ANNUAL REPORT

2017

A8新媒体集团

A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800


A8音乐
青松基金
QINGSONG FUND
映客直播
MU77
多米音乐
duomi.com
a8
LIVE
指游方寸
黑岩
heiyan.com
A8影视
A8 Film & Television
BLUE
蓝蓝蓝影视传媒（天津）有限公司
FOUR BLUE FILM MEDIA CO.,LTD.

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. Liu Xiaosong
Mr. Lin Qian

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Li Feng

AUDIT COMMITTEE

Mr. Chan Yiu Kwong *(Chairman)*
Ms. Wu Shihong
Mr. Li Feng

NOMINATION COMMITTEE

Mr. Liu Xiaosong *(Chairman)*
Ms. Wu Shihong
Mr. Li Feng

REMUNERATION COMMITTEE

Ms. Wu Shihong *(Chairman)*
Mr. Liu Xiaosong
Mr. Li Feng

AUTHORISED REPRESENTATIVES

Mr. Liu Xiaosong
Mr. Lin Qian

COMPANY SECRETARY

Ms. Ho Wing Yan

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
China Merchants Bank, Hong Kong Branch
Industrial Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited
China Citic Bank Shenzhen Branch

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

24/F, A8 Music Building
No. 1002 Keyuan Road, Hi-tech Park
Nanshan District
Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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6-8 Harbour Road
Wanchai
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

WEBSITE

www.a8nmg.com

STOCK CODE

00800

Financial Summary and Highlights

CONSOLIDATED RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**139,118**	148,468	148,355	205,617	189,736
Profit before tax	**42,111**	31,862	32,069	43,016	21,220
Income tax expense	**(17,101)**	(7,722)	(10,394)	(33,363)	(12,747)
Profit for the year	**25,010**	24,140	21,675	9,653	8,473
Attributable to:					
Owners of the Company	**25,030**	24,145	22,006	10,758	9,820
Non-controlling interests	**(20)**	(5)	(331)	(1,105)	(1,347)
	25,010	24,140	21,675	9,653	8,473

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,699,558**	1,368,034	1,277,834	975,926	935,353
Total liabilities	**(300,220)**	(278,126)	(228,491)	(177,515)	(149,467)
Non-controlling interests	**532**	702	697	366	1,241
	1,399,870	1,090,610	1,050,040	798,777	787,127

The consolidated results of A8 New Media Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2017 and the consolidated assets, liabilities and equity of the Group as at 31 December 2017 are those set out in the audited financial statements.

Chairman's Statement

BUSINESS REVIEW FOR 2017

In 2017, rapid growth remained in the pan-entertainment industry, and the boundaries among various segments of the industry gradually faded away with enhancing cooperation and penetration, enabling the industry chain to develop into a mature stage gradually. Under such a trend, Intellectual Property (IP) is the core resource for the pan-entertainment ecosystem with increasingly manifesting value. With prime IP as the core, the businesses of literatures, comics, films and televisions and games were comprehensively linked up so as to form a chain of content production and perform IP realisation from more dimensions, which has become the key development direction in the pan-entertainment industry.

In 2017, the Group continued to conduct a deep cultivation in the pan-entertainment industry, accelerate the setting in the industry chain of pan-entertainment field and take advantages of the rich and prime IP reserve to associate with the resources in each of the business segments so as to develop and create prime IP contents. The following is a review of the development in various business segments of the Group:

FILM & TELEVISION PRODUCTION

In April 2017, the Group has set up its wholly-owned subsidiary – Jisu Woniu Film & Television Media (Shenzhen) Co., Limited (極速蝸牛影視傳媒(深圳)有限公司, "A8 Film & Television"), aiming at engaging in the business of producing network dramas, videos, films and the like, and linking literatures, films and televisions and games together to foster shared development in the future. In 2017, A8 Film & Television has started to cooperate with a number of well-known scriptwriters and directors, kicking start its production business on short videos and network dramas, etc.

Suspense-style short video product awarded the Gold Cup of Sound Prize (新聲大獎金杯) issued by the 6th China Culture Industry Capital Forum (中國文化產業資本大會)

The suspense-style miniseries, "Fantasy Apocalypto" (「奇幻啟示錄」), as the first short video content product of A8 Film & Television, have been launched since November 2017. The drama has accumulated over 100 million hits on the internet. "Fantasy Apocalypto" (「奇幻啟示錄」) won the Gold Cup of Sound Prize (新聲大獎金杯) in the 6th China Culture Industry Capital Forum for its innovation in the form of miniseries.

Winning tender for "Yunteng Scheme" (「雲騰計劃」) of iQIYI

In 2017, A8 Film & Television participated in the "Yunteng Scheme" (「雲騰計劃」) of iQIYI, the network broadcasting platform, and won the tender for the top 10 IP of iQIYI's custom-made network dramas, "Matchmaker of Great Zhou Dynasty" (「大周小冰人」). A8 Film & Television and iQIYI will jointly develop this network drama.

Cooperation with Beijing Zhangwen on the adaption of the phenomenal literature IP "Life Changing Master" (「改命師」)

In 2017, A8 Film & Television has signed a licence agreement of film and television adaptation with Beijing Zhangwen Information Technology Co., Ltd. (北京掌文信息技術有限公司, "Beijing Zhangwen"), gaining the adaptation rights of film and television of the online literature super IP "Life Changing Master" (「改命師」). Currently, it is working with famous scenarist Yan Kun (閆坤) on the script.

Investment in Lanlanlanlan Film & Television

On 13 December 2017, the Group has holding of 5% equity interest in Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd. (藍藍藍藍影視傳媒(天津)有限公司, "Lanlanlanlan Film & Television") by way of capital increase. On 18 December 2017, the Group entered into equity transfer agreements with independent third parties to acquire 5% equity interest in Lanlanlanlan Film & Television. Upon the completion of the aforementioned transactions, the Group owned 10% equity interests of Lanlanlanlan Film & Television. Lanlanlanlan Film & Television is principally engaged in script writing, sale of script, development and production of script into web series, TV series, cinema movies and web movies and related businesses. Lanlanlanlan Film & Television hired over 100 scriptwriters, which is currently the leading domestic scriptwriters' team, enabling it to substantially shorten the script production cycle in an efficient and effective manner. Besides, it has experience and capability in producing massive network dramas.

GAME BUSINESS

Online game industry is still the key industry of the pan-entertainment industry, and the important IP realisation channel in the pan-entertainment market. The market size of online game industry has amounted to RMB216.8 billion in 2017 according to the "Online Game Socialization White Paper in China 2017" (「2017 中國網絡游戲社會化分發白皮書」) published by iResearch. Finger Fun, the mobile game publishing platform of the Group, maintains the strategy focusing on prime games with long operation period for the mobile game publishing business. It continues to consolidate the domestic mobile game business, while obtaining the initial success of overseas publishing business. Finger Fun won award of "The Top Enterprise of Overseas Product Operation" (「最佳海外產品運營企業」) of Youding in 2017.

Stable adjustment of domestic publishing business

Following the "PaPa Three Kingdoms" (「啪啪三國」), "Werewolf Killers" (「狼人殺」) that published by Finger Fun in 2017 developed as the second stable product. As an evergreen product of the Group, "Papa Three Kingdoms" (「啪啪三國」) still maintained receiving gross recharging receipts of RMB2 to RMB3 million on average per month after operating for four years. Both products effectively ensure the stabilisation of game publishing business of the Group.

In 2017, Finger Fun has signed a variety of prime products such as "Monster Baby 2" (「怪獸寶貝2」) and "Happy Excursion" (「逍遙游」), which further its layout in the mobile game market under the strategy of "socialising prime games". Among the above games, "Monster Baby 2" (「怪獸寶貝2」) won the "Most Anticipated Mobile Game of the Year" (「年度最受期待手游」) title of Golden Bell, and "Happy Excursion" (「逍遙游」) won the "Anticipated Mobile Games of the Year" title of Golden Mouth.

Initial success in overseas publishing business

The Group's product "Xiawuyu" (「俠物語」) was launched in Hong Kong, Macau and Taiwan in the second half of 2017 and achieved better player's response and turnover. This product has attained top positions on several free lists, such as the free list of Googleplay, the most popular game list of Googleplay and the free list of Appstore, with the highest position reaching the top 15 of the top paid lists of Googleplay and Appstore. Besides, in 2017, Finger Fun has entered into cooperation with Sega in Japan and signed the agency publication rights in Hong Kong, Macao and Taiwan for the well-known works "Sangokushi Taisen" (「三國志大戰」).

CULTURAL INDUSTRY PARK – NATIONAL MUSIC INDUSTRY PARK – A8 MUSIC BUILDING

A8 Music Building is the National Music Industry Park. It is located in the core area of Shenzhen Bay area in Nanshan District, Shenzhen, next to Shenzhen Software Industrial Park and close to Qianhai and Houhai, and has a superior location. The total gross floor area is more than 50,000 sq.ms which include commercial office, commercial retail and parking lots. In March 2017, A8 Music Building was successfully selected as the Extraordinary Property Management Project of the Year in the property management competition. Through several rounds of onsite inspection and voting by government experts, A8 Music Building won the first place of Nanshan district of Shenzhen with a score up to 98 points. The property investment business of A8 Music Building has been re-designated as the principal business of the Group since the mid-2015. A8 Music Building has generated an overall income of approximately RMB65.3 million in 2017, representing an increase of approximately 11.7% as compared to the same period of last year.

Furthermore, offline live music performance brand A8Live is operated together with the LiveHouse Theater located in the podium of the A8 Music Building, its business functions include live music performance, maker café, professional studio, band rehearsal rooms and music education center. A8Live has held around 144 performance activities in 2017 in diversified activity forms such as artists performance, band shows, concerts, fans meeting, press releases, charitable activities and live broadcasts, etc. Artists being invited to A8Live are becoming more international, including well-known artists and bands such as Declan Galbraith, Wuwuhui, Huang Ling, Dingdang, Huang Qianshan and the like. Going forward, celebrities having performances in venues such as LiveHouse will become a trend. Interactive performance with short distance will be a selling point for LiveHouse to attract audience. By handling such performance activities, A8Live team has accumulated extensive experience. The enhanced brand will facilitate the subsequent exploration of the operation of LiveHouse to a larger extent.

ONLINE LITERATURES – BEIJING ZHANGWEN

Beijing Zhangwen operates Heiyan.com (黑岩網), the leading platform for suspense-style literatures in China, Ruochu.com (若初網), the platform mainly for women's romance literatures, Ruoxia.com (若夏網), the platform mainly for ancient-style literatures, and Shao Nian Meng (少年夢), the platform targeting ACG readers. Beijing Zhangwen is mainly engaged in the incubation and operation of IP, provision of online paid-to-read service, and licensing adaptation of literatures to mobile games, network dramas, television dramas and movies, cartoons, comics and audio works. In 2017, Beijing Zhangwen's business of online literature platform achieved rapid growth.

Stable development in own platform business and rapid growth in third-party distribution business

By the end of 2017, the number of users of Beijing Zhangwen's own platform exceeded 20 million, representing an increase of more than 50% over the previous year. The quality content of its own platforms has continued to expand and cumulatively published more than 80,000 works, representing an increase of approximately 30% over the previous year in terms of number of works.

In 2017, Beijing Zhangwen continued to expand its new distribution channels on the basis of original distribution channels, such as China Literature Limited, Alibaba Literature, iReader Literature, Books Chaser, Zongheng Literature, Baidu Cloud, Migu Culture and so on, for its third-party distribution business. Beijing Zhangwen became the first cooperative partner in content payment of Toutiao.com (今日頭條).

Breakthrough in content licensing business

In terms of film and television licencing, Beijing Zhangwen had accumulated cooperation in over 60 films and televisions IP so far. In 2017, the three works of Beijing Zhangwen, including "Stingy Princess" (「摳門王妃」), "Jingyi Yangming" (「錦衣楊明」), a Grade A works, and "Grass in the mist-covered waters" (「草色煙波裏」) were all selected for iQIYI's Yunteng scheme (雲騰計劃). At the same time, Beijing Zhangwen joined hands with various platforms and film and television companies in 2017. For instance, it created ancient network drama "Shaoqing's pet life in Dali Temple" (「大理寺少卿的寵物生活」) with tv.sohu.com (搜狐視頻), and licensed rights for the film and television adaptation of the phenomenal IP works "Master in tomb raiding" (「摸金天師」) to Tianjin Tianying Film & Television Culture Media Co. Ltd. (天津天影影視文化傳媒有限公司).

In 2017, Beijing Zhangwen made a major breakthrough in the licensing of audio works with external licensing of about 20,000 hours. Among them, the video view amount of "Fortune Teller" (「麻衣神算子」) ranked No.1 of Ximalaya FM of all paid works. In the Lazy Audiobook (懶人聽書) platform, the video view amount of "Looting Heaven's Luck" (「劫天運」) and "Ghost Agent" (「陰陽代理人」) both ranked among the top ten. At the same time, there were also three works which entered into the top ten of Oxygen Audiobook (氧氣聽書) platform.

BASED ON ONLINE AND OFFLINE MUSIC INDUSTRY CHAIN

In 2017, the Group's Beijing Duomi Online Technology Co., Ltd. (「Beijing Duomi」) and 咪咕音樂有限公司 jointly organized, and co-presented with (「Live 4 LIVE尖叫現場」), a fresh brand in show business under iQIYI.com, in collaboration with many top-notch singers from overseas and domestic, a total of 41 high-quality exclusive concerts, taking place in ten popular cities of culture and lifestyle in China, including Guangzhou and Shenzhen. As at 31 December 2017, the total airplay of the online videos of Live 4 LIVE amounted to nearly 200 million times, with an accumulated rate of over 1 billion click in Weibo.

BUSINESS OUTLOOK FOR 2018

In 2018, the Group will continue to strengthen the linkage among the existing segments in the pan-entertainment industry chain, create prime IP and promote the circulation and interaction of IP among different segments within the Group, and further explore the value of customers to meet their needs.

FILM & TELEVISION PRODUCTION

In 2018, the film and television business of A8 Group will primarily focus on the following development directions:

Firstly, with the premium literature IP of Beijing Zhangwen as the starting point, it will develop the film and television projects with focus on suspense themes.

Secondly, it will strengthen its development of network dramas and films by giving full play to the advantages of the scriptwriting of Lanlanlanlan Film & Television.

Thirdly, by rounding up the successful experience of short video in 2017, A8 Film & Television will maintain its cooperation with external resources by focusing on the creation of miniseries theater, and conduct the mass production of miniseries through a variety of channels such as iQIYI, Miaopai ("秒拍") and Kuaishou ("快手") by capitalising on the miniseries theater platform.

GAME PUBLISHING BUSINESS

In 2018, after the acquisition of the game research and development companies, being Shanghai Mu77 Network Technology Co., Ltd. and Mu77 Network Technology Hongkong Limited (collectively "MU77"), the major development strategies for the game business of the Group would be as follows:

Firstly, it will develop towards research and operation integration based on the combination of R&D advantages of MU77 and the publishing experience of Finger Fun.

Secondly, it will mainly launch prime games with more socialising nature and outstanding long-term retention data, with adherence to the principle of "socialising prime games". It will also focus on the launching of prime products with vivid IP artistic expression or verification by domestic data under the strong cooperation between R&D and operation.

Thirdly, the Group will continue to develop the overseas game market.

CULTURAL INDUSTRY PARK – NATIONAL MUSIC INDUSTRY PARK – A8 MUSIC BUILDING

In 2018, along with the Houhai area in Shenzhen becoming increasingly mature, a number of famous companies will move into A8 Music Building, which will further increase the popularity of A8 Music Building and bring the expected stable increase of rent income. In the meanwhile, the Group will continue to enhance the property management level and provide better service for clients, in order to receive consistent and stable income.

In 2018, the Company will be dedicated in moving forward the development of A8Live towards its branding and content making. We will continue to expand performance business and reinforce branding promotion and industrial influence.

ONLINE LITERATURES – BEIJING ZHANGWEN

In 2018, Beijing Zhangwen will have high-level participation in the production of films and televisions by working together with the internal and external resources of the Group, such as A8 Film & Television, and Lanlanlanlan Film & Television, to create network drama series and network films. It will enhance the research and development of the new themes and contents and strive to create new games and new fantasy themes while continuing to consolidate its dominance in the suspense themes. In 2018, Beijing Zhangwen will also vigorously develop the comic distribution platform. Through the multi-way development of suspense-style literatures, it can fully utilize the advantage of the traffic from the existing literature platform, Heiyan.com (黑岩網).

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2017, the revenue of the Group (excluding business tax and surcharges) amounted to approximately RMB139.1 million, representing a decrease of 6.3% as compared with 2016 (2016: approximately RMB148.5 million).

Digital entertainment services

For the year ended 31 December 2017, the revenue of digital entertainment services of the Group amounted to approximately RMB73.8 million, representing a decrease of approximately 18.0% as compared with 2016 (2016: approximately RMB90.0 million). The decrease was mainly resulted from the decline of revenue in the game related services amounted to approximately RMB14.1 million.

Property investment business

For the year ended 31 December 2017, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB65.3 million, representing an increase of approximately 11.7% as compared with 2016 (2016: approximately RMB58.5 million). The increase was mainly due to the increase in occupancy rate and unit price resulted from the high quality property management service.

For the year ended 31 December 2017, the profit attributable to equity holders of the Company amounted to approximately RMB25.0 million (2016: approximately RMB24.1 million), representing a slight increase of approximately 3.7% as compared with 2016.

Cost of services provided

For the year ended 31 December 2017, cost of services provided by the Group amounted to approximately RMB70.9 million, representing a decrease of approximately 12.8% as compared with 2016 (2016: approximately RMB81.4 million).

Digital entertainment services

For the year ended 31 December 2017, the cost of services provided of digital entertainment services amounted to approximately RMB51.6 million, decreased by approximately 19.6% as compared with 2016 (2016: approximately RMB64.2 million). It mainly comprises revenue shared with mobile operators, distribution channels, business alliances and other costs such as game copyrights and direct labor costs.

