 5% | Revenue from sales of in-game virtual items, licensing and technical support |
| Value-added tax ("VAT") | 6% | Revenue from sales of in-game virtual items, licensing and technical support generated by Tianjin Baba Liusi Network Technology Co., Ltd. (" Tianjin 8864 "), Linekong Entertainment and Shouyoutong (Beijing) Technology Co., Ltd. (" Shouyoutong ") is subject to VAT since June 1, 2014, January 1, 2015, and January 1, 2015, respectively. Such revenue is recognised net of VAT amount. |
| City construction tax | 7% | Actual business tax and VAT payment |
| Educational surcharges | 3% | Actual business tax and VAT payment |
| Local educational surcharges | 2% | Actual business tax and VAT payment |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

22. OTHER GAINS – NET

| | Six months ended June 30, | |
|---|--------------------------------|------------------------------|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Government subsidies | 6,060 | 269 |
| Gain arising from disposal of subsidiaries | – | 6 |
| Foreign exchange gains, net | 964 | 808 |
| Realised/unrealised fair value gains on financial assets at fair value through profit or loss | 64,808 | – |
| Realised fair value gains on derivatives | 14,540 | – |
| Return on short-term investments (Note(a)) | 821 | – |
| Others | 2,445 | 131 |
| | 89,638 | 1,214 |

Note:

- (a) Return on short-term investments represents return on investments in certain principal protected wealth management products issued by commercial banks in the PRC.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

23. FINANCE INCOME – NET

| | Six months ended June 30, | |
|------------------------------------|---------------------------------------|-------------------------------------|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Finance income | | |
| Interest income | 1,745 | 1,676 |
| Finance costs | | |
| Issuance costs of Preferred Shares | – | (300) |
| Foreign exchange gains, net | 219 | 8 |
| Finance income – net | 1,964 | 1,384 |

24. FAIR VALUE LOSS OF PREFERRED SHARES

| | Six months ended June 30, | |
|---|---------------------------------------|-------------------------------------|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Fair value loss of Preferred Shares (Note 20) | – | (116,817) |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

25. INCOME TAX (CREDIT)/EXPENSE

The income tax (credit)/expense of the Group for the six months ended June 30, 2015 and 2014 are analysed as follows:

| | Six months ended June 30, | |
|-----------------------------|---------------------------------------|-------------------------------------|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Current income tax | 2,304 | 3,548 |
| Deferred income tax | (9,367) | 1,335 |
| Income tax (credit)/expense | <u>(7,063)</u> | <u>4,883</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 the 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 six months ended June 30, 2015 and 2014 on their taxable profits generated from operations in Hong Kong. Payment of dividends is not subject to withholding tax in Hong Kong.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

25. INCOME TAX (CREDIT)/EXPENSE (Continued)

(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 the six months ended June 30, 2015 and 2014, based on the existing legislation, interpretations and practices in respect thereof. Linekong Online (Beijing) Internet Technology Co., Ltd. (“**Beijing Linekong Online**”), Linekong Entertainment, Shouyoutong and 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 it continues to be qualified as software enterprise during such period. Beijing Linekong Online obtained the Software Enterprise Certificate in May 2014, and the specific periods when the tax exemption and reduction being applicable are yet to commence. The applicable schedules of preferential income tax rate for Linekong Entertainment, Shouyoutong and Tianjin 8864 are as follows:

| | Six months ended June 30, | |
|------------------------|---------------------------|---------------|
| | 2015 | 2014 |
| Linekong Entertainment | 25% | 50% reduction |
| Shouyoutong | 50% reduction | 50% reduction |
| Tianjin 8864 | 50% reduction | EIT exemption |

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged 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 its tax assessable profits for that year (“**Super Deduction**”).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

25. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

(d) PRC withholding Tax (“WHT”)

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

As of June 30, 2015 and December 31, 2014, no retained earnings of subsidiaries within the Group had ever been remitted to the Company. The Group does not have any plan to conduct this remittance in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting period. As of June 30, 2015 and December 31, 2014, the entities located in the PRC did not have available undistributed profit to be remitted to the Company.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

