A8新媒体集团
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800

INTERIM REPORT 2019

A8音乐
A8
LIVE
MU77
黑岩
heiyan.com
映客直播
青松基金
QINGSONG FUND
国家音乐产业基地
NATIONAL MUSIC INDUSTRY PARK
A8影视
A8 Film & Television

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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
Shanghai Pudong Development Bank Co., Ltd.

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The PRC

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Computershare Hong Kong Investor Services Limited
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Wanchai
Hong Kong

WEBSITE
www.a8nmg.com

STOCK CODE
00800

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
REVENUE, net of taxes and surcharges	4	**58,696**	77,807
Cost of services provided		**(35,710)**	(39,143)
Gross profit		**22,986**	38,664
Other income and gains, net	4	**10,051**	48,898
Selling and marketing expenses		**(4,131)**	(22,123)
Administrative expenses		**(29,309)**	(22,940)
Other expenses, net		**(21,958)**	(378)
Finance costs	5	**(3,743)**	(3,888)
Share of profits and losses of associates, net		**6,003**	3,721
PROFIT/(LOSS) BEFORE TAX	6	**(20,101)**	41,954
Income tax credit/(expense)	7	**4,723**	(10,285)
PROFIT/(LOSS) FOR THE PERIOD		**(15,378)**	31,669
Attributable to:			
Owners of the Company		**(11,778)**	33,068
Non-controlling interests		**(3,600)**	(1,399)
		(15,378)	31,669
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic (RMB per share)		**(0.44 cent)**	1.2 cent
Diluted (RMB per share)		**(0.44 cent)**	1.2 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT/(LOSS) FOR THE PERIOD	**(15,378)**	31,669
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**(190)**	(1,945)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive loss of an associate	**(15,122)**	–
Change in fair value of equity investments at fair value through other comprehensive income/(loss), net of tax	**31,527**	(20,185)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**16,405**	(20,185)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**16,215**	(22,130)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**837**	9,539
Attributable to:		
Owners of the Company	**4,437**	10,938
Non-controlling interests	**(3,600)**	(1,399)
	837	9,539

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	139,844	144,720
Investment properties	11	433,000	438,000
Right-of-use assets		13,285	–
Prepaid land lease payments		–	12,546
Goodwill		53,366	53,366
Intangible assets		3,543	14,510
Network films and dramas		561	–
Investments in associates		260,935	270,054
Financial assets at fair value through profit or loss		148,711	163,964
Financial assets at fair value through other comprehensive income		142,418	100,382
Deferred tax assets		1,605	1,843
Total non-current assets		1,197,268	1,199,385
CURRENT ASSETS			
Network films and dramas under production		3,663	19,116
Trade receivables	12	6,341	10,082
Prepayments, other receivables and other assets		12,352	25,365
Financial assets at fair value through profit or loss		11,282	15,796
Restricted cash balances and pledged deposits		250,741	274,533
Cash and cash equivalents		335,894	311,475
Total current assets		620,273	656,367
CURRENT LIABILITIES			
Trade payables	13	8,642	19,403
Other payables and accruals		53,753	75,775
Interest-bearing bank borrowings		180,000	195,058
Tax payable		8,141	9,114
Lease liabilities		595	–
Total current liabilities		251,131	299,350
NET CURRENT ASSETS		369,142	357,017
TOTAL ASSETS LESS CURRENT LIABILITIES		1,566,410	1,556,402

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**30 June 2019 (Unaudited) RMB'000**	31 December 2018 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**122,070**	116,624
Deferred income		**3,085**	4,070
Total non-current liabilities		**125,155**	120,694
Net assets		**1,441,255**	1,435,708
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	**22,818**	22,818
Reserves		**1,411,993**	1,403,765
		1,434,811	1,426,583
Non-controlling interests		**6,444**	9,125
Total equity		**1,441,255**	1,435,708