Revenue shared with mobile operators and distribution channels mainly ranged from 30% to 60% of total digital entertainment services revenue received from mobile users and it averaged at approximately 40.2% for the year ended 31 December 2017 (2016: approximately 48.6%), while revenue shared with business alliances averaged at approximately 12.1% of total digital entertainment services revenue for the year ended 31 December 2017 (2016: approximately 16.0%).

Property investment business

For the year ended 31 December 2017, the cost of services provided of property investment business amounted to approximately RMB19.4 million, increased by approximately 12.8% as compared with 2016 (2016: approximately RMB17.2 million). It mainly comprises employees' compensation, utility charges and other maintenance costs in relation to the investment properties.

Gross profit
For the year ended 31 December 2017, the gross profit of the Group amounted to approximately RMB66.7 million, representing a slight increase of approximately 1.2% as compared with 2016 (2016: approximately RMB65.9 million). The overall gross margin ratio of the Group (which is calculated based on gross revenue divided by gross profit) was approximately 47.9%, as compared with approximately 44.4% for the year ended 31 December 2016. The increase of gross profit margin ratio was resulted from the increased profit ratio of digital entertainment services which mainly due to the decline in revenue share with distribution channels for the current year.

Other income and gains, net
For the year ended 31 December 2017, the other income and gains of the Group were approximately RMB66.7 million, representing a significant increase of approximately 96.9% as compared with a net gain of approximately RMB33.9 million for the year ended 31 December 2016.

The increase was mainly due to the increase of fair value gains on investment properties, write-off of other payables and bank interest income amounted to approximately RMB29.0 million, RMB2.5 million and RMB2.1 million, respectively.

Selling and marketing expenses
For the year ended 31 December 2017, the selling and marketing expenses of the Group amounted to approximately RMB27.4 million, representing a significant increase of approximately 98.9% as compared with 2016 and approximately 37.2% of the digital entertainment services revenue (2016: approximately RMB13.8 million, representing approximately 15.3% of digital entertainment services revenue). The increase in selling and marketing expenses and its ratio to the related revenue were mainly due to the increase in marketing and promotion expenses amounted to approximately RMB13.7 million arising from promotion activities for various mobile games during their launch stage.

Administrative expenses
For the year ended 31 December 2017, the administrative expenses of the Group amounted to approximately RMB33.7 million, representing an increase of 6.8% as compared with 2016 (2016: approximately RMB31.6 million).

Other expenses, net
For the year ended 31 December 2017, the other expenses, net of the Group amounted to approximately RMB26.7 million representing a significant increase by approximately RMB26.6 million as compared with approximately RMB80,000 in 2016. The increase was mainly due to the increase of impairment of joint ventures and an available-for-sale investment amounted to approximately RMB25.9 million.

Share of profits/(losses) of associates
For the year ended 31 December 2017, the Group shared profits of associates amounted to approximately RMB2.4 million, compared to share of losses of approximately RMB16.0 million in 2016. The change was mainly due to the decrease of shared losses of Beijing Duomi and other associates amounted to approximately RMB6.3 million and RMB3.9 million, respectively. In addition, the Group shared profits of some associates amounted to approximately RMB3.8 million in aggregate as compared to share of losses of approximately RMB4.4 million in 2016.

Income tax

For the year ended 31 December 2017, the income tax expense of the Group amounted to approximately RMB17.1 million, representing an increase of approximately 121.5% as compared with approximately RMB7.7 million in 2016, which was mainly due to the increase of deferred tax liability related to the appreciation of investment properties.

The effective tax rate of the Group was 40.6% in 2017 (2016: approximately 24.2%). With reference to the existing Corporate Income Tax Law in China, the statutory tax rates are 25% in the respective operating subsidiaries of the Group in 2017.

Liquidity and Financial Resources

As at 31 December 2017, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash and pledge deposits, available-for-sale investments and investments at fair value through profit or loss amounted to approximately RMB712.2 million (2016: approximately RMB489.6 million). Among which, approximately RMB256.3 million, or approximately 36.0% was denominated in RMB.

As at 31 December 2017, the Group has short-term interest-bearing bank borrowings amounted to approximately RMB117.2 million in aggregate, and the gearing ratio which is measured by the net borrowings over the total assets is 6.9% (2016: 2.0%).

The Group's exposure to changes in interest rate is mainly attributable to its deposits placed with banks and interest-bearing bank borrowings. The Group mainly operates in the Mainland China with most of the transactions settled in RMB.

As at 31 December 2017, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2017, the total non-current assets of the Group amounted to approximately RMB948.8 million (2016: approximately RMB661.7 million). The increase was mainly due to the increase of investments in associates amounted to approximately RMB195.0 million, which was mainly resulted from the reclassification from a non-current asset held for sale related to 35% equity interest in Beijing Zhangwen. In the current year, with management's strategic consideration of the Group's future direction to further expand its footprint in pan-entertainment field, management changed the investment strategy to retain Beijing Zhangwen as a strategic investment and does not intend to dispose it in the near future.

The increase was also due to the increase of fair value of investment properties of A8 Music Building, available-for-sale investments, investment at fair value through profit or loss and intangible assets amounted to approximately RMB50.0 million, RMB33.0 million, RMB16.1 million and RMB13.4 million, respectively, which were partly offset by the decrease of investment in joint ventures approximately RMB22.9 million.

Current Assets and Current Liabilities

As at 31 December 2017, the total current assets of the Group amounted to approximately RMB750.7 million (2016: approximately RMB706.4 million). The increase was mainly due to the increase of restricted cash balances and pledged deposits, cash and cash equivalents and available-for-sales investments amounted to RMB99.8 million, RMB99.2 million and RMB23.6 million, respectively, which was partly offset by the decrease of a non-current asset held for sale reclassified to an investment in an associate amounted to approximately RMB192.6 million as mentioned above. Trade receivables amounted to approximately RMB14.6 million (2016: approximately RMB8.6 million), and the turnover days of trade receivables was approximately 30 days (2016: approximately 39 days).

As at 31 December 2017, the total current liabilities of the Group amounted to approximately RMB220.7 million (2016: approximately RMB194.2 million). The increase was mainly due to the increase of interest-bearing bank borrowings and trade payables amounted to approximately RMB90.3 million and RMB5.6 million, respectively, which were partly offset by the decrease of other payables and accruals of approximately RMB68.0 million mainly resulted from the payment for acquisition of 35% equity interest in Beijing Zhangwen.

Cash Flow

Net cash inflow from operating activities of the Group for the year ended 31 December 2017 was approximately RMB11.7 million, resulted from cash inflow from operations amounted to approximately RMB14.5 million and the tax paid of approximately RMB2.7 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2017 was approximately RMB275.0 million, resulted from the cash outflow for the increase in restricted cash and pledge deposits, payment of acquisition for the 35% of equity interest in Beijing Zhangwen and acquisition for available-for-sale investments amounted to approximately RMB99.8 million, RMB87.5 million and RMB61.5 million, respectively. It was also due to the purchase of investments at fair value through profit or loss, acquisition of intangible assets, purchases of items of property, plant and equipment and prepayment for acquisition of an available-for-sale investment amounted to approximately RMB16.1 million, RMB11.1 million, RMB10.1 million and RMB8.1 million, respectively, which were partly offset by interest received and decrease in time deposits of approximately RMB13.2 million and RMB6.0 million, respectively.

Net cash inflow from financing activities of the Group for the year ended 31 December 2017 was approximately RMB400.4 million, resulted from the net proceeds from issuing new shares completed on 20 February 2017 amounted to approximately RMB337.2 million and receipt of principal of new bank loans amounted to approximately RMB137.2 million which were partly offset by the repayment of principal and interest of the bank loans and repurchased shares of approximately RMB50.7 million and RMB23.5 million, respectively.

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2017, the Group employed 167 employees (2016: 100 employees) and the average headcounts of year 2017 was 134 while it was 121 in year 2016. The Group determines the remuneration of its employees based on various factors such as responsibilities, qualifications and years of experience. Total employee costs for the year ended 31 December 2017, including directors' emoluments, amounted to approximately RMB25.9 million, representing a slight increase of approximately 1.6% as compared with 2016 (2016: approximately RMB25.5 million), which was mainly due to the combined effect of labor adjustment in relation to business restructure, and wage growth during 2017.

Events after the reporting period

On 12 February 2018, the Group entered into investment agreement to acquire an aggregate of a 51% equity interest in MU77 at aggregate consideration of RMB102.0 million. MU77 is principally engaged in mobile game research and development and operation in the PRC and overseas.

On 13 March 2018, the Group entered into equity transfer agreements with independent third parties to further acquire a 13.56% equity interest in Lanlanlanlan Film & Television at an aggregate consideration of RMB73.2 million. Upon completion of this transaction, the Group owns a 23.56% equity interest of Lanlanlanlan Film & Television. Lanlanlanlan Film & Television is principally engaged in script writing, sale of script, development and production of script into web series, TV series, cinema movies and web movies and its sale and related businesses.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Liu Xiaosong ("Mr. Liu"), aged 52, an executive Director, the Chairman and the Chief Executive Officer of the Company. Mr. Liu graduated from Hunan University in the PRC in 1984, with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student. He has diversified experience in the technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of Stock Exchange of Hong Kong Limited ("Stock Exchange") with the Stock Code: 00700.HK. In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the Vice President of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is also the Vice President of the Shenzhen Hi-tech Association. He is a founder of the Group and was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall strategic planning and the whole business operation and management of the Group.

Mr. Liu is a director of Duomi music Holding Ltd., which is an associate of the Company. Mr. Liu is a director of Beijing Zhangwen, which is an associate of the Company. He also acts as the director of A8 Music Group Limited, Total Plus Limited, Smart Trick Global Limited. Phoenix Success Limited, Cash River information Technology (Shenzhen) Co., Ltd., Shenzhen Huadong Feitian Network Development Co., Ltd, and Shenzhen Kuaitonglian Technology Co., Ltd., which are subsidiaries of the Company.

Mr. Liu is the director of Knight Bridge Holdings Limited ("Knight Bridge"), Ever Novel Holdings Limited ("Ever Novel") and Prime Century Technology Limited ("Prime Century"), all of which have interest in the shares of the Company discloseable under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Mr. Lin Qian ("Mr. Lin"), aged 35, an executive Director and the Chief Financial Officer of the Company. Mr. Lin graduated from Imperial College London with a Bachelor's degree in Materials Science and Engineering in 2006. Mr. Lin joined the Group as the chief financial officer of the Company in September 2016. Prior to joining the Group, he was a senior auditor at Ernst & Young from October 2006 to October 2009 and an investment manager at Shanghai Dong Fang Hui Jin (上海東方惠金文化產業投資有限公司) from October 2009 to May 2011. He was also a vice president of the investment banking department at Hua Tai United Securities Co., Ltd. (華泰聯合證券有限公司) from May 2011 to June 2014 and a director at CVCapital (投中資本) from June 2014 to August 2016. Mr. Lin has over 10 years of experience in capital operations and project management in relation to mergers and acquisitions and he is also familiar with capital markets in The People's Republic of China and abroad and is proficient in capital operations. Mr. Lin is also experienced in auditing, corporate internal control and team management. He was appointed as an executive Director on 6 April 2017.

Independent Non-executive Directors

Mr. Chan Yiu Kwong ("Mr. Chan"), aged 53, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From June 2004 to July 2006, Mr. Chan served as an independent non-executive director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holding Limited"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00371. HK). From March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00818.HK). Between 2005 and 2010, Mr. Chan served as an independent non-executive director of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprises Market of the Stock Exchange (Stock Code: 08247.HK). Mr. Chan currently serves as a joint company secretary of Hi Sun and a joint company secretary of PAX Global Technology Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00327. HK). He has years of diversified experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

Ms. Wu Shihong ("Ms Wu"), aged 60, is an independent non-executive Director. Ms. Wu has extensive experience in the information technology industry. She joined IBM China in 1985 and held the position of General Manager for channel management of IBM China from May 1997 to February 1998. She then acted as the General Manager of Microsoft China Co. Ltd. until August 1999. From December 1999 to December 2002, she was a Vice President of TCL Corporation as well as the General Manager of TCL Information Technology Industrial (Group) Co. Limited. She is an independent non – executive director of TCL Multimedia Technology Holdings Limited (Stock Code: 01070.HK) since June 2007, and she was an Executive Director of TCL Cooperation Company limited (Stock Code: 000100.SZ) from August 2015 to September 2017. Ms. Wu founded Shanghai Blackspace Info. Tech. Co. Limited in May 2008 and has been the Chairman and Chief Executive Officer since then until February 2012. Ms. Wu was appointed as an independent non-executive Director on 27 March 2012.

Mr. Li Feng ("Mr. Li"), aged 50, is an independent non-executive Director. Mr. Li has extensive experience in venture capital investment and enterprise management. Mr. Li graduated from Tsinghua University with a Bachelor's degree and Master's degree successively in 1991, and graduated from Massachusetts Institute of Technology with a Master's degree and Doctor's degree successively in 1999. Mr. Li co-founded Photonify Technologies, Inc. in 1999, and served as its Chairman and Chief Executive Officer. He co-founded EPIN Media Holdings, Ltd. in 2002, and served as its Chairman, President and Chief Executive Officer. During the period from 2009 to 2011, Mr. Li was a partner at VantagePoint Capital Partner. Since 2011, Mr. Li served as the founding partner at SummitView Capital which was a venture and private equity investment institution focusing on emerging industries. Mr. Li was appointed as an Independent non-executive Director on 30 May 2016.

SENIOR MANAGEMENT OF THE GROUP

Mr. Su Wei ("Mr. Su"), aged 42, the Chief Investment Officer of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in Money and Banking in 1998 and further obtained a Master Business Administration degree from Donghua University in 2006. Mr. Su has years of diversified working experience in corporate internal management, investments, mergers and acquisitions, project financing, reorganization, and has in-depth knowledge in the internet industry. He worked for Shanghai Pudong Road & Bridge Construction Co., Ltd (Shanghai Stock Exchange: 600284), Shanda Computer (Shanghai) Co., Ltd., etc. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy, investment, operation management and informatization. Mr. Su also acts as a director of Duomi music Holding Ltd., which is an associate of the Company. Mr. Su also acted as a director of Beijing Zhangwen, which is an associate of the Company. He also acts as the director of Beijing Tianlai Cultural Broadcasting Co., Ltd.,which is subsidiary of the Company.

Mr. Liu Xiaosong and Mr. Lin Qian are also the Senior Management of the Group, please refer to page 13 for their resume.

Directors' Report

The board (the "Board") of directors (the "Directors") presents their report and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the section headed "Chairman's Statement" on pages 4 to 7 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 47 to 128.

No interim dividend was declared for the six months ended 30 June 2017 and the Board does not recommend the payment of final dividend for the year ended 31 December 2017.

FINANCIAL SUMMARY AND HIGHLIGHT

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 3. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2017 are set out in notes 32 and 33 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders of the Company.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, the Company repurchased 59,080,000 shares of its own ordinary shares of the Company at the highest and lowest prices of HK$0.560 and HK$0.415 per share respectively ("Shares Repurchase"). The Company conducted the Shares Repurchase because the Board considered that the then value of the Company's shares was consistently undervalued, and the Board believed that the then financial resources of the Company would enable it to conduct the Shares Repurchase while maintaining a solid financial position for the continuation of the Company's business in the financial year.

Detail information of the purchase, sales or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2017 were disclosed in note 35(i) of the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution amounted to approximately RMB824,405,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, revenues from the five largest customers of the Group accounted for approximately 33% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 9% of the Group's total revenues. In addition, for the year ended 31 December 2017, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors nor any of their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) of the Company had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors: Mr. Liu Xiaosong and Mr. Lin Qian

Independent non-executive Directors: Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng

Mr. Liu Pun Leung resigned as an executive Director of the Company on 6 April 2017.

In accordance with article 87(1) of the Articles, one third of the Directors will retire and, being eligible, for re-election as Directors at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng. As at the date of this report, the Company still considers these independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter (as the case may be) with the Company for an initial fixed term of three years commencing from their appointment or re-designation, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to Articles, and will continue thereafter until terminated by (i) in cases of executive Directors and independent non-executive Directors, not less than three months' notice in writing served by either party on the other or payment in lieu of such notice, or (ii) in case of non-executive Directors, not less than one month's notice in writing by the non-executive Director or the written notice issued by the Company with immediate effect.

Apart from the foregoing, no Director has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings of the Company. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2017 and up to the date of this annual report, there was or is permitted indemnity provision (within the meaning in section 469 of the Hong Kong Companies Ordinance) in the articles of association of the Company being in force.

The Company has taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover certain legal actions brought against its directors and officers.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 40 to the financial statements and in the section headed "Connected transactions" in this report, no Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party subsisting during or at the year ended 31 December 2017.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Save as disclosed in note 40 to the financial statements and in the section headed "Connected transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Save as disclosed in note 40 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholders of the Company or any of its subsidiaries was entered into.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the Directors and chief executive of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules and the Company's own code of conduct regarding Directors' dealings in the Company's securities ("Own Code"):

Long positions in shares of the Company

		Number of shares		
Name of Directors	**Nature of interest**	**Ordinary shares**	**Underlying Shares (under equity derivatives of the Company)**	**Approximate percentage of interest in the Company's issued share capital[1]**
Mr. Liu	Founder of trust[2]	1,455,867,398	Nil	53.51%
	Beneficial Owner	5,766,000	21,914,910[3]	1.02%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000[3]	0.18%
Mr. Chan Yiu Kwong	Beneficial Owner	105,000	315,000[3]	0.02%
Ms. Wu Shihong	Beneficial Owner	Nil	420,000[3]	0.02%
Mr. Li Feng	Beneficial Owner	Nil	150,000[3]	0.01%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2017 (i.e. 2,720,592,628 Shares).

2. Mr. Liu is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel and Prime Century in the Company. As at 31 December 2017, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.