25. INCOME TAX (CREDIT)/EXPENSE (Continued)

(d) PRC withholding Tax (“WHT”) (Continued)

The tax on the Group’s profit/(loss) before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profit/(loss) before income tax of consolidated entities in the respective jurisdictions as follows:

| | Six months ended June 30, | |
|---|---|--|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Profit/(loss) before income tax | 2,763 | (73,996) |
| Tax calculated at statutory income tax rates applicable to (loss)/profit before income tax of the consolidated entities in their respective jurisdictions (<i>Note (i)</i>) | (15,298) | 12,040 |
| Tax effects of: | | |
| Preferential income tax rates applicable to subsidiaries | (2,666) | (29,989) |
| Super deduction for research and development expenses | (1,070) | – |
| Expenses not deductible for tax purposes: | | |
| – Share-based compensation | 10,470 | 10,889 |
| – Others | 8,493 | 2,611 |
| Unrecognised temporary differences (<i>Note (ii)</i>) | 4,108 | 4,993 |
| Income tax paid outside the territory which is not deductible from resident enterprise income tax payable | 949 | 3,673 |
| Adjustments to deferred income tax arising in prior periods | (12,049) | 666 |
| Income tax (credit)/expense | (7,063) | 4,883 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

25. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

Note:

- (i) The Company is exempt from the Cayman Islands income tax. As such, the operating results reported by the Company on a standalone basis, including the fair value changes in profit or loss, are not subject to any income tax.
- (ii) The Group has assessed the realization of deductible temporary differences and unused tax losses for each entity as of June 30, 2015 and 2014. The temporary differences including tax losses of several subsidiaries were not recognised due to insufficient future taxable profit being available at each of these entities.

26. EARNINGS/(LOSS) PER SHARE

For the purpose of computing basic and diluted earnings/(loss) per share, the number of ordinary shares outstanding during the six months ended June 30, 2015 and 2014 have been adjusted retroactively in the computation of both basic and diluted earnings/(loss) per share for the relevant periods to reflect the proportional changes in the number of ordinary shares outstanding as a result of the Share Split described in Note 15(b).



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

26. EARNINGS/(LOSS) PER SHARE (Continued)

(a) Basic

Basic earnings/(loss) per share for the six months ended June 30, 2015 and 2014 is calculated by dividing the profit/(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.

| | Six months ended June 30, | |
|---|---------------------------|-------------------|
| | 2015 (Unaudited) | 2014 (Audited) |
| Profit/(loss) attributable to owners of the Company (RMB'000) | 9,828 | (78,879) |
| Weighted average number of ordinary shares in issue (thousand shares) | 338,083 | 17,383 |
| Basic earnings/(loss) per share (expressed in RMB per share) | 0.03 | (4.54) |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

26. EARNINGS/(LOSS) PER SHARE (Continued)

(b) Diluted

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

For the six months ended June 30, 2014, the Company had two categories of potential ordinary shares, the Preferred Shares and RSUs. RSUs that were issuable contingently upon the occurrence of the listing as described in Note 17 (a) were not considered as dilutive potential ordinary shares. As the Group incurred loss for the six months ended June 30, 2014, the potential ordinary shares were not included in the calculation of dilutive loss per share where their inclusion would be anti-dilutive. Accordingly, dilutive loss per share for the six months ended June 30, 2014 is the same as basic loss per share of the period.

For the six months ended June 30, 2015, the Company had RSUs as potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average fair value of the Company's ordinary shares) for the outstanding RSUs.

| | Six months ended June 30, 2015 (Unaudited) |
|---|---|
| Profit attributable to owners of the Company (RMB'000) | 9,828 |
| Weighted average number of ordinary shares in issue (thousand shares) | 338,083 |
| Adjustment for RSUs (thousand shares) | 17,263 |
| Weighted average number of ordinary shares for calculating diluted earnings per share (thousand shares) | 355,346 |
| Diluted earnings per share (expressed in RMB per share) | 0.03 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

27. DIVIDENDS

No dividends have been paid or declared by the Company during the six months ended June 30, 2015 and 2014.

28. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Housing loan granted to a director

The Group granted housing loan to a director in May 2015. The loan is unsecured, fully repayable before April 30, 2016 and with a interest rate of 5% per annum.

| | Six months ended June 30, | |
|----------|---|--|
| | 2015 <i>RMB'000</i> (Unaudited) | 2014 <i>RMB'000</i> (Audited) |
| Zhao Jun | 2,000 | – |

Such housing loan was reflected on balance sheet as "Amount due from a related party".



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

28. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personal compensations

The compensations paid or payable to key management personnel (including directors, CEO and other senior executives) for employee services are shown below:

| | Six months ended June 30, | |
|---|--------------------------------|------------------------------|
| | 2015 RMB'000 (Unaudited) | 2014 RMB'000 (Audited) |
| Wages, salaries and bonuses | 6,062 | 6,725 |
| Pension costs – defined contribution plan | 202 | 169 |
| Other social security costs, housing benefits and other employee benefits | 243 | 215 |
| Share-based compensation expenses | 30,385 | 35,486 |
| | 36,892 | 42,595 |

Except as disclosed above (a) and (b), the Group had no other material transactions enacted with related parties for the six months ended June 30, 2015 and 2014, and there were no other material balances with related parties as of June 30, 2015 and December 31, 2014.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

29. COMMITMENTS

The Group leases office premises under non-cancellable operating lease agreements. The lease terms are between 1 year to 3 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As of June 30, 2015 RMB'000 (Unaudited) | As of December 31, 2014 RMB'000 (Audited) |
|--|--|---|
| Not later than 1 year | 11,587 | 9,921 |
| Later than 1 year and not later than 3 years | 16,196 | 13,620 |
| | 27,783 | 23,541 |



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On July 1, 2015, Linekong Entertainment entered into an agreement to acquire 5% of the equity interests in Beijing Tianqu Hudong Technology Development Co., Ltd. ("**Tianqu**") with a consideration of RMB3,500,000. Tianqu is a limited liability company incorporated in Beijing, PRC and is primarily engaged in game research and development.
- (b) On July 7, 2015, the Company, as the lender, entered into a loan agreement with the borrower, Fuze. Pursuant to the agreement, the Company granted an unsecured loan to the borrower in the principal amount of USD9,000,000 (or its equivalent in other currencies). Maturity period of the loan is 12 months from the date of the issuance of the loan.

The loan was fully issued to Fuze in instalments in July 2015 in the currency of USD and RMB. Interest rate on this USD and RMB loan is 3% per annum and 4.85% per annum respectively.

- (c) The Company's Board of Directors approved a share repurchase plan on July 7, 2015 which authorised the management to repurchase the Company's ordinary shares with a total value of HKD10,000,000. Accordingly, the Company repurchased 140,000 ordinary shares on July 9, 2015 and 61,000 ordinary shares on July 10, 2015 respectively on the open market for an aggregate consideration of HKD1,676,045 (equivalent to RMB1,322,000). These repurchased shares were cancelled by the company on July 16, 2015.
- (d) On July 23, 2015, Linekong Entertainment entered into an assets management agreement with Hehe Black Ant Film Fund Specific Asset Management Plan ("**Hehe Fund**") and pursuant to which, committed to invest in Hehe Fund in the amount of RMB10,000,000, representing approximately 5.00% equity interests of the Hehe Fund.
- (e) On August 6, 2015, Linekong Entertainment entered into an agreement to acquire 5.5% of the equity interests in Coyote Games Information Technology Co., Ltd. ("**Coyote**") with a consideration of RMB1,925,000. Coyote is a limited liability company incorporated in Beijing, PRC and is primarily engaged in game research and development.