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

		Attributable to owners of the Company														
	Note	Share capital (unaudited) RMB'000	Share premium account (unaudited) RMB'000	Shares held under share award scheme (unaudited) RMB'000	Merger reserve (unaudited) RMB'000	Surplus contributions (unaudited) RMB'000	Fair value reserve (unaudited) RMB'000	Employee share-based compensation reserve (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory reserve fund (unaudited) RMB'000	Reserve fund (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total equity (unaudited) RMB'000
At 1 January 2019		22,818	966,775	(1,445)	29,135	10,522	102,753	29,951	(2,288)	10,391	21,701	4,422	231,848	1,426,583	9,125	1,435,708
Loss for the period		–	–	–	–	–	–	–	–	–	–	–	(11,778)	(11,778)	(3,600)	(15,378)
Other comprehensive income/(loss) for the period:																
Exchange differences on translation of financial statements		–	–	–	–	–	–	–	(190)	–	–	–	–	(190)	–	(190)
Share of other comprehensive loss of an associate		–	–	–	–	–	(15,122)	–	–	–	–	–	–	(15,122)	–	(15,122)
Change in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	31,527	–	–	–	–	–	–	31,527	–	31,527
Total comprehensive income for the period		–	–	–	–	–	16,405	–	(190)	–	–	–	(11,778)	4,437	(3,600)	837
Deregistration of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	–	1,014	1,014
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	(65)	–	–	–	(65)	(95)	(160)
Employee share award scheme:																
–release of award shares		–	–	29	–	–	–	(29)	–	–	–	–	–	–	–	–
Equity-settled share-based payment arrangements	17	–	–	–	–	–	–	3,856	–	–	–	–	–	3,856	–	3,856
Transfer of reserves upon the expiry of share options		–	–	–	–	–	–	(60)	–	–	–	–	60	–	–	–
At 30 June 2019		22,818	966,775*	(1,416)*	29,135*	10,522*	119,158*	33,718*	(2,478)*	10,326*	21,701*	4,422*	220,130*	1,434,811	6,444	1,441,255

* These reserve accounts comprise the consolidated reserves of RMB1,411,993,000 (30 June 2018: RMB1,434,622,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

		Attributable to owners of the Company															
	Note	Share capital (unaudited) RMB'000	Share premium account (unaudited) RMB'000	Treasury shares (unaudited) RMB'000	Shares held under share award scheme (unaudited) RMB'000	Merger reserve (unaudited) RMB'000	Surplus contributions (unaudited) RMB'000	Fair value reserve (unaudited) RMB'000	Employee share-based compensation reserve (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory reserve fund (unaudited) RMB'000	Reserve fund (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total equity (unaudited) RMB'000
At 1 January 2018		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
Effect of adoption of IFRS 9		–	–	–	–	–	–	21,515	–	–	–	–	–	24,069	45,584	–	45,584
At 1 January 2018 (restated)		22,984	973,928	(4,851)	(4,672)	29,135	10,522	21,515	32,519	(18,124)	10,016	21,701	4,422	346,359	1,445,454	(532)	1,444,922
Profit for the period		–	–	–	–	–	–	–	–	–	–	–	–	33,068	33,068	(1,399)	31,669
Other comprehensive loss for the period:																	
Exchange differences on translation of financial statements		–	–	–	–	–	–	–	–	(1,945)	–	–	–	–	(1,945)	–	(1,945)
Change in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	(20,185)	–	–	–	–	–	–	(20,185)	–	(20,185)
Total comprehensive income for the period		–	–	–	–	–	–	(20,185)	–	(1,945)	–	–	–	33,068	10,938	(1,399)	9,539
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	13,061	13,061
Employee share award scheme:																	
– release of award shares		–	–	–	1,582	–	–	–	(1,582)	–	–	–	–	–	–	–	–
Equity-settled share-based payment arrangements	17	–	–	–	–	–	–	–	1,147	–	–	–	–	–	1,147	–	1,147
Transfer of reserves upon the expiry of share options		–	–	–	–	–	–	–	(614)	–	–	–	–	614	–	–	–
Cancellation of shares repurchased		(107)	(4,744)	4,851	–	–	–	–	–	–	–	–	–	–	–	–	–
At 30 June 2018		22,877	969,184*	–*	(3,090)*	29,135*	10,522*	1,330*	31,470*	(20,069)*	10,016*	21,701*	4,422*	380,041*	1,457,539	11,130	1,468,669