3. Details of share options held by the Directors are shown in the section of "Share Option Schemes".

4. On 9 January 2018, the Company granted share options to Mr. Liu under the share option scheme adopted by the Company on 26 May 2008 to subscribe an aggregate of 1,715,000 ordinary shares of HK$0.01 per share in the share capital of the Company, as fully exercised and adjusted in accordance to the share option scheme. As at the date of this report, Mr. Liu Xiaosong held an aggregate of 23,629,910 shares of the underlying shares in the equity derivatives of the Company.

Long positions in associated corporations of the Company

Name of associated corporations	Name of Directors	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest in the total issued share capital
深圳市華動飛天網路技術開發有限公司 ("Huadong Feitian")[1]	Mr. Liu	Beneficial owner	RMB21,510,000[2]	75.00%
Duomi Music Holding Ltd ("Duomi Music")[3]	Mr. Liu	Interest of controlled corporation	35,435,640[4]	33.94%
Beijing Duomi Online Technology Co., Ltd ("Beijing Duomi")[5]	Mr. Liu	Beneficial owner	23,637,000[6]	27.08%
Beijing Zhangwen	Mr. Liu	Beneficial owner	RMB13,000,000[8]	65.00%

Notes:

1. Huadong Feitian is a limited liability company incorporated in the PRC whose financial results are, through a number of structure contracts, consolidated into the interim financial information of the Company and therefore an associated corporation of the Company.

2. This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.

3. Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 31 December 2017, the Company was interested in approximately 48.13% of the shares of Duomi Music through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned holding company, Fortune Light Investments Limited ("Fortune Light"), was interested in approximately 33.94% of the shares of Duomi Music.

4. This represents the number of shares of Duomi Music held by Mr. Liu.

5. Beijing Duomi is a limited liability company incorporated in the PRC. As at 31 December 2017, the Company was interested in 22.80% of the registered capital of Beijing Duomi through its wholly-owned subsidiary, Kuaitonglian, and therefore Beijing Duomi is an associated corporation of the Company. Mr. Liu was directly interested in 27.08% of the shares of Beijing Duomi.

6. This represents the number of shares of Beijing Duomi held by Mr. Liu.

7. Beijing Zhangwen is a limited liability company incorporated in the PRC. As at 31 December 2017, the Company was interested in 35% of the registered capital of Beijing Zhangwen through its wholly-owned subsidiary, Yunhai Qingtian, and therefore Beijing Zhangwen is an associated corporation of the Company. Mr. Liu, through a holding company which he was interested in 90% of the shares, Shenzhen Haoxiang Investment Co., Ltd, was interested in 65% of the Shares of Beijing Zhangwen.

8. This represents the amount of registered capital of Beijing Zhangwen held by Mr. Liu.

Save as disclosed, as at 31 December 2017, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

On 26 May 2008, the shareholders of the Company adopted two share option schemes for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons.

The exercise period of the Company's share options under the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") had ended on 21 May 2012, and no further share option will be granted under the Pre-IPO Share Option Scheme. During the year ended 31 December 2017, no share option granted under this Scheme was exercised or cancelled.

The following table discloses movements in the Company's share options outstanding under the share option schemes (the "Share Option Scheme") during the year:

Name/ category of participants	At 1 January 2017	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 2017	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Directors of the Group											
Liu Xiaosong	21,914,910	–	–	–	–	21,914,910					
Including:	597,310	–	–	–	–	597,310	5 October 2009	One-third of the share options granted will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	7,600,000	–	–	–	–	7,600,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	4,807,600	–	–	–	–	4,807,600	14 May 2015	One-fourth of the share options granted will be vested every 12-month period starting from 14 May 2016	14 May 2022	1.04	1.04
	8,910,000	–	–	–	–	8,910,000	16 May 2016	One-third of the share options granted will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.56	0.54
Lin Qian	–	–	5,000,000	–	–	5,000,000	5 April 2017	One-fourth of the share options granted will be vested every 12-month period starting from 24 December 2017	5 April 2024	0.512	0.51

Name/ category of participants	At 1 January 2017	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 2017	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Chan Yiu Kwong	315,000	–	–	–	–	315,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Wu Shihong	420,000	–	–	–	–	420,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Li Feng	–	–	150,000	–	–	150,000	21 April 2017	One-half of the share options granted will be vested at 24 April 2017 and 24 April 2018, respectively	21 April 2024	0.487	0.51
Subtotal	**22,649,910**	**-**	**5,150,000**	**-**	**-**	**27,799,910**					
Senior Management of the Group											
	3,177,500	–	–	–	–	3,177,500	24 January 2014	One-fourth of the share options granted will be vested every 12-month period starting from 24 January 2015	24 January 2021	0.684	0.68
	9,222,000	–	–	–	–	9,222,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Subtotal	**12,399,500**	**-**	**-**	**-**	**-**	**12,399,500**					

Name/ category of participants	At 1 January 2017	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 2017	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Other employees and eligible persons of the Group											
	2,888,762	–	–	–	–	2,888,762	15 October 2008	One-fourth of the share options granted will be vested every 12-month period starting from 15 October 2009	14 October 2018	0.9028	1.15
	321,612	–	–	–	–	321,612	5 October 2009	One-third of the share options granted will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	1,500,000	–	–	–	–	1,500,000	14 January 2014	One-fourth of the share options granted will be vested every 12-month period starting from 14 January 2015	14 January 2019	0.69	0.66
	5,372,554	–	–	–	–	5,372,554	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	1,250,000	–	–	–	–	1,250,000	23 April 2014	All of the share options granted have been vested on 15 October 2015	23 April 2021	0.65	0.65
Subtotal	**11,332,928**	**-**	**-**	**-**	**-**	**11,332,928**					
TOTAL	**46,382,338**	**-**	**5,150,000**	**-**	**-**	**51,532,338**					

During the year ended 31 December 2017, 5,150,000 share options were granted under the Share Option Scheme and no share options granted under the Share Option Scheme was exercised. No share options granted under the Share Option Scheme were lapsed or cancelled following the end of the exercise period or the resignation of the relevant employees and eligible persons.

As at the date of approval of this financial report, there were 35,552,000 outstanding share options granted under the Share Option Scheme, representing approximately 1.31% of the issued share capital of the Company.

Please refer to note 33 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

SHARE AWARD SCHEME

The Board has approved the adoption of a share award scheme (the "Share Award Scheme") on 16 August 2010 ("Adoption Date") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Law Debenture Trust (Asia) Limited (the "Trustee") acts as the trustee for the Share Award Scheme. The Share Award Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme and the Share Option Scheme.

During the year ended 31 December 2017, no awarded shares were granted under the Share Award Scheme, the Trustee has not purchased any of the Company's existing Shares on the market for the purpose of the Share Award Scheme, no awarded shares were released to awarders, no awarded shares were lapsed following the resignations of the relevant employees and eligible persons.

Further details of the Scheme are disclosed in note 34 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2017, the persons or corporations (other than a Director or chief executive of the Company) who have interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or have otherwise notified to the Company are as follows:

Name of substantial shareholder	Nature of interest	Number of Ordinary shares (long positions)	Approximate percentage of interest in the Company's issued share capital[1]
HSBC International	Trustee (other than a bare trustee)[2]	1,543,747,398	56.74%
River Road	Interest in controlled corporation[2]	1,455,867,398	53.51%
Knight Bridge	Interest in controlled corporation[2]	1,455,867,398	53.51%
Ever Novel	Interest in controlled corporation[3]	379,496,303	13.95%
	Beneficial Owner[3]	1,076,371,095	39.56%
Prime Century	Beneficial Owner[3]	379,496,303	13.95%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2017 (i.e. 2,720,592,628 Shares).

2. HSBC International Trustee Limited ("HSBC International") is the trustee of family trusts of Mr. Liu, which, through intermediate holding companies (including but not exclusively River Road Investment Limited ("River Road"), Knight Bridge, Ever Novel, Prime Century and Grand Idea Holdings Limited ("Grand Idea")), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (as at 31 December 2017, 1,543,747,398 Shares in total).

3. As at 31 December 2017, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in the 379,496,303 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other person or corporation other than the Directors or chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests in shares and underlying shares" above having an interest or short position in the shares or underlying shares of the Company representing 5% or more of the issued share capital of the Company which is required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

The contractual arrangements

Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services in the PRC, the Group has entered into a number of contracts ("Structure Contracts") with certain PRC operating companies ("OPCOs") solely for the purpose of operating the Group's relevant businesses in the PRC ("Contractual Arrangement"). The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of the OPCOs. The original contracts relating to the Contractual Arrangement were entered into in 2004. In light of the new requirements of the Stock Exchange and, to keep align with the recent practices commonly adopted by other listed companies in relation to the terms and conditions of the structure contracts to strengthen the control of the Company over the OPCOs, the Group has entered into new contracts to replace its existing Contractual Arrangement in order to align with such new regulatory requirements and the recent practices.

In compliance with the disclosure requirements on the contract-based arrangements or structures pursuant to the updated guidance letter issued by the Stock Exchange (HKEx-GL77-14), the Group provides a summary of the Group's business which is operated through the OPCOs.

1. *Particulars of OPCO and its registered owners*

深圳市華動飛天網絡技術開發有限公司 ("Huadong Feitian")

Huadong Feitian is a limited liability company established in the PRC on 22 May 2000. The registered shareholders of Huadong Feitian are Mr. Liu Xiaosong (75%) and Ms. Cui Jingtao (25%).

深圳市快通聯科技有限公司 ("Kuaitonglian")

Kuaitonglian is a limited liability company established in the PRC on 10 May 2004. The registered shareholders of Kuaitonglian are Mr. Zhang Shouqi (80%) and Ms. Ma Hongxia (20%).

深圳市雲海情天文化傳播有限公司 ("Yunhai Qingtian")

Yunhai Qingtian is a limited liability company established in the PRC on 9 December 2004. The sole registered shareholder is Mr. Cao Aiguo (100%).

2. *Description of OPCOs' business*

Huadong Feitian and its subsidiaries are principally engaged in the provision of internet information service property investment and music performance.

Kuaitonglian and its subsidiaries are principally engaged in the provision of mobile value-added services.

Yunhai Qingtian and its subsidiaries are principally engaged in the provision of game publishing services and value-added telecommunication services.

3. *Summary of the Major Terms of the Underlying Contracts of the Contractual Arrangement*

Several Structure Contracts of similar terms were made:

(i) between 佳仕域信息科技(深圳)有限公司 ("Cash River") and (i) Huadong Feitian and its registered shareholders, and (ii) Kuaitonglian and its registered shareholders, respectively; and

(ii) between 深圳市指游方寸網絡科技有限公司 ("Finger Fun") Yunhai Qingtian and its registered shareholder,

which allows Cash River/Finger Fun to exercise control and enjoy economic benefit generated from the OPCOs. Each of Cash River and Finger Fun is a wholly-owned subsidiary of the Company. The major terms of these Structure Contracts are summarised as follows.

a. *Exclusive Business Cooperation and Service Agreement*

The Exclusive Business Cooperation and Service Agreement provides that, among others:

(1) the parties to the Exclusive Business Cooperation and Service Agreement shall cooperate with each other in technical support, business support and related consultancy services which include but not limited to technical service, business consultation, equipment leasing, market consultation, system integration, product research and development and system maintenance, and intellectual property rights;

(2) Cash River/Finger Fun shall provide certain technical and business support and the consultancy services to the OPCO in return for the service fee;

(3) The OPCO shall not have any similar cooperation with any third party;

(4) The OPCO shall not transfer any of its rights and/or obligations under the Exclusive Business Cooperation and Service Agreement without the prior consent of Cash River/Finger Fun; and

(5) The OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets and business, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit of all contracts entered into by the OPCO at the lowest purchase price as permitted by the PRC laws.

The Exclusive Business Cooperation and Service Agreement is valid for 20 years from their respective signing date and Cash River/Finger Fun shall be entitled to renew the relevant Exclusive Business Cooperation and Service Agreement by written notice to OPCO.

b. *Share Disposition and Exclusive Option to Purchase Agreement*
Pursuant to the Share Disposition and Exclusive Option to Purchase Agreement:

(1) the shareholder(s) of the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the respective OPCO, in one or more transfers as determined by Cash River/Finger Fun in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;

(2) the shareholder(s) of the OPCO covenants or where applicable, jointly and severally covenant that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the OPCO being transferred by another shareholder of the OPCO; and

(3) the OPCO covenants that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without the prior written consent of Cash River/Finger Fun.

Each of the Share Disposition and Exclusive Option to Purchase Agreements shall be effective from their respective date of signing and remain in effect until all the equity interest held by the registered shareholder(s) of the OPCO has been legally transferred to Cash River/Finger Fun or its nominee(s) in accordance with the Share Disposition and Exclusive Option to Purchase Agreement.

c. *Equity Interest Pledge Agreement*
Pursuant to the Equity Interest Pledge Agreement:

(1) the shareholder(s) of the OPCO granted to Cash River/Finger Fun a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the OPCO, as collateral security for the prompt and full performance of the OPCO's shareholders' obligations under all the Structure Contracts; and

(2) the registered shareholder(s) of the OPCO warranted to Cash River/Finger Fun that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely impact or hinder the enforcement of the Equity Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the registered shareholder(s) of the OPCO.

d. *Proxy Agreement*
The Proxy Agreement, among other things, provides that:

(1) the registered shareholder(s) of the OPCO agrees to authorise Cash River/Finger Fun or the person(s) designated by Cash River/Finger Fun to exercise all of their rights and powers as shareholder, including convening and attending the shareholders' meeting, exercising the voting right and other shareholder's rights and powers, without seeking prior consent from the registered shareholder(s) of the relevant OPCO;

(2) the registered shareholder(s) of the OPCO shall not revoke the authorisation and without the consent of Cash River/Finger Fun, shall not exercise the shareholder's rights and powers;

(3) the OPCO shall inform Cash River/Finger Fun the relevant information relating to the exercise of the shareholder's rights and shall provide all necessary assistance; and

(4) the OPCO and their respective registered shareholder(s) shall not entitled to any indemnity or compensation under the Proxy Agreement.

The Proxy Agreements shall be effective from the date of signing until the registered shareholder(s) of the OPCO ceases to hold equity interests in the OPCO.

All Structure Contracts contain a similar dispute resolution clause which provides that:

(1) any dispute arising from the interpretation and implementation of the Contractual Arrangement between the parties should first be resolved through negotiation, failing which any party may submit the said dispute to the South China International Economic and Trade Arbitration Commission ("SCIA") in Shenzhen for arbitration in accordance with their arbitration rules and the results of the arbitration shall be final and binding on all relevant parties;

(2) the arbitrators may award remedies over the shares or land assets of OPCO, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of OPCO; and

(3) the courts of competent jurisdictions have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Cayman Islands, the OPCO's place of incorporation, and the place where the Company or OPCO's principal assets are located have jurisdiction for this purpose.

4. *Revenue and Assets Subject to the Contractual Arrangements*

The consolidated total revenue, the consolidated total assets and the consolidated total net assets of the OPCOs and their subsidiaries for the year ended 31 December 2016 were approximately RMB139,118,000, RMB991,891,000 and RMB775,455,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuaitonglian amounted to approximately RMB24,396,000, RMB64,220,000 and RMB50,502,000, respectively, representing approximately 18%, 46% and 36% of the consolidated total revenue of the Group, respectively.

5. *Risks Relating to the Contractual Arrangements*

The board of directors of the Company wishes to emphasize that the Group relies on the Contractual Arrangements to control and obtain the economic benefits from the OPCOs, which may not be as effective in providing operational control as direct ownership. In addition, if the PRC government finds that the agreements that establish the structure for operating the value-added telecommunication business of the OPCOs in the PRC do not comply with applicable PRC laws and regulations, (e.g. the Circular regarding the Consistent Implementation of the "Stipulations on 'Three Provisions'" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games Xin Chu Lian No.13 [2009], issued by the PRC General Administration for Press and Publication and the PRC State Copyright Administration dated 28 September 2009, which prohibits foreign investors from gaining control over or participating in PRC operating companies' online game operations through indirect way), or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Group's interest therein.

A PRC legal opinion has been obtained by the Company, pursuant to which the PRC lawyers confirm that the Structure Contracts under the Contractual Arrangement would not be void under the PRC laws, as the Structure Contracts do not violate any mandatory provisions in PRC laws and regulations nor would be deemed as "concealing illegal intention with a lawful form" and the PRC lawyers are not aware of any online game companies which use the same or similar contractual arrangements as the Company's having been penalised or ordered to terminate operation by PRC authorities claiming that the contractual arrangements constitute control over, or participation in the operation of, online game operating businesses through indirect means.

6. *Material Change*

Save as disclosed above, as at the date of this report, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

7. *Unwinding of Structure Contracts*

As at the date of this report, there is no unwinding of any of the Structured Contracts or failure to unwind when the restrictions that led to the adoption of the Structured Contracts are removed.

Connected transaction in relation to the investment in Qingsong Fund III

On 12 May 2017, the Company through its indirect wholly-owned subsidiary Kuaitonglian entered into a partnership agreement with Shenzhen Qianhai Qingsong Venture Investment Fund Management Enterprise (Limited Partnership) (深圳市前海青松創業投資基金管理企業(有限合夥)), Gongqingcheng Zhengyi Investment Management Partnership Enterprise (Limited Partnership) (共青城正益投資管理合夥企業(有限合夥)) (a limited partnership ultimately wholly owned by Mr. Liu) and other investors. Pursuant to the partnership agreement, the Company has agreed to invest RMB20 million (equivalent to HK$22.47 million) to subscribe for approximately 3.18% interest in (Shenzhen Qingsong Phase III Equity Investment Fund Partnership Enterprise (Limited Partnership) (深圳市青松三期股權投資基金合夥企業(有限合夥)) ("Qingsong Fund III") in the capacity of LP. As of 31 December 2017, the Company has held approximately 1.92% interest in Qingsong Fund III in the capacity of LP.

Qingsong Fund III will be established in the PRC as limited partnership which will be principally engaged in venture capital, venture capital management and other activities relating to venture capital to promote the development of new industries.