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	**34,026**	8,025
Tax paid	**(1,076)**	(1,242)
Net cash flows from operating activities	**32,950**	6,783
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash acquired	**(24,887)**	(55,483)
Acquisition of financial asset at fair value through profit or loss	**–**	(42,473)
Purchases of items of property, plant and equipment	**(19)**	(806)
Purchases of intangible assets	**–**	(7,558)
Interest received	**9,349**	11,335
Decrease/(increase) in restricted cash and pledged deposits	**23,792**	(144,520)
Increase in time deposits with original maturity of more than three months when acquired	**(66,135)**	(5,997)
Proceeds from disposals of financial assets at fair value through profit or loss	**4,500**	–
Purchase of shareholdings in an associate	**(1,847)**	(70,432)
Net cash flows used in investing activities	**(55,247)**	(315,934)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**215,730**	199,558
Repayment of bank loans	**(230,788)**	(90,650)
Acquisition of non-controlling interests	**(60)**	–
Principal portion of lease payments	**(414)**	–
Interest paid	**(3,697)**	(3,888)
Net cash flows from/(used in) financing activities	**(19,229)**	105,020
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(41,526)**	(204,131)
Cash and cash equivalents at beginning of period	**306,475**	522,068
Effect of foreign exchange rate changes, net	**(190)**	(1,945)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**264,759**	315,992
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**115,872**	207,297
Non-pledged time deposits	**220,022**	138,695
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**335,894**	345,992
Time deposits with original maturity of more than three months when acquired	**(71,135)**	(30,000)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	**264,759**	315,992

NOTES TO INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

A8 New Media Group Limited (the "Company") 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 period, 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

There were no significant changes in the nature of the Group's principal activities during the period.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the current period's unaudited interim financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as further explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's unaudited interim financial information. The nature and impact of the new and revised IFRSs are described below:

IFRS 16 *Leases*

IFRS 16 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*. The standard 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. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 *Leases* (continued)

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for certain properties. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for an elective exemption for leases of short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 *Leases* (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) (Unaudited) RMB'000
Assets	
Increase in right-of-use assets	13,832
Decrease in prepaid land lease payments	(12,869)
Increase in total assets	963
Liabilities	
Increase in lease liabilities	963
Increase in total liabilities	963

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	(Unaudited) RMB'000
Operating lease commitments as at 31 December 2018	452
Weighted average incremental borrowing rate as at 1 January 2019	4.81%
Discounted operating lease commitments as at 1 January 2019	447
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(303)
Add: Payments for optional extension periods not recognised as at 31 December 2018	819
Lease liabilities as at 1 January 2019	963

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 *Leases* (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 *Leases* (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets RMB'000	Lease liabilities RMB'000
As at 1 January 2019	**13,832**	**963**
Depreciation charge	(547)	–
Interest expense	–	46
Payments	–	(414)
As at 30 June 2019	**13,285**	**595**

3. 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) game-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/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that bank interest income, finance costs and corporate and other unallocated income and expenses, net are excluded from such measurement.

NOTES TO INTERIM FINANCIAL INFORMATION

3. OPERATING SEGMENT INFORMATION (continued)

Information regarding these reportable segments, together with their related comparative information is presented below.

For the six months ended 30 June

	Digital entertainment		Property investment		Total	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000	**2019 (Unaudited) RMB'000**	2018 (Unaudited) RMB'000	**2019 (Unaudited) RMB'000**	2018 (Unaudited) RMB'000
Segment net revenue	**22,894**	42,195	**35,802**	35,612	**58,696**	77,807
Cost of services provided	**(27,067)**	(29,507)	**(8,643)**	(9,636)	**(35,710)**	(39,143)
Gross profit	**(4,173)**	12,688	**27,159**	25,976	**22,986**	38,664
Segment results	**(16,105)**	13,754	**22,159**	31,976	**6,054**	45,730
Reconciliation:						
Bank interest income					**7,578**	8,336
Finance costs					**(3,743)**	(3,888)
Corporate and other unallocated income and expenses, net					**(29,990)**	(8,224)
Profit/(loss) before tax					**(20,101)**	41,954
Income tax credit/(expense)					**4,723**	(10,285)
Profit/(loss) for the period					**(15,378)**	31,669

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) of the Group are located outside the PRC.

NOTES TO INTERIM FINANCIAL INFORMATION

4. REVENUE, OTHER INCOME AND GAINS, NET

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers		
Digital entertainment revenue	**22,976**	42,442
Property management services	**8,036**	8,168
	31,012	50,610
Revenue from other sources		
Gross rental income	**29,173**	28,937
	60,185	79,547
Less: Tax and surcharges	**(1,489)**	(1,740)
Net revenue	**58,696**	77,807

NOTES TO INTERIM FINANCIAL INFORMATION

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2019
Segments

	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Type of services			
Game-related revenue	12,586	–	12,586
Music-based entertainment	2,077	–	2,077
Film and television production	8,313	–	8,313
Management services	–	8,036	8,036
Total revenue from contracts with customers	22,976	8,036	31,012
Timing of revenue recognition			
Over time	22,976	8,036	31,012
Total revenue from contracts with customers	22,976	8,036	31,012

For the six months ended 30 June 2018
Segments

	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Type of services			
Game-related revenue	38,995	–	38,995
Music-based entertainment	3,447	–	3,447
Management services	–	8,168	8,168
Total revenue from contracts with customers	42,442	8,168	50,610
Timing of revenue recognition			
Over time	42,442	8,168	50,610
Total revenue from contracts with customers	42,442	8,168	50,610

NOTES TO INTERIM FINANCIAL INFORMATION

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the six months ended 30 June 2019
Segments

	Digital entertainment RMB'000	**Property investment RMB'000**	**Total RMB'000**
Revenue from contracts with customers			
External customers	**22,976**	**8,036**	**31,012**
Total revenue from contracts with customers	**22,976**	**8,036**	**31,012**

For the six months ended 30 June 2018
Segments

	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	42,442	8,168	50,610
Total revenue from contracts with customers	42,442	8,168	50,610

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Other income and gains, net		
Bank interest income	**7,578**	8,336
Fair value gains on investment properties	**–**	6,000
Fair value gain on financial assets at fair value through profit or loss	**–**	28,705
Foreign exchange differences, net	**955**	4,303
Others	**1,518**	1,554
	10,051	48,898

NOTES TO INTERIM FINANCIAL INFORMATION

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	**3,697**	3,888
Interest on lease liabilities	**46**	–
	3,743	3,888

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**4,568**	4,512
Depreciation of right-of-use assets	**547**	–
Amortisation of intangible assets	**4,234**	1,351
Amortisation of prepaid land lease payments	**–**	162
Amortisation of network films and dramas***	**16,617**	–
Impairment of intangible assets***	**6,733**	–
Write-off of trade payables***	**(7,000)**	–
Impairment of trade receivables*	**188**	–
Impairment of financial assets included in prepayments, other receivables and other assets*	**176**	–
Fair value loss on financial assets at fair value through profit or loss*	**15,267**	16
Fair value gain on financial assets at fair value through profit or loss**	**–**	(28,705)
Fair value losses/(gains) on investment properties*/**	**5,000**	(6,000)
Foreign exchange differences, net**	**(955)**	(4,303)

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

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

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

NOTES TO INTERIM FINANCIAL INFORMATION

7. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2018.

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

An analysis of the income tax charges/(credits) for the six months ended 30 June 2019 and 2018 is as follows:

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Current – Hong Kong		
Charge for the period	**115**	–
Current – PRC		
Charge for the period	**581**	822
Underprovision/(overprovision) in the prior years	**(593)**	434
Deferred	**(4,826)**	9,029
Total tax charge/(credit) for the period	**(4,723)**	10,285

For the six months ended 30 June 2019 and 2018, respectively, a subsidiary of the Group was entitled to a preferential tax rate.

8. INTERIM DIVIDEND

The board of directors (the "Board") does not recommend payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

NOTES TO INTERIM FINANCIAL INFORMATION

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts for the six months ended 30 June 2019 is based on the loss for the period attributable to equity holders of the Company of RMB11,778,000 (profit for the six months ended 30 June 2018: RMB33,068,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2019 of 2,693,535,000 (six months ended 30 June 2018: 2,694,301,000).

For the period ended 30 June 2019, no adjustment has been made to the basic loss per share amount presented in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

For the period ended 30 June 2018, no adjustment had been made to the basic earnings per share amount presented in respect of a dilution as the exercise price of outstanding share options was higher than the average market price of the ordinary shares of the Company during the period and the share options had no dilutive effect on the basic earnings per share amount presented.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB19,000 (six months ended 30 June 2018: RMB138,000). There were disposals and/or write-off of property, plant and equipment of RMB327,000 (six months ended 30 June 2018: RMB38,000) during the six months ended 30 June 2019.

11. INVESTMENT PROPERTIES

	(Unaudited) RMB'000
At 1 January 2018	420,000
Fair value gains on investment properties	18,000
At 31 December 2018 and 1 January 2019	**438,000**
Fair value losses on investment properties	**(5,000)**
At 30 June 2019	**433,000**

The Group's investment properties were revalued on 30 June 2019 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases.