Connected transaction in relation to entering into a license agreement for the online literature "Life Changing Master"

On 18 December 2017, A8 Film & Television a wholly-owned subsidiary of the Company, entered into a license agreement with Tianjin Heiyan Information Technology Co., Ltd. (天津黑岩信息技術有限公司) ("Tianjin Heiyan"). Pursuant to the license agreement, Tianjin Heiyan agreed to grant a film and television adapted license in respect of its owned online literature "Ghost Agent – Life Changing Master" (陰陽代理人之改命師) ("Life Changing Master") in the PRC, Hong Kong and Macau for a term of five years commencing from 18 December 2017 to 18 December 2022 at the Licence Fee of RMB3,000,000 (equivalent to approximately HK$3,529,000).

Tianjin Heiyan is a wholly-owned subsidiary of Beijing Zhangwen which in turn is owned as to 35% by the Company and 65% by Shenzhen Haoxiang Investment. Co., Ltd., a 90%-owned company of Mr. Liu. Therefore, the licensor is an associate of Mr. Liu, and hence a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, entering to the license agreement constitutes a connected transaction of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. On 26 May 2008, each of the then controlling shareholders (within the meaning under the Listing Rules) of the Company, namely Mr. Liu Xiaosong, Prime Century, Ever Novel and Grand Idea, entered into a deed of non-competition dated 26 May 2008 (the "Deed of Non-competition") in favor of the Company (for itself and the benefits of other members of the Group), pursuant to which he/it has undertaken to the Company that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. Details of the non-competition undertaking have been set out in the subsection headed "Non-competition undertaking" under the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The "restricted period" stated in the Deed of Non-competition refers to the period during which:

1) the shares of the Company remain listed on the Stock Exchange;

2) regarding any member of the then controlling shareholders, so long as he or his associates directly or indirectly holds an equity interest in the Group; and

3) the then controlling shareholders jointly are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

As disclosed in the announcement of the Company dated 24 April 2009 and 9 July 2009, as a result of the reorganisation of the shareholdings in the Company by certain shareholders of the Company, Prime Century and Grand Idea have ceased to become the controlling shareholders of the Company respectively, but they remain to be bound by the provision of the deed of non-competition.

The Company has received the annual confirmations from each of the then controlling shareholders of the Company in respect of their respective compliance with the terms of the Deed of Non-competition.

AUDIT COMMITTEE

The Audit Committee of the Company, all members of which are independent non-executive Directors with the Chairman Mr. Chan Yiu Kwong having appropriate professional qualifications and experience in financial matters, has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2017.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by the Company's auditors, Ernst & Young, who will retire in the forthcoming annual general meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

There has been no change of the auditors of the Company since the listing of the Company's shares on the Stock Exchange on 12 June 2008.

ON BEHALF OF THE BOARD
Liu Xiaosong
Chairman

Hong Kong
29 March 2018

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, and successful business growth and enhancing shareholders' value.

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. Throughout the year ended 31 December 2017, the Company has applied the principles and complied with all code provisions, and where applicable, the recommended best practices as set out in the Corporate Governance Code (the "CG Code"), except for the deviation from code provision A.2.1 as explained on page 34 in the section headed "Chairman and Chief Executive Officer".

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and align with the latest developments.

THE BOARD

Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board also oversees the Group's businesses, strategic decisions and performance as well as performs the corporate governance duties.

The Board has delegated to the senior management the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee, and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have full and timely access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The senior management of the Company provides all directors with monthly updates on the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. Each Director knows that he is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

All directors take decisions objectively in the interests of the Company and have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Delegation of Management Functions

The Board reserves for its decisions on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the CEO and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board has given clear directions as to such officers' powers and responsibilities, and periodically reviews their delegated functions and work tasks to ensure such arrangements remain appropriate to the Company's needs. The Board has the full support of the CEO and the senior management to discharge its responsibilities.

Board Composition

The Board currently comprises 5 members, consisting of 2 executive Directors and 3 independent non-executive Directors. None of the members of the Board is related to one another.

Three Board Committees, namely, Audit Committee, Remuneration Committee and Nomination Committee, have been established with specific terms of reference which were posted on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2017, the Board has at all time met the relevant requirements of the Listing Rules relating to having at least one-third of independent non-executive Directors, comprising at least three independent non-executive Directors and having one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise.

The list of all Directors is set out under "Corporate Information" on page 2 of this annual report and all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all non-executive Directors have made various contributions to the effective direction of the Company.

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association. The Nomination Committee as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors is engaged on a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice or payment in lieu of such notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a specific term of three years and is subject to retirement by rotation once every three years. And they should be re-appointed at any annual general meeting of the Company during their term of office. The appointment may be terminated by not less than three month's written notice or payment in lieu of such notice.

In accordance with the Company's articles of association which were amended by a written resolution dated 26 May 2008, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting or the first annual general meeting respectively after appointment.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board regularly to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary. The recommendations of the Nomination Committee are then put to the full Board for decision.

The Nomination Committee recommended the re-appointment of the Directors Mr. Lin Qian, Ms. Wu Shihong standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 18 April 2018 contains detailed information of the directors standing for re-election.

Induction and Continuous Professional Development for Directors

Each newly appointed Director receives formal, tailored and comprehensive induction on the first occasion of his/her appointment, he/she will get a package setting out the duties and responsibilities of director under the Listing Rules, the Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong, including the Guidelines for Directors issued by the Hong Kong Companies Registry and the Hong Kong Institute of Directors, supported by lawyers explanation, so that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Meantime, he/she will have chance to communicate with executive directors as to ensure that he/she has appropriate understanding of the business and operations of the Company.

Development and training of Directors is an ongoing process. During the year, (1) the Company Secretary irregularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses with appropriate emphasis on the roles, functions and duties of the Directors, at the Company's expense; (2) the Company Secretary also irregularly send relative laws, regulations and latest cases to directors in order to assist the directors to perform their duties appropriately; (3) the Company encourages the Directors to participate in continuing professional development training, the Company Secretary assists them to handle the relevant formalities, and the Company would bear all the relevant costs; (4) the Company Secretary assists the directors in making continuing professional development training program.

The Company has received written confirmations from all of the Directors on their training records for the year ended 31 December 2017; the Board has reviewed and evaluated such training records in the board meeting dated 29 March 2018.

According to the aforementioned records, a summary of the training received in 2017 by the Directors is set out as follows:

Name of Directors	**Reading regulatory updates**	**Attending or participating briefings/seminars/ conferences/workshops relevant to the Company's businesses and directors' duties**
Executive Directors		
Mr. Liu Xiaosong	✓	✓
Mr. Lin Qian	✓	✓
Independent non-executive Directors		
Mr. Chan Yiu Kwong	✓	✓
Ms. Wu Shihong	✓	✓
Mr. Li Feng	✓	✓

Board Meetings

Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of Directors, either in person or through other electronic means of communication.

During the period ended 31 December 2017, five Board meetings were held for reviewing and approving the financial and operating performance, Invested in Shenzhen Qingsong Phase III Equity Investment Fund Partnership Enterprise (Limited Partnership) (深圳市青松三期股權投資基金合伙企業（有限合伙）), granted options to Directors, acquired the adaptation right for film and television of "Life Changing Master" (《改命師》), a piece of online literary work, etc. The attendance records of each Director at the Board meetings for the period ended 31 December 2017 are set out below:

Name of Directors	**Number of Meetings and Directors' Attendance**
Executive Directors	
Mr. Liu Xiaosong *(Chairman)*	4/5
Mr. Lin Qian	4/5
Mr. Liu Pun Leung	1/5
Independent non-executive Directors	
Mr. Chan Yiu Kwong	5/5
Ms. Wu Shihong	5/5
Mr. Li Feng	4/5

Apart from the abovementioned regular Board meetings, a meeting between the Chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors was also held during the year. The attendance rate of this meeting was 100%.

General Meetings

During the period ended 31 December 2017, two general meetings were held by the Company. The Chairman of the Board, Chairman of the Audit Committee attended the extraordinary general meeting in 13 February 2017 and the annual general meeting in 22 May 2017, and were available to answer questions. The attendance records of each Director at the general meetings are set out below:

Members of the Board	**Attendance**
Executive Directors	
Mr. Liu Xiaosong *(Chairman of the Board)*	2/2
Mr. Lin Qian	1/2
Mr. Liu Pun Leung	0/2
Independent Non-executive Directors	
Mr. Chan Yiu Kwong	2/2
Ms. Wu Shihong	0/2
Mr. Li Feng	0/2

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management attends, where necessary, Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Directors are normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 in the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. In the year ended 31 December 2017, the chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, the Company did not complied with code provision A.2.1. Considering Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group, the Board considered that Mr. Liu is able to lead the Board in making business decision for the Group. Therefore, Mr. Liu has had the dual roles of the Chairman and CEO of the Company despite deviation from code provision A.2.1 during the year ended 31 December 2017.

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, Audit Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of the Stock Exchange www.hkexnews.hk and the Company's website www.a8nmg.com.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Remuneration Committee

The Remuneration Committee comprises three members, namely Ms. Wu Shihong (Chairman, independent non-executive Director), Mr. Liu Xiaosong (executive Director) and Mr. Li Feng (independent non-executive Director). The majority of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include:

- To make recommendations to the Board on the establishment of procedures for developing remuneration policy and structure for all Directors and the senior management;

- To determine and approve, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management; and

- To make recommendations on the remuneration of the non-executive Directors by reference to the market practice and conditions as well as the time commitment and responsibilities devoted by the individual non-executive Directors.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

For the year ended 31 December 2017, three meetings were held by the Remuneration Committee for considering and reviewing all Directors' and senior management remuneration with reference to the Group's and individual performance suggesting remuneration of a non-executive Director and Chief Financial Officer. The attendance records of the Remuneration Committee are set out below:

Members of the Remuneration Committee	**Attendance**
Ms. Wu Shihong *(Chairman of the Remuneration Committee and Independent Non-executive Director)*	3/3
Mr. Liu Xiaosong	3/3
Mr. Li Feng	3/3

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yiu Kwong (Chairman, independent non-executive Director), Ms. Wu Shihong (independent non-executive Director), and Mr. Li Feng (independent non-executive Director), which comprises one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised from time to time in terms substantially the same as the provisions set out in the CG Code. The latest version of the terms of reference of the Audit Committee is available on the websites of the Company and the Stock Exchange.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. Regular meetings have been held by the Audit Committee since its establishment.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditors before submission to the Board.

- To review the fees and terms of engagement of the external auditors by reference to the work performed by the auditors and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

For the year ended 31 December 2017, three meetings were held by the Audit Committee for considering and reviewing the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. The external auditors were invited to attend the meetings to discuss with the Audit Committee issues arising from the audit and financial reporting matters.

The attendance records of the Audit Committee are set out below:

Members of the Audit Committee	**Attendance**
Mr. Chan Yiu Kwong *(Chairman of the Audit Committee and Independent Non-executive Director)*	3/3
Ms. Wu Shihong	3/3
Mr. Li Feng	2/3

The Company's annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Liu Xiaosong (Chairman, executive Director), Ms. Wu Shihong (independent non-executive Director) and Mr. Li Feng (independent non-executive Director). The majority of them are independent non-executive Directors.

The primary objectives of the Nomination Committee include:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy;

- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- To assess the independence of independent non-executive Directors; and

- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

During the reporting period, two meetings was held by the Nomination Committee, to review the structure, size and composition (including the skills, knowledge and experience) of the Board, assess the independence of independent non-executive Directors, recommend the Directors stand for re-election at the forth coming annual general meeting of the Company, etc.

The attendance record of such meeting is set out below:

Members of the Nomination Committee	Attendance
Mr. Liu Xiaosong *(Chairman of the Nomination Committee)*	2/2
Ms. Wu Shihong	2/2
Mr. Li Feng	2/2

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code on terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2017.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial and other information and position of the Company put to the Board for approval.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 41.

During the year ended 31 December 2017, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

Category of services	Fee paid/ payable (RMB'000)
Audit services	1,756
Non-audit services – other services	124
Total	1,880

INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group including the efficiency of business operation, financial management and risk management of operating flow, etc.

The Company has developed its systems of internal control and risk management and will continue to review and assess procedures for their effectiveness.

The Audit Committee provides supervision of the internal control system of the Group, reports to the Board on any material issues and makes recommendations.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The internal audit department reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address variances and identified risks.

The key elements of the Group's internal control system include the following:

- The organisational structure is clearly defined with distinct lines of authority and control responsibilities.
- A comprehensive financial accounting system has been established to provide indicators for performance measurement and to ensure compliance with relevant rules.
- Plans for financial reporting, operations and compliance with reference to potential significant risks are prepared annually by the senior management.
- Unauthorised expenditures and release of confidential information are strictly prohibited.
- Proper policy is in place to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmers and budget.
- The control process and risk factors are reviewed, evaluated, and monitored on a regular basis so that any findings and measures to address the variances and identified risks could be reported to the Audit Committee.

During the year under review, the Company engaged internal audit department to review and check internal control regularly and systematically. Report from internal audit department were presented to and reviewed by the Audit Committee.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene EGM

Pursuant to Article 58 of the Articles, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right of voting at the general meetings shall at all times have the right, by written requisition (the "Requisition", and for the Shareholder concerned, the "Requisitionist") to the Board or the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The Requisition must state the objects of the meeting, contain the full name(s) of the Requisitionist(s), his/her/their contact details and identification, be signed by the Requisitionist and be deposited at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, for the attention of the Company Secretary.

An EGM shall be held within two (2) months after the deposit of such Requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the Requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to put forward enquiries to the Board or put forward proposals at general meetings

To put forward enquiries to the Board, the Shareholders may either contact the Company Secretary through email at ir@a8.com, or submit a written notice of their enquiries with their detailed contact information to the Company Secretary at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, or directly raise questions at general meetings.

Procedures for Shareholders to propose a person for election as a Director

As regards the procedure for Shareholders to propose a person for election as a Director, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the Company's website.

Voting by poll

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group pays much attention to maintaining good relationships with Shareholders and investors. The Group has set up a specialized department to deal with investor relationships affairs. We try to achieve two-way communication with Shareholders, investors and media through consistent, timely and transparent disclosure of information.

The Group strictly adheres to non-selective disclosure guidelines to ensure that communications with Shareholders, investors and the media are open and fair. No material, non-public information is made available to any individual on a selective basis. The Group experienced difficulties and faced various challenges during the past two years but we kept the consistent communication with the market through publishing results announcement and reports, holding investors conferences, arranging meetings with investors in person or via conference calls, participating in various investor forums, distributing press release etc. to provide necessary information to form their own judgments and provided feedback to management in order to improve operations and corporate governance of the Group.

Meanwhile, the Group continues to update the contents including business information, financial information, announcements, corporate governance etc. stated on the website of www.a8nmg.com to improve transparency. The public can communicate with the Group through phone call and ir's mailbox which are handled and replied by professional IR employees.

The general meetings of the Company provide a good opportunity for communication between the Board and the Shareholders. The Company considers the AGM as an important event and all Directors make efforts to attend. The Chairman of the Board as well as the chairman of each Board Committees will be available to communicate with the Shareholders face to face. A representative (usually the partner) of the external auditor also attends the AGM and will take questions from Shareholders relating to their audit of the Company's financial statements.

The Company understands that increasing transparency in capital market participants will improve corporate governance and be beneficial to the long-term development of the Company. The Company welcomes investors and Shareholders to share opinions and suggestions for the development of the Company to the Company's investor relation team via email or telephone.

Investors Relationship Contact Details:

Address: 24/F, A8 Music Building, No.1002 Keyuan Road,
Hi-tech Park, Nanshan District, Shenzhen, PRC.
Telephone: +86 755 3332 6333–8002
Email: ir@a8.com
Website: www.a8nmg.com

Company Secretary

During the reporting period, Mr. Liu Pun Leung resigned as the Company Secretary for the Company on 6 April 2017. Ms Ho Wing Yan was appointed as the Company Secretary of the Company on 6 April 2017.

The Directors all have access to the Company Secretaries who are responsible for ensuring that Board procedures, and all applicable law, rules and regulations are properly followed. The Company Secretaries also keep fully updating the Board with all legislative, regulatory and corporate governance developments.

During the financial year ended 31 December 2017, Ms. Ho has taken over 15 hours of relevant professional training to refresh their skills and knowledge.

Constitutional Documents

During the year under review, there was no change to the Articles of Association of the Company. A copy of the latest consolidated version of it is available on the websites of the Company and the Stock Exchange.

Independent Auditor's Report

EY 安永

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of A8 New Media Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 128, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board (the "IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of mobile game publishing services	
Revenue recognised for the mobile game publishing business was approximately RMB68 million for the year, representing 49% of the Group's total revenue. This is significant to the financial statements both in terms of the amount of the revenue and also the degree of management judgement required to account for revenue from the mobile game publishing services, principally on the application of the user-based revenue model which recognises revenue over the estimated average user life of paying players. The accounting policy and the accounting judgements and estimates related to the revenue recognition of mobile game publishing services, and disclosures of the revenue recognition of mobile game publishing services are included in notes 3.3, 4 and 6 to the consolidated financial statements.	Our audit procedures included, amongst others, evaluating the appropriateness of the Group's revenue recognition accounting policies. We tested the Group's manual controls and the Information Technology general controls in relation to systems over the calculation of revenue and deferred income and the timing of revenue recognition. We also assessed the estimated average user life of paying players by testing the accuracy of the underlying historical operating data used for the estimation. We performed analytical review procedures to consider any unusual trends that could indicate a material misstatement of revenue recognition. Moreover, we sample tested the Group's monthly reconciliations with the game developers and mobile-based publishing platforms together with related bank advices. Furthermore, we assessed the adequacy of the disclosures of the revenue recognition of mobile game publishing services.