NOTES TO INTERIM FINANCIAL INFORMATION

11. INVESTMENT PROPERTIES (continued)

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 amount of RMB433,000,000 and RMB438,000,000 as at 30 June 2019 and 31 December 2018, 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 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
As at 30 June 2019 (Unaudited): Recurring fair value measurement for:				
Commercial buildings	**–**	**–**	**433,000**	**433,000**
As at 31 December 2018 (Audited): Recurring fair value measurement for:				
Commercial buildings	–	–	438,000	438,000

During the current period and prior year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO INTERIM FINANCIAL INFORMATION

11. INVESTMENT PROPERTIES (continued)

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) 30 June 2019	31 December 2018
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	**RMB160**	RMB162
		Rental growth rate (per annum)	**5.0%**	5.0%
		Discount rate	**10.25%**	10.4%

A significant increase/(decrease) in the estimated rental value per square meter 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.

12. TRADE RECEIVABLES

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:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Billed		
Within 1 month	**1**	22
1 to 2 months	**6**	2,703
2 to 3 months	**1**	231
Over 3 months	**1,084**	1,453
	1,092	4,409
Unbilled	**5,249**	5,673
	6,341	10,082

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to the Group within a period of 30 to 120 days.

NOTES TO INTERIM FINANCIAL INFORMATION

13. 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:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 1 month	**45**	8,195
1 to 3 months	**422**	836
4 to 6 months	**232**	654
Over 6 months	**7,943**	9,718
	8,642	19,403

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

14. ISSUED CAPITAL

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Authorised:		
3,000,000,000 (31 December 2018: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
2,700,886,628 (31 December 2018: 2,700,886,628) ordinary shares of HK$0.01 each	**22,818**	22,818

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

	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 2019 and 30 June 2019	2,700,886,628	27,009	1,148,150	22,818	966,775	989,593

NOTES TO INTERIM FINANCIAL INFORMATION

15. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this interim financial information, the Group had the following transactions with related party during the period:

	Note	For the six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Associate:			
Service fee income	(i)	**16**	–

Note:

(i) The service fee income was paid by an associate for the receivables collection services. The income was based on 1% of the amount collected on behalf during the period.

(b) Compensation of key management personnel of the Group:

	For the six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Short-term employee benefits	**486**	852
Performance related bonuses	**111**	162
Pension scheme contributions	**154**	149
Equity-settled share option expense	**1,946**	951
Total compensation paid to key management personnel	**2,697**	2,114

NOTES TO INTERIM FINANCIAL INFORMATION

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted cash balances and pledged deposits, trade receivables, trade payables, financial assets included in other receivables and other assets, financial liabilities included in other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Valuation	Unobservable input	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income	Market approach	Enterprise-value-to–revenue multiple ("EV/Revenue")	30 June 2019: 4.33 to 5.92 (31 December 2018: 4.33 to 5.92)	Increase/decrease in EV/Revenue would result in increase/ decrease in fair value
		Discounts for lack of marketability ("DLOM")	30 June 2019: 16.3% to 22.1% (31 December 2018: 16.3% to 22.1%)	Increase/decrease in DLOM would result in decrease/ increase in fair value
Financial assets at fair value through profit or loss	Market approach	EV/Revenue	30 June 2019: 0.88 to 14.25 (31 December 2018: 0.88 to 14.25)	Increase/decrease in EV/Revenue would result in increase/ decrease in fair value
		DLOM	30 June 2019: 12.3% to 31% (31 December 2018: 12.3% to 31%)	Increase/decrease in DLOM would result in decrease/ increase in fair value
	Income approach	Discount rate	30 June 2019: 14.73% (31 December 2018: 1.73%)	Increase/decrease in discount rate would result in decrease/ increase in fair value
		DLOM	30 June 2019: 21% (31 December 2018: 33%)	Increase/decrease in DLOM would result in decrease/ increase in fair value

NOTES TO INTERIM FINANCIAL INFORMATION

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

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 30 June 2019 (Unaudited):

	Fair value measurement 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
Financial assets at fair value through profit or loss	282	–	159,711	159,993
Financial assets at fair value through other comprehensive income	–	–	142,418	142,418
	282	–	302,129	302,411

As at 31 December 2018 (Audited):

	Fair value measurement 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
Financial assets at fair value through profit or loss	296	–	179,464	179,760
Financial assets at fair value through other comprehensive income	–	–	100,382	100,382
	296	–	279,846	280,142

NOTES TO INTERIM FINANCIAL INFORMATION

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

Fair value hierarchy (continued)