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of mobile game licences	
The Group's mobile game licences of approximately RMB21 million as of 31 December 2017, provided the Group with numerous exclusive publication rights on mobile games which are usually granted by game developers for a specified number of years. The Group usually pays licence fees in advance. These mobile game licence fees are stated at cost less any impairment and are amortised on the straight-line basis over the estimated useful lives or the licence period, whichever is shorter. The Group is required to assess whether impairment indicators exist for the mobile game licence fees at the end of each reporting period based on subjective judgements and expectations made by management about the popularity and life cycle of the mobile games. We focused on this area because of the significant management judgement and estimates involved and the significant amount of impairment made which amounted to RMB3 million during the year. Disclosures of the significant accounting judgements and estimates and impairment assessment of mobile game licences are included in notes 3.3, 4 and 17 to the consolidated financial statements.	We reviewed the Group's assessment of indicators of impairment which took into consideration the trial run or technical test results of each mobile game, such as the game recharging amount and retention rate of active game players. For mobile games where indicators of impairment were identified, we examined the subsequent game recharging amounts of the mobile games and assessed the remaining useful lives of the mobile game licences by enquiry with management responsible for those mobile games and browsing the games' official websites to check the frequency of updates and for any announcement of suspension.

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of available-for-sale equity investments	
As of 31 December 2017, the Group held equity investments in the internet sector with an aggregate carrying amount of approximately RMB94 million, which included unlisted equity investments in seed capital funds of RMB44 million and equity investments in internet companies of RMB50 million. These investments were stated at cost less impairment because the variability in the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The Group follows the guidance of IAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement and estimation. During the year, a provision for impairment of RMB5 million was recognised. The accounting policies and the accounting judgements and estimates related to the impairment of available-for-sale investments are included in notes 3.3, 4 and 20 to the consolidated financial statements.	**Unlisted equity investments in seed capital funds** We examined the Group's policy for the impairment of available-for-sale investments, including understanding the nature of the underlying businesses. We made inquiries to fund managers about their considerations about the current economic and industry conditions/developments, recent fund raising transactions undertaken by the investees and of the operating performance of the investees. We also made reference to other company specific information. **Listed and unlisted equity investments in Internet companies** Depending on the significance of the investment and whether indications of impairments existed, we examined the estimated future cash flows and other major assumptions by benchmarking to the market and financial data of other comparable companies. Furthermore, we assessed the adequacy of the disclosures of the impairment of the available-for-sale investments.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chiu, Caroline Su Yuen.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
29 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE, net of business tax and surcharges	6	**137,631**	147,285
Cost of services provided		**(70,948)**	(81,365)
Gross profit		**66,683**	65,920
Other income and gains, net	6	**66,708**	33,871
Selling and marketing expenses		**(27,434)**	(13,796)
Administrative expenses		**(33,737)**	(31,598)
Other expenses, net		**(26,692)**	(80)
Finance costs	8	**(3,808)**	(618)
Share of profits and losses of associates	18	**2,440**	(16,041)
Share of losses of joint ventures	19	**(2,049)**	(5,796)
PROFIT BEFORE TAX	7	**42,111**	31,862
Income tax expense	10	**(17,101)**	(7,722)
PROFIT FOR THE YEAR		**25,010**	24,140
Attributable to:			
Owners of the Company		**25,030**	24,145
Non-controlling interests		**(20)**	(5)
		25,010	24,140
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic (RMB per share)		**1.0 cent**	1.3 cents
Diluted (RMB per share)		**1.0 cent**	1.3 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**25,010**	24,140
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**(31,936)**	12,725
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(6,926)**	36,865
Attributable to:		
Owners of the Company	**(6,906)**	36,870
Non-controlling interests	**(20)**	(5)
	(6,926)	36,865

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**149,888**	153,082
Investment properties	14	**420,000**	370,000
Prepaid land lease payments	15	**12,869**	13,192
Prepayments	23	**8,100**	1,548
Intangible assets	17	**21,927**	8,529
Investments in associates	18	**223,458**	28,414
Investments in joint ventures	19	**–**	22,933
Financial assets at fair value through profit or loss	24	**16,050**	–
Available-for-sale investments	20	**93,944**	60,994
Deferred tax assets	31	**2,586**	2,991
Total non-current assets		**948,822**	661,683
CURRENT ASSETS			
Network films and dramas under production	21	**3,277**	–
Trade receivables	22	**14,624**	8,641
Prepayments, deposits and other receivables	23	**20,647**	15,510
Financial assets at fair value through profit or loss	24	**332**	326
Available-for-sale investments	20	**32,272**	8,700
Restricted cash balances and pledged deposits	25	**133,513**	33,664
Cash and cash equivalents	26	**546,071**	446,906
		750,736	513,747
Non-current asset held for sale	27	**–**	192,604
Total current assets		**750,736**	706,351
CURRENT LIABILITIES			
Trade payables	28	**26,474**	20,923
Other payables and accruals	29	**61,949**	129,965
Interest-bearing bank borrowings	30	**117,150**	26,870
Tax payable		**9,788**	8,330
Deferred income		**5,299**	8,120
Total current liabilities		**220,660**	194,208
NET CURRENT ASSETS		**530,076**	512,143
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,478,898**	1,173,826
NON-CURRENT LIABILITIES			
Deferred tax liabilities	31	**72,860**	60,360
Deferred income		**6,700**	6,058
Other payables	29	**–**	17,500
Total non-current liabilities		**79,560**	83,918
Net assets		**1,399,338**	1,089,908

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	32	22,984	15,123
Reserves	35	1,376,886	1,075,487
		1,399,870	1,090,610
Non-controlling interests		(532)	(702)
Total equity		1,399,338	1,089,908

Liu Xiaosong
Director

Lin Qian
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the Company													
	Share capital RMB'000 (note 32)	Share premium account RMB'000 (note 32)	Shares held under share award scheme RMB'000	Merger reserve RMB'000 (note 35)	Surplus contributions RMB'000 (note 35)	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note 35)	Reserve fund RMB'000 (note 35)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	15,123	663,208	(4,942)	29,135	10,522	27,586	1,087	10,016	21,701	4,422	272,182	1,050,040	(697)	1,049,343
Profit for the year	–	–	–	–	–	–	–	–	–	–	24,145	24,145	(5)	24,140
Other comprehensive income for the year:														
Exchange differences on translation of financial statements	–	–	–	–	–	–	12,725	–	–	–	–	12,725	–	12,725
Total comprehensive income for the year	–	–	–	–	–	–	12,725	–	–	–	24,145	36,870	(5)	36,865
Equity-settled share-based payment arrangements	–	–	–	–	–	3,700	–	–	–	–	–	3,700	–	3,700
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(933)	–	–	–	–	933	–	–	–
Employee share award scheme: – release of award shares	–	–	270	–	–	(270)	–	–	–	–	–	–	–	–
At 31 December 2016	15,123	663,208*	(4,672)*	29,135*	10,522*	30,083*	13,812*	10,016*	21,701*	4,422*	297,260*	1,090,610	(702)	1,089,908

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the Company														
	Share capital RMB'000 (note 32)	Share premium account RMB'000 (note 32)	Treasury shares RMB'000 (note 35(i))	Shares held under share award scheme RMB'000	Merger reserve RMB'000 (note 35)	Surplus contributions RMB'000 (note 35)	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note 35)	Reserve fund RMB'000 (note 35)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	15,123	663,208	-	(4,672)	29,135	10,522	30,083	13,812	10,016	21,701	4,422	297,260	1,090,610	(702)	1,089,908
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	25,030	25,030	(20)	25,010
Other comprehensive loss for the year:															
Exchange differences on translation of financial statements	-	-	-	-	-	-	-	(31,936)	-	-	-	-	(31,936)	-	(31,936)
Total comprehensive loss for the year	-	-	-	-	-	-	-	(31,936)	-	-	-	25,030	(6,906)	(20)	(6,926)
Issue of shares	8,253	330,129	-	-	-	-	-	-	-	-	-	-	338,382	-	338,382
Share issue expenses	-	(1,178)	-	-	-	-	-	-	-	-	-	-	(1,178)	-	(1,178)
Capital contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	190	190
Equity-settled share-based payment arrangements	-	-	-	-	-	-	2,436	-	-	-	-	-	2,436	-	2,436
Shares repurchased	-	-	(23,474)	-	-	-	-	-	-	-	-	-	(23,474)	-	(23,474)
Cancellation of shares repurchased	(392)	(18,231)	18,623	-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2017	22,984	973,928*	(4,851)*	(4,672)*	29,135*	10,522*	32,519*	(18,124)*	10,016*	21,701*	4,422*	322,290*	1,399,870	(532)	1,399,338

* These reserve accounts comprise the consolidated reserves of RMB1,376,886,000 (2016: RMB1,075,487,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**42,111**	31,862
Adjustments for:			
Depreciation	7	**8,760**	6,761
Amortisation of prepaid land lease payments	7	**323**	323
Amortisation of intangible assets	7	**3,840**	3,766
Impairment of intangible assets	7	**2,734**	–
Write-off of intangible assets	7	**867**	6,492
Write-off of items of property, plant and equipment	7	**–**	211
Loss on disposal of items of property, plant and equipment	7	**74**	–
Fair value (gains)/losses on financial assets at fair value through profit or loss	7	**(38)**	16
Fair value gains on investment properties	6	**(50,000)**	(21,000)
Bank interest income	6	**(13,219)**	(11,101)
Share of profits and losses of associates		**(2,440)**	16,041
Share of losses of joint ventures		**2,049**	5,796
Impairment of an available-for-sale investment	7	**5,000**	–
Impairment of prepayments	7	**402**	97
Write-off of prepayments	7	**–**	2,139
Write-off of a trade receivable	7	**621**	–
Write-back of impairment of trade receivables	7	**–**	(65)
Write-off of other payables	7	**(2,511)**	–
Impairment of investments in joint ventures	7	**20,884**	–
Equity-settled share option expense	7	**2,436**	3,700
Reversal of trade payables	7	**(7,938)**	(9,176)
Finance costs	8	**3,808**	618
		17,763	36,480
(Increase)/decrease in trade receivables		**(6,604)**	14,545
Increase in network films and dramas under production		**(277)**	–
Increase in prepayments, deposits and other receivables		**(6,840)**	(5,958)
Increase in trade payables		**3,768**	66
Increase in other payables and accruals		**8,843**	5,430
Decrease in deferred income		**(2,179)**	(12,564)
Cash generated from operations		**14,474**	37,999
Tax paid		**(2,738)**	(768)
Net cash flows from operating activities		**11,736**	37,231

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale investments		(61,490)	(35,700)
Increase in prepayments for acquisition of items of property, plant and equipment		–	(1,548)
Purchases of items of property, plant and equipment		(10,139)	(8,773)
Purchases of intangible assets		(11,118)	(2,228)
Increase in prepayment for acquisition of an available-for-sale investment		(8,100)	–
Receipt of redemption of convertible notes		–	100,672
Purchase of shareholdings in an associate		(87,500)	(95,897)
Purchase of financial assets at fair value through profit or loss		(16,050)	–
Repayment of refundable collateral security		–	(60,000)
Interest received		13,219	11,101
(Increase)/decrease in restricted cash and pledged deposits		(99,849)	33,326
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		6,012	(30,015)
Net cash flows used in investing activities		(275,015)	(89,062)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32(a)	338,382	–
Share issues expenses	32(a)	(1,178)	–
Capital contributions by non-controlling shareholders		190	–
New bank loans		137,150	38,870
Repayment of bank loans		(46,870)	(12,000)
Shares repurchased	35(i)	(23,474)	–
Interest paid		(3,808)	(618)
Net cash flows from financing activities		400,392	26,252
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		137,113	(25,579)
Cash and cash equivalents at beginning of year		416,891	429,745
Effect of foreign exchange rate changes, net		(31,936)	12,725
CASH AND CASH EQUIVALENTS AT END OF YEAR		522,068	416,891
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		150,965	165,927
Non-pledged time deposits		395,106	280,979
Cash and cash equivalents as stated in the consolidated statement of financial position		546,071	446,906
Time deposits with original maturity of more than three months when acquired		(24,003)	(30,015)
Cash and cash equivalents as stated in the consolidated statement of cash flows		522,068	416,891

1. CORPORATE AND GROUP INFORMATION

A8 New Media Group Limited (the "Company" or "A8 New Media") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities in the People's Republic of China (the "PRC" or "Mainland China"):

- provision of digital entertainment services
- property investment

Information about subsidiaries

(a) Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
A8 Music Group Limited ("A8 Music")	British Virgin Islands	Ordinary shares US$64,500 Preferred shares US$9,300	100	–	Investment holding
佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. ("Cash River") *#	PRC	HK$40,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市華動飛天網絡技術開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") (note (i))*@	PRC	RMB28,680,000 Registered capital	–	100	Provision of internet information service, property investment and music performance
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai Qingtian") (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services and property investment
北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. (note (i))*@	PRC	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

(a) Particulars of the Company's principal subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂聲飛揚音樂文化傳播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京天籟印象文化傳播有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited (note (i))*@	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
普好有限公司 Total Plus Limited	Hong Kong/ Mainland China	HK$97,045 Issued capital	–	100	Investment holding
北京布拉琪音樂文化傳播有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patents and licences
北京掌中地帶信息科技有限公司 Beijing Zhangzhong Didai Information Technology Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市掌翼天下科技有限公司 Shenzhen Zhangyi Tianxia Technology Co., Ltd. (note (i))*@	PRC	RMB3,000,000 Registered capital	–	100	Property investment
茂御有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong/ Mainland China	HK$1 Issued capital	100	–	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

(a) Particulars of the Company's principal subsidiaries are as follows: (continued)

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
深圳市指游方寸網絡科技有限公司 Shenzhen Finger Fun Network Technology Co., Ltd. ("Finger Fun") *#	PRC	HK$300,000,000 Registered capital	–	100	Investment holding of game business
北京德木欣潤文化傳播有限公司 Beijing Demo Xinrun Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB1,000,000 Registered capital	–	80	Production of live music shows and music channels
極速蝸牛影視傳媒(深圳)有限公司 Jisu Woniu Film & Television Media (Shenzhen) Co., Limited (note (i))*@	PRC	RMB5,000,000 Registered capital	–	100	Production of network dramas, videos and films
小鹿咚咚(深圳)科技有限責任公司 Xiaolu Dongdong (Shenzhen) Technology Co., Ltd. (note (i))*@	PRC	RMB1,000,000 Registered capital	–	81	Development of social networking apps

* The English names of these companies are the direct translations of their Chinese names as no English names have been registered or are available.

\# Registered as wholly-foreign-owned enterprises under PRC law

@ Registered as domestic limited liability companies under PRC law

Note:

(i) The current PRC law and regulations limit the provision of telecommunications value-added services by companies with foreign ownership, which include activities and services operated by these companies. In order to enable the Company to make investments in the telecommunications value-added services in the PRC, the equity interests of these companies are held by individual nominees on behalf of the Group and certain structure contracts have been effectuated

(1) between Cash River and

(a) Huadong Feitian and its registered shareholders, and

(b) Kuaitonglian and its registered shareholders, respectively; and

(2) between Finger Fun, Yunhai Qingtian and its registered shareholder,

to the effect that the Company is exposed, or has rights, to variable returns from its involvement with these companies and has the ability to affect those returns through its power over these companies. As a result of the contractual agreements, these companies are accounted for as subsidiaries of the Company for accounting purposes.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

(b) Controlled special purpose entity

The Company has set up a trust, A8 New Media share award trust (the "Trust"), for the purpose of administering the share award scheme established by the Company (note 34). In accordance with IFRS 10 *Consolidated Financial Statements*, the Company is required to consolidate the Trust as the Company has control over the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

Special purpose entity	Place of incorporation	Principal activities
Law Debenture (Asia) Trust Limited – A8 New Media	Hong Kong	Administration and holding of the Company's shares for the share award scheme for the benefit of eligible employees

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss, unlisted financial products and structured financial products recorded in available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 36 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have an impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect a significant impact on its equity on applying the classification and measurement requirement of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised. Debt securities are expected to be measured at fair value through other comprehensive income under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. Equity investments currently held as available for sale and do not meet the definition of an equity instrument will be reclassified as financial assets at fair value through profit or loss. Accordingly, the available for sale investment revaluation reserve related to these equity investments will be reclassified to retained earnings upon adoption of IFRS 9.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group is currently assessing the impact of these standards upon adoption.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group will adopt IFRS 15 from 1 January 2018.

The Group principally derives revenue from the provision of digital entertainment services, including game publishing services and music-related services, as well as rental and management fee income from property investment in the PRC. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Game publishing services

Timing of revenue recognition

Currently, gross revenue from in-game payments of each month are recognised over the remaining estimated average user life of paying players for that game. Upon the adoption of IFRS 15, the Group expects to recognise the revenue from in-game payments at the point in time at which the Group delivers the virtual items to the paying players. The Group does not anticipate that the application of IFRS 15 will have a material impact on the timing of revenue recognised in the respective periods.

(b) Music-related services

Timing of revenue recognition

Currently, gross revenue from music-related services is recognised based on the Mobile and Telecom Service Fees, net of the amount of the unreconciled items. Upon the adoption of IFRS 15, the Group expects to recognise the revenue at the point in time at which the Group delivers the services to the buyers. The Group does not anticipate that the application of IFRS 15 will have a material impact on the timing of revenue recognised in the respective periods.

(c) Rental and management fee income

The rental and management fee income arising from lease contracts within scope of IAS 17 *Leases* is not within the scope of IFRS 15 and therefore, there is no effect on the recognition of revenue on this segment.

(d) Presentation and disclosure

The directors of the Company have assessed the impact on application of IFRS 15 and determined that the application of IFRS 15 will not have material impact on the timing and amounts of revenue recognised in the respective reporting periods. However, the application of IFRS 15 in the future may result in more disclosures.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Building	Over the lease terms
Computer equipment	3 to 5 years
Furniture, fixtures and office equipment	3 to 10 years
Motor vehicles	5 years
Leasehold improvements	Over the shorter of the lease terms and useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current asset held for sale

Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such asset and its sale must be highly probable.

Non-current asset (other than investment properties and financial assets) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks, licences and software

Purchased trademarks, licences and software are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to ten years.

Music copyrights

Music copyrights are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years.