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

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000
As at 1 January 2018 (Audited)	96,619	76,459
Total gains recognised in the condensed consolidated statement of profit or loss	61,735	–
Total gains recognised in the condensed consolidated statement of other comprehensive income	–	37,873
Reclassification to investments in associates (note i)	–	(13,950)
Purchases	43,345	–
Disposals	(22,235)	–
As at 31 December 2018 and 1 January 2019 (Audited)	179,464	100,382
Total losses recognised in the condensed consolidated statement of profit or loss	(15,253)	–
Total gains recognised in the condensed consolidated statement of other comprehensive income	–	42,036
Disposals	(4,500)	–
As at 30 June 2019 (Unaudited)	159,711	142,418

Note:

(i) The balance represented amount transferred to investments in associates in April 2018 upon the completion of acquisition of additional interests 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").

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended 30 June 2019 (31 December 2018: Nil).

NOTES TO INTERIM FINANCIAL INFORMATION

17. SHARE OPTION SCHEME

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

	Weighted average exercise price per share HK$	Number of options '000
At 1 January 2018	0.71	51,532
Granted during the period	0.49	4,615
Lapsed during the period	2.42	(919)
Cancelled during the period	0.66	(17,695)
At 30 June 2018	0.69	37,533
At 1 January 2019	**0.64**	**34,644**
Granted during the period	**0.22**	**78,207**
Lapsed during the period	**0.69**	**(200)**
At 30 June 2019	**0.35**	**112,651**

At the end of the reporting period, the Company had approximately 112,651,000 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 112,651,000 additional ordinary shares of the Company and additional share capital of HK$1,127,000 and share premium of HK$38,301,000 (before issue expenses).

At the date of approval of these interim financial information, the Company had approximately 112,651,000 share options outstanding under the share option scheme, which represented approximately 4.17% of the Company's shares in issue as at that date.

For the six months ended 30 June 2019, the fair value of the share options granted was HK$8,421,000 at HK$0.11 each (six months ended 30 June 2018: HK$1,081,000 at HK$0.23 each). The Group recognised a share option expense of RMB3,856,000 (six months ended 30 June 2018: RMB1,147,000) during the six months ended 30 June 2019 in respect of share options granted in the current and prior periods.

18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved by the Board on 22 August 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

1 BUSINESS REVIEW AND OUTLOOK

Business review for the first half of 2019

In the pan-entertainment market consisting of literature, games, animation, video, music and the like, along with the vertical development of long IP ("Intellectual Property") chain, various sub-areas continued to integrate and provide content support to each other to promote the sustained and high-speed development of the domestic pan-entertainment industry. According to the "Pan-entertainment Development Report of Chinese Literature IP" released by iResearch, the market size of China's online pan-entertainment industry reached RMB464.3 billion in 2018, representing a year-on-year increase of 19%. Influenced by regulatory policies and market environment, China's online pan-entertainment industry has undergone structural adjustment in various sub-sectors. For instance, related regulators in China has imposed a freeze on new-game licence approval from March to December 2018. This policy has delayed the release of a large number of new games. In 2018, the proportion of the Chinese game market in the global game market has fallen for the first time in nearly six years. (Source: "Research on China Mobile Game Industry in 2019" reported by iResearch). In February 2019, a new rule to review web dramas was implemented, which stipulates that the review mechanisms of audiovisual content broadcasted online and on TV network will be integrated. The scripts and the final works of web drama, web films and online animation will be reviewed by Administration of Radio Film and Television at provincial levels, which will no longer be different from TV dramas. As a result of the integrated review mechanism, many video contents cannot be brought online or delayed. In the first half of 2019, China's online pan-entertainment industry developed in context of partial adjustment.

In the first half of 2019, facing the fluctuations in the industries of game and film & television, the Group actively adjusted the operating strategy of various business segments and strictly controlled project risks. Meanwhile, for projects with high uncertainties or long-term serious losses, we stopped losses in a timely manner. The following is a review of the development of the various business segments of the Group for the first half of 2019:

Game Business

In 2018, the Group, together with Tencent, acquired the independent game research and development companies, Shanghai Mu77 Network Technology Co., Ltd. (上海木七七網絡科技有限公司, "MU77SH") and Mu77 Network Technology Hongkong Limited (香港木七七網絡科技有限公司, "MU77HK") (collectively "Mu77"). Mu77 is mainly engaged in the research, development and operation of independent games.

In the first half of 2019, Mu77 mainly operated "Card Monster" (「卡片怪獸」), a fast-paced, light-strategy casual type of card game. Tencent Aurora Program is the exclusive agent of "Card Monster" in mainland China. In the first half of 2019, the game maintained a steady growth trend recording a year-on-year increase of 17.8% in revenue.