Mobile game licences

Mobile game licences represent upfront licence fees paid for exclusive mobile game development and publishing in a specified territory. They are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over the shorter of estimated average user life of paying players of the respective game and licence period.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out in “Revenue recognition” section below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Preferred shares held by the Group are separately presented as a debt portion and a conversion option embedded in preferred shares. On initial recognition, the debt portion represents the residual value between the fair value of the preferred shares and the fair value of the embedded conversion options. The debt portion is classified as loans and receivables and is subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out in “Revenue recognition” section below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, accruals and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Network films and dramas under production

Network films and dramas under production represent network films, drama series and programmes under production and are stated at cost at the date incurred, less any identified impairment losses. Costs include all costs associated with the production of films and drama series. Network films and dramas under production are transferred to film rights upon completion.

At the end of each reporting period, both internal and external market information are considered when assessing whether there is any indication that network films and dramas under production are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the assets to their recoverable amounts. Such impairment losses are recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from the rendering of services is recognised when the related services are provided.

The Group principally derives revenue from the provision of digital entertainment services, including game publishing services and music-related services, as well as property investment in the PRC.

Game publishing services

The Group engages in the provision of mobile game publishing services. Pursuant to the exclusive game licensing agreements signed between the Group and the game developers, the Group is responsible for the publishing, promotion and distribution of the mobile games within a specified territory, collecting the payments made by players and providing customer services relating to game content and payments made by individual players. These agreements typically last for two to three years.

The Group then sub-licences the games to other mobile-based publishing platforms to publish the games, thereby broadening distribution. Game players made payments through sub-licencee mobile-based platforms' payment systems, which include various channels, such as online wire transfer through third-party online payment vendors, through mobile network carriers and by credit card. In all cases, payments made by players of the games under exclusive licences, regardless of which platform such players access the game, are paid to the game developers through the Group based on a predetermined ratio.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Game publishing services (continued)

During the term of the sub-licence agreements, the Group has to share a percentage of the gross billings generated by the sale of the virtual currency within the games to the mobile-based publishing platforms. The percentage of gross billings the Group shared varies depending on the particular agreement. Payments from publishing platforms to the Group are usually settled on a monthly basis. Prior to the settlement date, the relevant publishing platform will send the record of gross in-game payments to the Group for verification. The Group's operations team maintains databases that connect to the game server maintained by the game developers, to track the virtual currency and premium features sold in the games. As a result, the Group can calculate the estimated gross in-game payments from the operations team's records and verify the gross in-game payments records provided by the publishing partners. The publishing partners then monthly withhold the pre-agreed portion and the portion is deducted from the gross in-game payments collected from the game players, with the net amounts remitted to the Group. The consideration received for the sale of the virtual currency is non-refundable and the related contracts with game players are non-cancellable. The Group does not track the marketing discounts offered by the publishing platforms as the latter bears the costs of such marketing discounts.

Revenue from the sale of virtual currency to be used for the purchase of in-game virtual items from mobile games is also shared between the Group and the game developers based on a predetermined ratio for each game monthly on a net basis after the deduction of game publishing charges paid to mobile-based platforms. The Group has evaluated and concluded that it has the primary roles and responsibilities in the delivery of game experience to the game players and in the rendering of service as the Group determined itself being primarily responsible for all the requests and comments from the mobile-based platforms as well as the game players. Accordingly, the Group is determined to be the primary obligor and reports revenue from the sale of virtual currency on a gross basis.

Given that the Group does not have sufficient data to analyse the characteristics of virtual items to reasonably estimate the delivery obligation period due to the system constraint, the Group has adopted a policy to recognise revenue relating to game publishing service over the estimated average user life of paying players with the Group on a game-by-game basis.

The estimated average user life of paying players is based on data collected from those game players who have purchased the virtual currencies. To estimate the average user life of paying players, the Group captures the following information for each paid player from its database: (a) the frequency that paying players log into each game via the mobile-based platforms; and (b) the amount and the timing of when the paying players purchased the virtual currencies. The Group estimates the average user life of paying players for a particular game to be the date a player purchases virtual currency through the date the Group estimates the user plays the game for the last time. This computation is completed on a player-by-player basis. Then, the results for all analysed paying players are averaged to determine an estimated average user life of paying players for each game. Gross revenues from in-game payments of each month are recognised over the remaining average user life of paying players estimated for that game.

The consideration of the average user life of paying players with each mobile game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. The Group assesses the estimated average user life of paying players on a half-yearly basis. Any adjustments arising from changes in the user life of paying players as a result of new information will be accounted for as a change in accounting estimate.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Music-related services

These services are predominantly delivered through the platforms of various subsidiaries of China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation ("China Unicom"). These services are substantially billed on a monthly subscription basis with certain portions billed on a per-message basis (the "Mobile and Telecom Service Fees") and the fees are substantially collected by the subsidiaries of China Mobile and China Unicom on behalf of the Group.

Gross revenue is recognised based on the Mobile and Telecom Service Fees, net of the amount of the unreconciled items.

China Mobile and China Unicom are entitled to commissions, which are calculated based on agreed percentages of the Mobile and Telecom Service Fees received or receivable by these mobile operators. In addition, in certain cases, the two mobile operators charge a network usage fee based on a fixed per-message fee multiplied by the excess of messages sent over messages received between the platforms of the Group and these two mobile operators. These commissions and network usage fees (collectively referred to as the "Mobile and Telecom Charges") are retained by the mobile operators, and are reflected as cost of services provided in the consolidated statement of profit or loss of the Group. The Mobile and Telecom Charges are withheld and deducted from the gross Mobile and Telecom Service Fees collected by the two mobile operators from the users, with the net amounts remitted to the Group.

The Mobile and Telecom Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and/or advised by the subsidiaries of China Mobile and China Unicom to the Group on a regular basis. For revenue whose amount is not confirmed/advised by the two mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amount receivable based on historical data, which reflect developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent history of the Mobile and Telecom Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group, China Mobile and China Unicom. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Rental and management fee income

Rental income is recognised in the period in which the properties are let and on the straight-line basis over the lease terms, and management fee income is recognised in the period when the services are rendered.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

Pension obligations

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Equity compensation benefits

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes Opinion Pricing Model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity compensation benefits (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares held under share award scheme

As disclosed in note 34 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held under Share Award Scheme" and deducted from the Group's equity.

Foreign currencies

The functional currency of the Company is the Hong Kong dollar. Because most of the subsidiaries' functional currencies are RMB, the presentation currency of the Company in the financial statements is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Company and certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of the Company and the subsidiaries are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss is translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of operations with functional currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these operations which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(i) Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Accounting for companies governed under contractual arrangements as subsidiaries

As mentioned in note 1 to the financial statements, A8 New Media Group Limited does not have equity ownership in certain subsidiaries of the Group (collectively the "Subsidiaries under Contractual Agreements"). Nevertheless, under the contractual agreements entered into between the Subsidiaries under Contractual Agreements, their respective registered owners and certain subsidiaries of the Company, management has determined that the Company is exposed, or has rights, to variable returns from its involvement with these Subsidiaries under Contractual Agreements and has the ability to affect these returns through its power over these Subsidiaries under Contractual Agreements. As such, the Subsidiaries under Contractual Agreements and their respective subsidiaries are accounted for as subsidiaries of the Company for accounting purposes.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(i) Judgements (continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Deferred tax on investment properties

For the purpose of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax on investment properties, the directors have determined that the presumption set out in IAS 12 Income Taxes that investment properties measured using the fair value model are recovered through sale is rebutted. In addition, in measuring the deferred tax liability on investment properties, the directors have made judgement on the tax rate that is expected to apply when the liability is settled based on tax rates and tax laws that have been enacted by the end of the reporting period.

(ii) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of the user life of paying players

As mentioned in the "Revenue recognition" section of note 3.3 to the financial statements, the Group recognises revenue from the sale of virtual currency ratably over the remaining average user life of paying players estimated for the applicable games in which the Group is not able to track the consumption of virtual items. Future paying player usage patterns and behaviour may differ from the historical usage patterns and therefore the estimated average user life of paying players may change in the future.

The Group will continue to monitor the estimated average user life of paying players by reference to the historical operating data, which may differ from the prior period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ii) Estimation uncertainty (continued)

Recognition of telecommunications value-added services

As mentioned in the "Revenue recognition" section of note 3.3 to the financial statements, for the Mobile and Telecom Service Fees not yet confirmed/advised by the mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

Fair value of investment properties

Investment properties are revalued at the end of the reporting period on a market value, existing use basis by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions are mainly based on the capitalisation of net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the properties.

Impairment assessment of available-for-sale equity investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. The carrying amount of the non-current investments as at 31 December 2017 was RMB94 million including unlisted equity investments in seed capital funds of RMB44 million and equity investments in internet companies of RMB50 million. For the unlisted equity investments in seed capital funds, management monitors the Group's investments for impairment by considering factors including, but not limited to, current economic, industry conditions/developments, recent fund raising transactions undertaken by the investees, the operating performance of the investees and other company-specific information. For the equity investments in internet companies, the impairment determination requires significant estimation which includes estimating the future cash flows and other major assumptions by benchmarking to the market and financial data of other comparable companies. Changes in these assumptions and estimates could materially affect the respective recoverable amount of these investments.

Impairment of mobile game licences

The Group assesses whether there are any indicators of impairment for the mobile game licences at the end of each reporting period. An impairment exists when the carrying value of the mobile game licence exceeds its recoverable amount. In performing the impairment assessment of the mobile game licences, management determined the recoverable amount with reference to the gross receipts of the mobile game based on the industry experience, such as the popularity of the mobile games and estimated life cycle of the mobile games, and taking into consideration of the trial run or technical test results of each mobile game with information such as game recharging amount and retention rate of active game players. As at 31 December 2017, the Group has mobile game licences of RMB21,001,000 (2016: RMB7,539,000).

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the digital entertainment segment engages in the provision of (1) music-based entertainment; (2) games related services; and (3) film and television production in the PRC; and

(b) the property investment segment invests in properties for rental and management fee income in the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs and corporate and other unallocated income and expenses are excluded from such measurement.

For the year ended 31 December

	Digital entertainment		Property investment		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Segment net revenue	**73,591**	89,919	**64,040**	57,366	**137,631**	147,285
Cost of services provided	**(51,595)**	(64,208)	**(19,353)**	(17,157)	**(70,948)**	(81,365)
Gross profit	**21,996**	25,711	**44,687**	40,209	**66,683**	65,920
Segment results	**(36,062)**	(14,260)	**94,687**	61,210	**58,625**	46,950
Reconciliation:						
Bank interest income					**13,219**	11,101
Finance costs					**(3,808)**	(618)
Corporate and other unallocated income and expenses, net					**(25,925)**	(25,571)
Profit before tax					**42,111**	31,862
Income tax expense					**(17,101)**	(7,722)
Profit for the year					**25,010**	24,140

5. OPERATING SEGMENT INFORMATION (continued)

For the year ended 31 December (continued)

	Digital entertainment		Property investment		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Other segment information						
Depreciation and amortisation						
– operating segments	**7,532**	6,730	**–**	–	**7,532**	6,730
– corporate					**5,391**	4,120
					12,923	10,850
Capital expenditure*	**25,261**	8,050	**1,639**	6,547	**26,900**	14,597
Fair value gains on investment properties	**–**	–	**50,000**	21,000	**50,000**	21,000
Equity-settled share option expense						
– operating segments	**–**	78	**–**	–	**–**	78
– corporate					**2,436**	3,622
					2,436	3,700
Share of profits and losses of associates	**(2,440)**	16,041	**–**	–	**(2,440)**	16,041
Share of losses of joint ventures	**2,049**	5,796	**–**	–	**2,049**	5,796
Impairment losses recognised in the statement of profit or loss	**29,020**	97	**–**	–	**29,020**	97
Impairment losses reversed in the statement of profit or loss	**–**	65	**–**	–	**–**	65
Non-current asset held for sale	**–**	192,604	**–**	–	**–**	192,604
Investments in joint ventures	**–**	22,933	**–**	–	**–**	22,933
Investments in associates	**223,458**	28,414	**–**	–	**223,458**	28,414

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical information

Over 90% of the Group's revenue from external customers is derived from the Group's operations in the PRC, and no non-current assets (excluding financial instruments) and deferred tax assets of the Group are located outside the PRC.

5. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

During the year ended 31 December 2017, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year.

During the year ended 31 December 2016, revenue of approximately RMB21,707,000 was derived from sales to the largest customer, which contributed 10% or more sales to the Group's revenue.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value (net of business tax and surcharges) and estimated value of services rendered.

An analysis of revenue, other income and gains, net, is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Digital entertainment		
Game-related revenue	**67,930**	82,054
Music-based entertainment	**5,868**	7,928
Sub-total	**73,798**	89,982
Property investment		
Rental and management fee income	**65,320**	58,486
	139,118	148,468
Less: Business tax and surcharges	**(1,487)**	(1,183)
Net revenue	**137,631**	147,285
Other income and gains, net		
Fair value gains on investment properties	**50,000**	21,000
Bank interest income	**13,219**	11,101
Write-off of other payables	**2,511**	–
Foreign exchange differences, net	**798**	684
Others	**180**	1,086
	66,708	33,871

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2017 RMB'000	2016 RMB'000
Depreciation	13	**8,760**	6,761
Amortisation of intangible assets	17	**3,840**	3,766
Amortisation of prepaid land lease payments#	15	**323**	323
Operating lease rentals in respect of office buildings		**1,480**	1,261
Auditor's remuneration		**1,880**	1,774
Employee benefit expense (including directors' remuneration (note 9)):			
Wages, salaries and bonuses		**21,447**	20,600
Staff education fee		**95**	106
Welfare, medical and other expenses		**2,092**	2,194
Contributions to social security plans		**2,305**	2,572
Equity-settled share option expense	33(a)	**2,436**	3,700
		28,375	29,172
Write-off of a trade receivable**		**621**	–
Write-back of impairment of trade receivables**	22	**–**	(65)
Impairment of prepayments*	23	**402**	97
Write-off of prepayments*		**–**	2,139
Impairment of intangible assets*	17	**2,734**	–
Write-off of intangible assets*	17	**867**	6,492
Mobile and Telecom Charges*		**2,741**	3,770
Game publishing service charges*		**27,072**	39,990
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties*		**19,353**	17,157
Loss on disposal of items of property, plant and equipment**		**74**	–
Write-off of items of property, plant and equipment**		**–**	211
Impairment of investments in joint ventures**	19	**20,884**	–
Impairment of an available-for-sale investment**	20(d)	**5,000**	–
Write-off of other payables***		**(2,511)**	–
Reversal of trade payables*		**(7,938)**	(9,176)
Fair value (gains)/losses on financial assets at fair value through profit or loss***/**		**(38)**	16
Government grants##		**(11,410)**	(11,172)

7. PROFIT BEFORE TAX (continued)

Included in "Administrative expenses" on the face of the consolidated statement of profit or loss

Included in "Selling and marketing expenses" on the face of the consolidated statement of profit or loss. Various government grants have been received for developing the cultural industry in Shenzhen in relation to Shenzhen's government policy. The government grants received have been deducted from the selling and marketing expenses to which they relate. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not been utilised are included in deferred income in the consolidated statement of financial position.

* Included in "Cost of services provided" on the face of the consolidated statement of profit or loss

** Included in "Other expenses, net" on the face of the consolidated statement of profit or loss

*** Included in "Other income and gains, net" on the face of the consolidated statement of profit or loss

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank loans	3,808	618

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

(a) Directors' remuneration

	2017 RMB'000	2016 RMB'000
Fees	727	308
Other emoluments:		
Salaries, allowances and benefits in kind	396	653
Performance related bonuses	210	224
Equity-settled share option expense	2,057	2,640
Pension scheme contributions	166	86
	2,829	3,603
	3,556	3,911

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) *Directors' remuneration (continued)*

During the current and prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior years is included in the above directors' remuneration disclosures. Further details are set out in note 33 to the financial statements.

(i) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Fees RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2017			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	**156**	**9**	**165**
Ms. Wu Shihong	**78**	**9**	**87**
Mr. Li Feng@	**78**	**24**	**102**
	312	**42**	**354**
2016			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	154	28	182
Ms. Wu Shihong	77	28	105
Mr. Song Ke#	32	28	60
Mr. Li Feng@	45	–	45
	308	84	392

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

@ Appointed as independent non-executive director on 30 May 2016

Resigned as independent non-executive director on 30 May 2016

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

(ii) Executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017						
Executive directors:						
Mr. Liu Xiaosong ("Mr. Liu") *	–	120	–	1,562	60	1,742
Mr. Lin Qian **	415	276	210	453	106	1,460
	415	396	210	2,015	166	3,202
2016						
Executive directors:						
Mr. Liu	–	120	–	2,252	60	2,432
Mr. Liu Pun Leung ***	–	533	224	304	26	1,087
	–	653	224	2,556	86	3,519

* Mr. Liu is also the chief executive of the Company

** Appointed as executive director on 6 April 2017

*** Resigned as executive director on 6 April 2017

(b) Five highest paid individuals

The five highest paid individuals included two (2016: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2016: three) non-director, highest paid individuals for the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	1,940	2,411
Performance related bonuses	416	377
Equity-settled share option expense	270	893
Pension scheme contributions	282	316
	2,908	3,997

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals (continued)

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees 2017	2016
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
	3	3

(c) During the year, no emoluments were paid by the Group to the directors, or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office nor has any director or non-director, highest paid individual waived or agreed to waive any emoluments.

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. During the prior years, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate.

An analysis of the income tax charge for the year is as follows:

	2017 RMB'000	2016 RMB'000
Current – Hong Kong		
Underprovision in prior years	**774**	–
Current – PRC		
Charge for the year	**3,405**	2,129
Underprovision/(overprovision) in prior years	**17**	(802)
Deferred (note 31)	**12,905**	6,395
Total tax charge for the year	**17,101**	7,722

For the year ended 31 December 2016, Yunhai Qingtian and Kuaitonglian were entitled to a preferential tax rate of 15% as they were recognised as high technology enterprises in the prior year.

10. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2017		2016	
	RMB'000	%	RMB'000	%
Profit before tax	42,111		31,862	
Tax at the statutory tax rate	13,018	30.9	7,742	24.3
Preferential tax rates	-	-	308	1.0
Super-deduction of eligible research and development expenditure	-	-	(180)	(0.6)
Adjustments in respect of current tax of previous periods	791	1.9	(802)	(2.5)
Income not subject to tax	(4,769)	(11.3)	(3,313)	(10.5)
Expenses not deductible for tax	7,778	18.4	2,792	8.8
Losses attributable to joint ventures and associates	(239)	(0.6)	1,878	5.9
Tax losses utilised from previous periods	(5,325)	(12.6)	(828)	(2.6)
Tax losses not recognised	5,847	13.9	125	0.4
Tax charge at the Group's effective rate	17,101	40.6	7,722	24.2

The share of tax attributable to associates and joint ventures amounting to RMB315,000 (2016: RMB13) and nil (2016: nil), respectively, is included in "Share of profits and losses of associates and joint ventures" in the consolidated statement of profit or loss.

11. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2017 (2016: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the year ended 31 December 2017 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB25,030,000 (2016: RMB24,145,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme and treasury shares during the year of 2,609,659,000 (2016: 1,814,893,000).

No adjustment has been made to the basic earnings per share amount presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic earnings per share amount presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Total RMB'000
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	131,848	16,584	12,151	1,264	18,044	179,891
Accumulated depreciation	(7,034)	(11,132)	(2,792)	(1,264)	(4,587)	(26,809)
Net carrying amount	124,814	5,452	9,359	–	13,457	153,082
At 1 January 2017, net of accumulated depreciation	124,814	5,452	9,359	–	13,457	153,082
Additions	–	558	1,781	–	3,722	6,061
Disposals	–	(495)	–	–	–	(495)
Depreciation provided during the year	(3,015)	(2,240)	(1,360)	–	(2,145)	(8,760)
At 31 December 2017, net of accumulated depreciation	121,799	3,275	9,780	–	15,034	149,888
At 31 December 2017:						
Cost	131,848	15,082	13,783	1,264	21,766	183,743
Accumulated depreciation	(10,049)	(11,807)	(4,003)	(1,264)	(6,732)	(33,855)
Net carrying amount	121,799	3,275	9,780	–	15,034	149,888

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Building RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	131,848	15,527	8,874	1,264	11,497	169,010
Accumulated depreciation	(4,019)	(9,303)	(1,986)	(1,264)	(4,025)	(20,597)
Net carrying amount	127,829	6,224	6,888	–	7,472	148,413
At 1 January 2016, net of accumulated depreciation	127,829	6,224	6,888	–	7,472	148,413
Additions	–	1,718	3,376	–	6,547	11,641
Write-off	–	(202)	(9)	–	–	(211)
Depreciation provided during the year	(3,015)	(2,288)	(896)	–	(562)	(6,761)
At 31 December 2016, net of accumulated depreciation	124,814	5,452	9,359	–	13,457	153,082
At 31 December 2016:						
Cost	131,848	16,584	12,151	1,264	18,044	179,891
Accumulated depreciation	(7,034)	(11,132)	(2,792)	(1,264)	(4,587)	(26,809)
Net carrying amount	124,814	5,452	9,359	–	13,457	153,082

14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**370,000**	349,000
Fair value gains on investment properties	**50,000**	21,000
Carrying amount at 31 December	**420,000**	370,000

The Group's investment properties were revalued on 31 December 2017 and 2016 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

The valuations of investment properties were based on the capitalisation of net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the properties.

Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuation of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

In the opinion of the directors, the current use of the investment properties is their highest and best use. The investment properties measured at fair value in the aggregate carrying amounts of RMB420,000,000 and RMB370,000,000 as at 31 December 2017 and 2016, respectively, are subject to restrictions on sale and transfer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial buildings	–	–	420,000	420,000

14. INVESTMENT PROPERTIES (continued)
Fair value hierarchy (continued)

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial buildings	–	–	370,000	370,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	
			2017	2016
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	**RMB129**	RMB123
		Rental growth rate (per annum)	**5.0%**	5.0%
		Discount rate	**10.3%**	10.3%

A significant increase/(decrease) in the estimated rental value per square metre and the rental growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rental growth rate per annum.

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**13,515**	13,838
Recognised during the year	**(323)**	(323)
Carrying amount at 31 December	**13,192**	13,515
Current portion included in prepayments, deposits and other receivables (note 23)	**(323)**	(323)
Non-current portion	**12,869**	13,192

16. GOODWILL

	RMB'000
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017:	
Cost	1,515
Accumulated impairment	(1,515)
Net carrying amount	–

17. INTANGIBLE ASSETS

	Trademarks, licences and software RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation and impairment	990	–	7,539	8,529
Additions	–	–	20,839	20,839
Amortisation provided during the year	(64)	–	(3,776)	(3,840)
Impairment during the year (Note)	–	–	(2,734)	(2,734)
Write-off	–	–	(867)	(867)
At 31 December 2017	926	–	21,001	21,927

17. INTANGIBLE ASSETS (continued)

	Trademarks, licences and software RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
At 31 December 2017:				
Cost	**39,282**	**7,030**	**56,940**	**103,252**
Accumulated amortisation and impairment	**(38,356)**	**(7,030)**	**(35,939)**	**(81,325)**
Net carrying amount	**926**	**–**	**21,001**	**21,927**
31 December 2016				
At 1 January 2016:				
Cost	39,282	7,030	40,637	86,949
Accumulated amortisation and impairment	(38,205)	(6,992)	(25,921)	(71,118)
Net carrying amount	1,077	38	14,716	15,831
Cost at 1 January 2016, net of accumulated amortisation and impairment	1,077	38	14,716	15,831
Additions	–	–	2,956	2,956
Amortisation provided during the year	(87)	(38)	(3,641)	(3,766)
Write-off	–	–	(6,492)	(6,492)
At 31 December 2016	990	–	7,539	8,529
At 31 December 2016:				
Cost	39,282	7,030	37,101	83,413
Accumulated amortisation and impairment	(38,292)	(7,030)	(29,562)	(74,884)
Net carrying amount	990	–	7,539	8,529

Note:

An impairment was recognised and charged to profit or loss for certain mobile game licences with a net total carrying amount of RMB2,734,000 (2016: Nil) which was considered to be not recoverable based on value in use due to the results of the game public trial testing being far below the expectation of management. As such, management considered that it was not commercially viable for the Group to continue to develop and launch the games to the market based on the testing results, and hence, the recoverable amount was nil.

18. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**14,224**	3,578
Goodwill on acquisition	**209,234**	24,836
	223,458	28,414

During the year ended 31 December 2017, an unlisted equity investment amounted to RMB192,604,000 was reclassified from a non-current asset held for sale to an investment in an associate with management's strategic consideration of the Group's future direction to further expand its footprint in pan-entertainment field, management changed the investment strategy to retain the unlisted equity investment as a strategic investment and does not intend to dispose it in the near future.

During the year ended 31 December 2016, an unlisted equity investment amounted to RMB2,624,000 was reclassified from an investment in a joint venture to an investment in an associate due to the dilution in the Group's involvement in the board of this company.

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Zhangwen Information Technology Co., Ltd. ("Beijing Zhangwen")	Ordinary shares	PRC	35	Incubation and operations of Intellectual Property ("IP") and provision of online book reading

Beijing Zhangwen, which is considered a material associate of the Group, is mainly engaged in incubation and operations of IP and provision of online book reading and is accounted for using the equity method.

18. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of Beijing Zhangwen adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 RMB'000
Current assets	49,846
Non-current assets	11,490
Current liabilities	(26,686)
Non-current liabilities	(2,690)
Net assets	31,960
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	35%
Group's share of net assets of the associate, excluding goodwill	11,186
Goodwill on acquisition (less cumulative impairment)	185,105
Carrying amount of the investment	196,291
Revenue	162,749
Profit for the year	10,534
Other comprehensive income	–
Total comprehensive income for the year	10,534

The following table illustrates the aggregate financial information of the Group's associates that are not individually material. The Group did not have any material associates for the year ended 31 December 2016.

	2017 RMB'000	2016 RMB'000
Share of the associates' profits and losses for the year	(1,247)	(16,041)
Share of the associates' total comprehensive income and losses	(1,247)	(16,041)
Aggregate carrying amount of the Group's investments in the associates	27,167	28,414

The Group has discontinued the recognition of its share of losses of an associate, Beijing Duomi Online Technology Co., Ltd., because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were RMB14,478,000 (2016: nil) and RMB25,344,000 (2016: RMB10,866,000), respectively.

19. INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	1,667	3,716
Goodwill on acquisition	19,217	19,217
	20,884	22,933
Impairment (Note)	(20,884)	–
	–	22,933

Note:

An impairment was recognised for the investments in joint ventures, which were considered to be not recoverable based on value in use because these companies had been loss-making for years and management expected the recoverable amounts of these companies to be nil. As such, management determined to recognise impairment for the investments in these companies as at 31 December 2017.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material. The Group did not have any material joint ventures for each of the reporting periods.

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' losses for the year	(2,049)	(5,796)
Share of the joint ventures' total comprehensive losses	(2,049)	(5,796)
Aggregate carrying amount of the Group's investments in the joint ventures	–	22,933

20. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2017 RMB'000	2016 RMB'000
Current			
Unlisted financial products, at fair value	(a)	17,500	8,700
Structured financial products, at fair value		14,772	–
		32,272	8,700
Non-current			
Listed equity investments, at cost	(b)	21,994	21,994
Unlisted equity investments, at cost	(c)	76,950	39,000
		98,944	60,994
Impairment	(d)	(5,000)	–
		93,944	60,994
		126,216	69,694

Notes:

(a) The current available-for-sale investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates ranging from 4.5% to 5.2% (2016: 3% to 3.3%) per annum.

In order to determine the fair value of the unlisted financial products, which has been categorised as level 3 hierarchy in fair value measurement, significant unobservable inputs including expected rate of return of 4.5% to 5.2% (2016: 3% to 3.3%) have been used.

The sensitivity of fair value of the input is a 1% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by RMB175,000/(RMB175,000) (2016: RMB87,000/(RMB87,000)).

(b) As at 31 December 2017, the non-current listed equity investments with an aggregate carrying amount of RMB21,994,000 (2016: RMB21,994,000) were stated at cost less impairment because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

Included in the non-current listed equity investments is a 20% equity interest in an internet company of RMB4,000,000 (2016: RMB4,000,000) which is not regarded as an associate of the Group because the Group is unable to exercise significant influence over this company pursuant to the arrangement with the other investors.

(c) As at 31 December 2017, the non-current unlisted equity investments with an aggregate carrying amount of RMB71,950,000 (2016: RMB39,000,000) were stated at cost less impairment because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

(d) An impairment was recognised for an unlisted equity investment which is considered to be not recoverable based on value in use because the company does not have sufficient operating funds to support its core business and thus, was suspended during the year ended 31 December 2017, and hence, the recoverable amount was nil. As such, management determined to recognise impairment for the investment in the company as at 31 December 2017.

21. NETWORK FILMS AND DRAMAS UNDER PRODUCTION

	2017
	RMB'000
At 1 January	**–**
Additions	**3,277**
At 31 December	**3,277**

22. TRADE RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**14,719**	8,736
Impairment	**(95)**	(95)
	14,624	8,641

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	RMB'000	RMB'000
Billed		
Within 1 month	**279**	445
Over 1 month but less than 2 months	**1,130**	1,000
Over 2 months but less than 3 months	**773**	462
Over 3 months but less than 4 months	**436**	409
Over 4 months	**2,194**	68
	4,812	2,384
Unbilled	**9,812**	6,257
	14,624	8,641

22. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**95**	160
Write-back of impairment (note 7)	**–**	(65)
At 31 December	**95**	95

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB95,000 (2016: RMB95,000) with a carrying amount before provision of RMB95,000 (2016: RMB95,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

An ageing analysis of the billed trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**279**	445
Less than 1 month past due	**1,130**	1,000
1 to 2 months past due	**1,209**	871
Over 3 months past due	**2,194**	68
	4,812	2,384

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	**29,316**	21,973
Prepaid land lease payments (note 15)	**323**	323
Deposits and other receivables	**12,195**	7,447
	41,834	29,743
Prepayments included in non-current assets (Note)	**(8,100)**	(1,548)
	33,734	28,195
Impairment	**(13,087)**	(12,685)
Current portion	**20,647**	15,510

Note:

The prepayments as at 31 December 2017 included a prepayment for acquisition of an available-for-sale investment of RMB8,100,000. The prepayments as at 31 December 2016 included prepayments for acquisition of items of property, plant and equipment of RMB1,548,000.

The financial assets as at the end of the reporting period relate to receivables for which there was no recent history of default.

Included in the other receivables is an amount due from the Group's associate of RMB844,000 (2016: RMB748,000), which is unsecured, interest-free and repayable on demand. As at 31 December 2016, included in the other receivables is another amount due from the Group's another associate amounting to RMB1 million, which was unsecured and interest bearing at 10% p.a..

The movements in the provision for prepayments and other receivables are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**12,685**	12,588
Impairment losses recognised	**402**	97
At 31 December	**13,087**	12,685

Included in the above provision for prepayments and other receivables is a provision for individually impaired receivables of RMB13,087,000 (2016: RMB12,685,000) with a gross carrying amount of RMB13,087,000 (2016: RMB12,685,000).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value	332	326
Derivative financial instruments, at fair value (Note)	16,050	–
	16,382	326

The above listed equity investments were upon initial recognition, designated by the Group as financial assets at fair value through profit or loss and are stated at fair value.

Note:

Pursuant to the capital injection agreement of Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd. ("Lanlanlanlan Film & Television"), its founders undertake that the audited net profit of Lanlanlanlan Film & Television shall not be less than RMB40 million, RMB60 million and RMB90 million for the year ended 31 December 2017 and the years ending 31 December 2018 and 2019, respectively (collectively, the "Guaranteed Profits"), and the founders will compensate the Company on the basis of either cash or shares of Lanlanlanlan Film & Television, whenever there is any shortfall between the Guaranteed Profits and actual profits for the relevant years (the "Profit Guarantee").

The Profit Guarantee was initially recognised at fair value as at the date of acquisition and its fair value is revalued at the end of each reporting period. As at 13 December 2017 (transaction completion date) and as at 31 December 2017, management assessed the fair value of the Profit Guarantee was RMB16,050,000. The fair value of the Profit Guarantee has been categorised as level 3 hierarchy in fair value measurement. A significant increase/(decrease) in business value of the invested company would result in a significant increase/(decrease) in the fair value of the Profit Guarantee.

25. RESTRICTED BANK BALANCES AND PLEDGED DEPOSITS

	Notes	2017 RMB'000	2016 RMB'000
Restricted cash balances	(a)	3,939	3,664
Pledged deposits	(b)	129,574	30,000
Restricted bank balances and pledged deposits		133,513	33,664

Notes:

(a) Restricted cash balances of the Group represented government grants receipt that are restricted as to use.

(b) Bank balance of RMB129,574,000 (2016: RMB30,000,000) was pledged to secure bank loans (note 30) granted to the Group.

26. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**154,904**	199,591
Time deposits	**524,680**	280,979
	679,584	480,570
Less: Restricted cash balances and pledged deposits (note 25)	**(133,513)**	(33,664)
Cash and cash equivalents	**546,071**	446,906
Denominated in:		
RMB	**137,631**	203,267
USD	**312,422**	2,447
Other currencies	**96,018**	241,192
Cash and cash equivalents	**546,071**	446,906

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB are not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made with maturity of not more than three months and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

27. NON-CURRENT ASSET HELD FOR SALE

As at 31 December 2016, a newly acquired internet company with a carrying amount of RMB192,604,000, which was classified as an investment in an associate, was reclassified as a non-current asset held for sale as the Group intended to dispose of the investment and the directors considered the sale to be highly probable in the forthcoming year.

During the year ended 31 December 2017, the investment was reclassified as an investment in an associate with management's strategic consideration of the Group's future direction to further expand its footprint in pan-entertainment field, management changed the investment strategy to retain the investment as a strategic investment and does not intend to dispose it in the near future.

28. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	12,878	1,327
1 to 3 months	4,254	1,231
4 to 6 months	1,717	618
Over 6 months	7,625	17,747
	26,474	20,923

The trade payables are non-interest-bearing and are normally settled on 30-day to 180-day terms.

Included in the trade payables are amounts due to an associate of RMB344,000 (2016: RMB344,000) and due to a joint venture of RMB46,000 (2016: RMB21,000), which are unsecured, interest-free and repayable on demand.

29. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Other payables	48,223	134,510
Accruals	12,829	12,306
Receipt in advance	897	649
	61,949	147,465
Current portion	(61,949)	(129,965)
Non-current portion	–	17,500

Included in other payables is an amount due to an associate of RMB3 million (2016: Nil), which is unsecured, interest-free and repayable on demand.

30. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan – secured	**3.92–4.50**	**2018**	**117,150**	3.92	2017	18,870
Bank loan – unsecured	**–**	**–**	**–**	5.66	2017	8,000
			117,150			26,870

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**117,150**	26,870

Notes:

(a) The Group's bank loans are secured or guaranteed by:

(i) the pledge of certain of the Group's time deposits amounting to RMB130 million (2016: RMB30 million) (note 25); and

(ii) a corporate guarantee provided by a group company as at 31 December 2017 and 2016.

(b) The Group's bank loans are denominated in RMB.

31. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Deductible temporary differences RMB'000
At 1 January 2016	4,136
Deferred tax charged to the statement of profit or loss during the year (note 10)	(1,145)
At 31 December 2016 and 1 January 2017	2,991
Deferred tax charged to the statement of profit or loss during the year (note 10)	(405)
At 31 December 2017	2,586

31. DEFERRED TAX (continued)

Deferred tax liabilities

	Transfer of profit derived from contractual agreements RMB'000	Gain on investments at fair value through profit or loss RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2016	(813)	(177)	(54,120)	(55,110)
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	–	(5,250)	(5,250)
At 31 December 2016 and 1 January 2017	(813)	(177)	(59,370)	(60,360)
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	–	(12,500)	(12,500)
At 31 December 2017	(813)	(177)	(71,870)	(72,860)

The Group has tax losses arising in Mainland China of RMB30,389,000 (2016: RMB34,993,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB347,349,000 at 31 December 2017 (2016: RMB255,931,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

32. SHARE CAPITAL

Shares

	2017 RMB'000	2016 RMB'000
Authorised:		
3,000,000,000 (2016: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
2,720,592,628 (2016: 1,835,192,628) ordinary shares of HK$0.01 each	**22,984**	15,123

A summary of movements in the Company's share capital is as follows:

	Notes	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Total RMB'000
As at 1 January 2016, 31 December 2016 and 1 January 2017		1,835,192,628	18,352	806,797	15,123	663,208	678,331
Issue of new shares	(a)	931,800,000	9,318	372,720	8,253	330,129	338,382
Share issue expenses		–	–	(1,335)	–	(1,178)	(1,178)
Cancellation of share repurchased	35(i)	(46,400,000)	(464)	(21,561)	(392)	(18,231)	(18,623)
As at 31 December 2017		2,720,592,628	27,206	1,156,621	22,984	973,928	996,912

Note:

(a) On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited (the "Subscriber"), whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu, pursuant to which the Subscriber agreed to subscribe an aggregate of 931,800,000 new shares of the Company at a price of HK$0.41 per share. The subscription was completed on 20 February 2017 and the Group raised a total of approximately HK$382.0 million (equivalent to RMB338.4 million), before expenses.

33. SHARE OPTION SCHEMES

(a) *Share option scheme*

The Company operates a share option scheme to motivate eligible persons to optimise their future contribution to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with those eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options that can be granted under the share option scheme and any other schemes of the Group (including the Pre-IPO share option scheme) shall not in aggregate exceed 10% of the shares of the Company in issue, i.e., 142,884,712 shares, as at 24 May 2013 on which an ordinary resolution was passed at the annual general meeting of the Company for refreshing the 10% mandate under the share option scheme.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time.

The maximum number of shares issuable under the share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

33. SHARE OPTION SCHEMES (continued)

(a) Share option scheme (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.73	46,382	0.84	49,779
Granted during the year	0.51	5,150	0.56	8,910
Forfeiture during the year	–	–	0.67	(6,890)
Cancelled during the year	–	–	1.56	(5,417)
At 31 December	0.71	51,532	0.73	46,382

There were no share options exercised in the current and prior years.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options '000	Exercise price* HK$ per share	Exercise period
919	2.416	5-10-2009 to 26-5-2018
2,889	0.903	15-10-2010 to 14-10-2018
1,500	0.690	14-1–2014 to 14-1–2019
3,178	0.684	24-1–2014 to 24-1–2021
24,178	0.650	23-4–2014 to 23-4–2021
4,808	1.040	14-5–2015 to 14-5–2022
8,910	0.560	16-5–2016 to 16-5–2023
5,000	0.512	5-4–2017 to 5-4–2024
150	0.487	21-4–2017 to 21-4–2024
51,532		

33. SHARE OPTION SCHEMES (continued)
(a) Share option scheme (continued)

2016

Number of options '000	Exercise price* HK$ per share	Exercise period
919	2.416	5-10-2009 to 26-5–2018
2,889	0.903	15-10-2010 to 14-10-2018
1,500	0.690	14-1–2014 to 14-1–2019
3,178	0.684	24-1–2014 to 24-1–2021
24,178	0.650	23-4–2014 to 23-4–2021
4,808	1.040	14-5–2015 to 14-5–2022
8,910	0.560	16-5–2016 to 16-5–2023
46,382		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of the share options granted during the year were RMB1,064,000 (RMB0.21 per share) and (2016: RMB2,217,000 (RMB0.25 per share)). The Group recognised a share option expense of RMB2,436,000 (2016: RMB3,700,000) during the year ended 31 December 2017 in respect of the share options granted in the current and prior years.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the Binomial Option Pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2017 RMB'000	2016 RMB'000
Dividend yield (%)	–	–
Expected volatility (%)	64.61% to 64.78%	68.77%
Risk-free interest rate (%)	1.90 to 2.10%	1.01%
Expected life of options (years)	0.01-3.72	1.00-3.00
Weighted average share price (HK$ per share)	0.48-0.50	0.54

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

33. SHARE OPTION SCHEMES (continued)

(b) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited ("Join Reach") was set up by the shareholders of Prime Century Technology Limited ("Prime Century"), which is one of the substantial shareholders of the Company, to recognise and reward the contribution of certain employees of the Company and its subsidiaries who, in the opinion of the board of directors of Join Reach, have contributed or will contribute to the growth and development of the business invested by Prime Century. The Join Reach share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in Prime Century which may be transferred by Join Reach to the grantees upon the exercise of all options to be granted under the Join Reach share option scheme represents approximately 8.8% of the total issued share capital of Prime Century.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Join Reach, and commences after a certain vesting period and ends on a date which is not later than four years from the date of offer of the share options or the expiry date of the Join Reach share option scheme, if earlier.

No share options under the Join Reach share option scheme were outstanding as at 31 December 2017 and 2016. No share option has been granted, exercised or cancelled, or lapsed during the years.

At the end of the reporting period, the Company had approximately 51,532,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 51,532,000 additional ordinary shares of the Company and additional share capital of HK$515,000 and share premium of HK$36,072,000 (before issue expenses).

Subsequent to the end of the reporting period, on 9 January 2018, 1,715,000 share options under the share option scheme were granted to an executive director of the Company in respect of his services to the Group in the forthcoming year at an exercise price of HK$0.57 per share. The price of the Company's shares at the date of grant was HK$0.57 per share.

Subsequent to the end of the reporting period, an aggregate of 17,695,000 share options under the share option scheme lapsed.

At the date of approval of these financial statements, the Company had 35,552,000 share options outstanding under the share option scheme, which represented approximately 1.31% of the Company's shares in issue as at that date.

34. SHARE AWARD SCHEME

On 16 August 2010, the board of directors of the Company (the "Board") approved the establishment of a share award scheme with the objective to recognise the performance of eligible employees within the Group and to retain them for the continued operation and development of the Group and to encourage senior employees to have a direct financial interest in the long term success of the Group. Under the share award scheme, award shares of the Company ("Award Shares") are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain considerations (including but not limited to, the lockup period) to be decided by the Board at the time of grant of the Award Shares under the share award scheme. The share award scheme will remain in force for 10 years from the date of adoption.

The share award scheme will operate in parallel with the Company's share option scheme. All options granted under the share option scheme will continue to be valid and exercisable subject to and in accordance with the terms of those schemes.

Pursuant to the rules of the share award scheme, the Company has set up the Trust for the purposes of administering the share award scheme and holding the Award Shares before vested and the expiry of the lock-up period. The Company can (i) make a loan to the Trust from time to time for the purchase of the Award Shares under the loan agreement; (ii) instruct its broker to purchase existing shares in the Company from the market, settle payment and costs and deliver the same to the trustee to hold on trust for the eligible employees; and (iii) allot and issue new shares in the Company to the trustee to hold on trust for the eligible employees.

The maximum number of all Award Shares purchased by the trustee under the share award scheme must not be 10% or more of the issued share capital of the Company, i.e., 142,884,712 shares, as at 24 May 2013 on which an ordinary resolution was passed at the annual general meeting of the Company for refreshing the 10% mandate under the share award scheme.

There were no share award vested in the current year. During the year ended 31 December 2016, a total of 1,031,000 shares at a cost of RMB2,573,000 were vested.

Movements in the number of the Award Shares and their related average fair value are as follows:

	2017		2016	
	Average fair value HK$ per share	**Number of shares '000**	Average fair value HK$ per share	Number of shares '000
At 1 January		**2,818**		3,849
Vested	**–**	**–**	1.10	(1,031)
At 31 December		**2,818**		2,818

34. SHARE AWARD SCHEME (continued)

Movements in the number of shares held under the share award scheme are as follows:

	Number of shares held '000	Number of shares held '000
At 1 January	**19,736**	20,767
Released during the year	**–**	(1,031)
At 31 December	**19,736**	19,736

35. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 51 to 52 of the financial statements.

(i) Treasury shares

During the year ended 31 December 2017, the Company repurchased its own ordinary shares of 59,080,000 (2016: nil) on the Stock Exchange at an aggregate consideration of HK$27,779,000 equivalent to RMB23,474,000 (2016: nil), of which 46,400,000 (2016: nil) ordinary shares were then cancelled by the Company. Upon the cancellation of 46,400,000 (2016: nil) shares repurchased, the issued share capital of the Company was reduced by the par value of HK$464,000 equivalent to RMB392,000 (2016: nil) and the premium paid on the repurchase of these cancelled shares of HK$21,561,000 equivalent to RMB18,231,000 (2016: nil), including transaction costs, was deducted from share premium of the Company. As at 31 December 2017, there were 12,680,000 ordinary shares repurchased but not yet cancelled by the Company, which were subsequently cancelled by the Company in January 2018.

(ii) Merger reserve

The merger reserve of the Group represents (i) the excess of the nominal value of the paid-up capital of Huadong Feitian over the nominal value of A8 Music's shares which were issued as consideration for obtaining the control of Huadong Feitian at the time of the group reorganisation in 2004; and (ii) the excess of the nominal value of the shares of the Company issued over the nominal value of A8 Music's shares acquired pursuant to the group reorganisation in 2008.

35. RESERVES (continued)

(iii) Surplus contributions

According to an agreement dated 27 December 2004 on the capital contribution into A8 Music signed by A8 Music, the then three shareholders of A8 Music and the registered owners, the three shareholders of A8 Music agreed to make cash contributions of HK$1,000,000 (equivalent to RMB1,063,000) and RMB10,000,000 into A8 Music without any equity interests issued and issuable to them in return. In addition, A8 Music has no obligations to repay these contributions. As a result, the contributions were reported as surplus contributions of A8 Music.

(iv) PRC statutory reserves

In accordance with the Companies Law of the PRC and the articles of association of the subsidiaries of the Company which are domestic enterprises established in the PRC, appropriations of their net profits after offsetting accumulated losses from prior years should be made to the statutory reserve fund maintained by these companies before any distributions are made to the investors. The percentage of appropriation to the statutory reserve fund is 10%. When the balance of the statutory reserve fund reaches 50% of the paid-up/registered capital, no further appropriations are required to be made. The statutory reserve fund shall not be less than 25% of the original registered capital.

In accordance with the Law of the PRC for Enterprises with Foreign Investments and the articles of association of a subsidiary of the Company established in the PRC, namely Cash River, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve fund before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve fund should not be less than 10% of the net profits. When the balance of the reserve fund reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve fund can be used to offset accumulated deficits or to increase the registered capital.

36. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000
At 1 January 2017	26,870
Changes from financing cash flows	90,280
At 31 December 2017	117,150

37. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 25 to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally allow the tenancies to be cancellable with any notice period no longer than 6 months, and also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**41,698**	38,160

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements with lease terms ranging from two to three years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of building as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**204**	857
In the second to fifth years, inclusive	**–**	290
	204	1,147

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Investment	**18,900**	–

40. RELATED PARTY DISCLOSURES

(a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group had the following transaction:

	2017 RMB'000	2016 RMB'000
Game licence fee paid	–	1,500
Participation prepayment	–	500
	–	2,000

The licence of a mobile game was entrusted to Xiamen Mechanist Internet Technologies Co., Ltd. ("Mengjia"), a company of which Mr. Liu, the Chairman of the Group, is the shareholder and the director. The game licence fee and participation prepayment were charged pursuant to the terms in the agreement signed between the Group and Mengjia.

The above related party transaction also constitutes connected transactions as defined in the Chapter 14A of the Listing Rules.

(b) Outstanding balances with related parties:

Details of the Group's balances with its joint venture and associates as at the end of the reporting period are disclosed in notes 23, 28 and 29 to the financial statements.

(c) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short term employee benefits	1,735	2,107
Performance related bonuses	486	445
Pension scheme contributions	272	307
Equity-settled share option expense	2,227	3,371
Total compensation paid to key management personnel	4,720	6,230

Further details of directors' emoluments are included in note 9 to these financial statements.

41. FINANCIAL INSTRUMENTS BY CATEGORY

Other than financial assets at fair value through profit or loss and available-for-sale investments as disclosed in notes 24 and 20 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2017 and 2016, were loans and receivables and financial liabilities stated at amortised cost, respectively.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the financial instruments are reasonable approximations of their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2017

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	332	–	16,050	16,382
Available-for-sale investments:				
Unlisted financial products, at fair value	–	–	17,500	17,500
Structured financial products, at fair value	–	14,772	–	14,772
	332	14,772	33,550	48,654

As at 31 December 2016

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	326	–	–	326
Available-for-sale investments:				
Unlisted financial products, at fair value	–	–	8,700	8,700
	326	–	8,700	9,026

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	Conversion option embedded in preferred shares RMB'000	**Available-for-sale investments** RMB'000
At 1 January 2016	6,309	–
Conversion of preferred shares	(6,309)	–
Additions	–	8,700
At 31 December 2016 and 1 January 2017	–	8,700
Additions	–	8,800
At 31 December 2017	–	17,500

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the current and prior years.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.3 to the financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets.

The Group generates revenue from the provision of game publishing services to the publishing platforms. If the strategic relationship with either of the publishing platforms is terminated or scaled-back; or if the publishing platforms alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in term of recoverability. To manage this risk, the Group assesses the credit quality of the publishing platforms, taking into account their financial position, past experience and other factors. In view of the history of cooperation with the publishing platforms and the collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from publishing platforms is not significant.

As mentioned in note 3.3 to the financial statements, the Mobile and Telecom Service Fees and the revenue from providing value-added services of the Group are substantially derived from co-operative arrangements with China Mobile and China Unicom (the "Mobile Telecommunications Operators"). If the strategic relationship with either of the Mobile Telecommunications Operators is terminated or scaled-back, or if the Mobile Telecommunications Operators alter the co-operative arrangements, the Group's mobile and telecommunications value-added services might be adversely affected. Since the Group mainly trades with the Mobile Telecommunications Operators, which are recognised and creditworthy third parties, the directors of the Company do not consider these counterparties to be of significant credit risk.

The credit risk relating to the end customers of the services offered by the Group was shared by the Mobile Telecommunications Operators and the Group.

Apart from this, the directors of the Company do not consider there are significant concentrations of credit risk.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) *Liquidity risk*

The Group manages liquidity risk by maintaining a sufficient amount of bank deposits to ensure that operational requirements are fulfilled.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	As at 31 December 2017		
	Within one year or on demand RMB'000	**1 to 2 years RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**118,325**	**–**	**118,325**
Trade payables	**26,474**	**–**	**26,474**
Other payables and accruals	**61,949**	**–**	**61,949**
	206,748	**–**	**206,748**

	As at 31 December 2016		
	Within one year or on demand RMB'000	1 to 2 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	27,634	–	27,634
Trade payables	20,923	–	20,923
Other payables and accruals	129,965	18,025	147,990
	178,522	18,025	196,547

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Capital management

The primary objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less interest-bearing bank borrowings, trade payables, other payables and accruals. The amounts of the net cash over debt position at the end of the reporting periods were as follows:

	2017 **RMB'000**	2016 RMB'000
Cash and cash equivalents	**546,071**	446,906
Interest-bearing bank borrowings	**(117,150)**	(26,870)
Trade payables	**(26,474)**	(20,923)
Other payables and accruals	**(61,949)**	(147,465)
Net cash over debt position	**340,498**	251,648

44. EVENTS AFTER THE REPORTING PERIOD

(a) On 12 February 2018, the Group entered into investment agreement to acquire an aggregate of a 51% equity interest in Shanghai Mu77 Network Technology Co., Ltd. and Mu77 Network Technology Hongkong Limited (collectively "MU77") at aggregate consideration of RMB102,000,000. MU77 is principally engaged in mobile game research and development and operation in the PRC and overseas.

(b) On 13 March 2018, the Group entered into equity transfer agreements with independent third parties to further acquire a 13.56% equity interest in Lanlanlanlan Film & Television at an aggregate consideration of RMB73,224,000. Lanlanlanlan Film & Television is principally engaged in script writing, sale of script, development and production of script into web series, TV series, cinema movies and web movies and its sale and related businesses. Upon completion of this transaction, the Group owns a 23.56% equity interest of Lanlanlanlan Film & Television.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	42,726	115,164
Total non-current assets	42,726	115,164
CURRENT ASSETS		
Other receivables	339	289
Amounts due from subsidiaries	754,977	463,730
Available-for-sale investments	14,772	–
Cash and cash equivalents	56,969	115,898
Total current assets	827,057	579,917
CURRENT LIABILITIES		
Other payables and accruals	3,245	2,578
Total current liabilities	3,245	2,578
NET CURRENT ASSETS	823,812	577,339
Net assets	866,538	692,503
EQUITY		
Issued capital	22,984	15,123
Reserves (note)	843,554	677,380
Total equity	866,538	692,503

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Treasury shares RMB'000	Shares held under share award scheme RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	672,137	–	(4,942)	8,969	4,320	22,436	(30,805)	672,115
Total comprehensive income/ (loss) for the year	–	–	–	–	6,743	–	(5,178)	1,565
Equity-settled share-based payment arrangements	–	–	–	–	–	3,700	–	3,700
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(933)	933	–
Employee share award scheme – release of award shares	–	–	270	–	–	(270)	–	–
At 31 December 2016 and 1 January 2017	672,137	–	(4,672)	8,969	11,063	24,933	(35,050)	677,380
Total comprehensive loss for the year	–	–	–	–	(9,760)	–	(132,371)	(142,131)
Issue of shares, net of expenses	328,951	–	–	–	–	–	–	328,951
Shares repurchased	–	(23,474)	–	–	–	–	–	(23,474)
Cancellation of shares repurchased	(18,231)	18,623	–	–	–	–	–	392
Equity-settled share-based payment arrangements	–	–	–	–	–	2,436	–	2,436
At 31 December 2017	982,857	(4,851)	(4,672)	8,969	1,303	27,369	(167,421)	843,554

The employee share-based compensation reserve comprises the fair value of share options and share awards granted which are yet to be exercised, as further explained in the accounting policy for equity compensation benefits in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.