Mu77 is currently developing three games: the self-developed project "Colossus Knights "(「巨像騎士團」), the jointly custom-developed games "Immortal Chat Group" (「修真聊天群」) and "Contract Wartime" (「契約戰紀」). As a steampunk light miniatures type of game, "Colossus Knights" has highly differentiated gameplays. In terms of game content, it provides players versus players mode, as well as players versus gaming environment mode to meet the needs of different players and convey a "weird" and "fancy" vibe. As a strategic adventure type of game, "Contract Wartime" uses unique race and career settings to endow the game with abundant strategies. The version generated in research and development phase was highly recognized by the vendee for its innovative gameplay. "Immortal Chat Group "is a well-known online novel IP on Qidian.com (「起點中文網」), a website of China Literature (「閱文集團」). The novel has accumulated more than 100 million hits and has been ranked in the top 10 of the Monthly Ticket List of Male Channel on Qidian.com for many times since its launch in 2015. In 2018, Mu77 began to jointly develop an idle game "Immortal Chat Group" with China Mobile Games and Entertainment Group Limited ("CMGE"), which is expected to be completed in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

As a game distribution platform of the Group, in the first half of 2019, Finger Fun mainly operated "Making Soldiers in Three Kingdoms" (「造兵三國」), "Three Kingdoms Wars M" (「三國志大戰M」), and "Xiawuyu" (「俠物語」) etc.

Film & Television Production

"Matchmakers of Great Zhou Dynasty" (「大周小冰人」), the lightly funny idol costume drama jointly developed and produced by A8 Film & Television and iQIYI, Inc. ("iQIYI"), was broadcasted online in March 2019 on iQIYI. "Matchmakers of Great Zhou Dynasty" is the top 10 IP-customized web drama of the "Yunteng Scheme" (「雲騰計劃」) of iQIYI. The launch of "Matchmakers of Great Zhou Dynasty" has attracted lots of attention of audiences and media. It ranked No. 1 of iQIYI TV Series Soaring List in the first quarter, No. 1 of the Entertainment Industry iQIYI's Revenue Distribution by Hits List, No. 2 of Maoyan (「貓眼」)'s TV series Hot List and No. 7 of Guduo(「骨朵」)'s Web Film and Drama Hot List.

In March 2019, the State Administration of Radio and Television of China issued new regulations on costume dramas, which affected the publicity of "Matchmakers of Great Zhou Dynasty" to certain extent. Sequentially, the response from the drama was below the Group's expectation.

As of 30 June 2019, the Group held 29.52% share in Lanlanlanlan Film & Television in aggregate through capital increase, share acquisition and performance compensation. Lanlanlanlan Film & Television is mainly engaged in the business of script writing, script selling, script adaptation, production of online video contents such as online dramas, online films and TV dramas.

Cultural Industry Park – National Music Industry Park – A8 Music Buidling

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, close to Qianhai (「前海」) and Houhai (「後海」), and has a superior location. The total gross floor area is 52,500 sq.m which includes commercial office, podium commercial property and parking lots. A8 Music Building won the first prize in "Shenzhen Excellent Property Management Project" (「深圳市優秀物業管理優秀項目」) awarded by Shenzhen Property Management Industry Association in 2018. On this basis, in the first half of 2019, A8 Music Building carried out the work of service promotion and prepared for the provincial excellence rating in 2019. In the first half of 2019, the customer satisfaction survey of A8 Music Building showed a point of 99.41. The property investment business of A8 Music Building has been re-designated as the main business of the Group since mid-2015. A8 Music Building has generated an overall income of approximately RMB37.2 million in the first half of 2019, broadly stable year-on-year.

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 and band rehearsal rooms. A8Live has held 30 performance activities in the first half of 2019 in diversified activity forms such as artists performance, band shows, concerts, press releases and live broadcasts, etc. Artists being invited to A8Live are becoming more international, including well known artists and bands such as Kotaro Oshio, GARNiDELiA, Sakanaction, Arch Enemy, Tommy Emmanuel, etc. In the first half of 2019, A8Live held 48 public music performances in the outdoor square of A8 Music Building. These performances promoted the brand and increased the popularity of A8 Music Building and LiveHouse Theatre.

MANAGEMENT DISCUSSION AND ANALYSIS

Online Literatures – Beijing Zhangwen

北京掌文信息技術有限公司 (Beijing Zhangwen Information Technology Co., Ltd.) ("Beijing Zhangwen") is mainly engaged in the business of online literature reading and incubation and operation of IP. Beijing Zhangwen mainly operates four literary platforms: Heiyan.com (黑岩網), Ruochu.com (若初網), Ruoxia.com (若夏網) and Lemon Read (檸檬免費小説網). Beijing Zhangwen is engaged in overall copyright operation, adapting literary works into web dramas, television dramas, movies, cartoons, comics and audio works, or authorizing third parties to develop copyrights in various genres.

Breakthrough Progress in Literature IP Copyright Operation

For the six months ended 30 June 2019, the revenue generated from copyright operation of Beijing Zhangwen increased by 279% as compared with the corresponding period in 2018. This growth is mainly due to the development of the audio reading business. The number of hours of audio works recorded in Beijing Zhangwen has increased by more than 20,000 compared with the corresponding period last year. Lots of audio novels of Beijing Zhangwen entered top ranking lists of platforms like Himalayan FM (「喜馬拉雅 FM」), lrts.me (「懶人聽書」)and Dragonfly FM (「蜻蜓FM」).

The online movie "MEGA Crocodile" (「巨鱷」), adapted from "MEGA Crocodile", the science fiction of the same name of Heiyan.com and mainly invested by Beijing Zhangwen, has broken Youku (優酷)'s record with over 175,000 subscriptions. "MEGA Crocodile" ranked No. 1 of Youku's Online Film Popular Playing List and New Movie List since its broadcast and became one of the most popular online movies of the year. The audio novel of same name adapted from "MEGA Crocodile" has accumulated more than 2 million subscribers on overall online platforms and more than 200 million playback amounts.

Stable Development in Literature Related Business and Rapid Growth in Third-party Distribution Business

As at 30 June 2019, the cumulative number of registered users of Beijing Zhangwen exceeded 42 million, maintaining approximately compound annual growth rate of 60% over the past three years. Lemon Read, the free reading platform of Beijing Zhangwen launched in 2018, currently has more than 500 thousand active users.

In addition to carrying out online literary reading business on its own platform, Beijing Zhangwen also provides reading services to third-party reading platforms through agency and authorization. In the first half of 2019, the third-party authorization business grew rapidly. With the original distribution channels such as China Literature (「閱文集團」), Ali Literature (「阿里文學」), iReader (「掌閱文學」), Chasing Artifacts (「追書神器」), Zhongheng Literature (「縱橫文學」), Baidu Cloud (「百度雲」), Migu Culture (「咪咕文化」) in hand, Beijing Zhangwen continued to expand new distribution channels.

MANAGEMENT DISCUSSION AND ANALYSIS

Business outlook for the second half of 2019

Future development of the pan-entertainment industry will transfer from vertical development of IP industrial chain to horizontal and vertical development from various angles and further exploration of multiple IPs which share common world values. For instance, one IP can be developed in multiple content forms. Different IP content forms can also empower each other. In 2019, the Group will continue to build high-quality IPs in pan-entertainment industry chain, strive to promote the interaction between various forms of IP and further explore customer values and increase customers satisfaction.

Game Business

In the second half of 2019, the Group will continue keeping close attention on the progress of new-game licence application. The Group will endeavor to make sure the games get online on time. Meanwhile, we will continue to maintain the proportion of self-developed projects and customized projects in the subsequent game product planning to ensure the stability of income level as far as possible. "Immortal Chat Group" and "Contract Wartime", which the Group jointly custom – developed with CMGE and Unicorn Games, and "Colossus Knights", which the Group independently developed, are expected to get online in the second half of 2019 or 2020.

Film & Television Production

In the second half of 2019, the Group will continue to seek and develop new film & television projects in a prudent manner and look for new directions of development in the video industry.

Cultural Industry Park – National Music Industry Park – A8 Music Building

In the second half of 2019, the Group will continue to enhance the property management level and provide better service for clients, in order to consistently receive stable income. At the same time, the Group will be dedicated in developing A8Live towards its branding and content making. We will continue to expand performance business and promote branding to increase industrial influence.

Online Literatures – Beijing Zhangwen

In the second half of 2019, Beijing Zhangwen will continue to strengthen the development of various IP forms of online novels and the exploration of business patterns. Beijing Zhangwen will devote to the synchronous research and development of film & television, comics and audio books based on one IP of the same online novel. In the second half of 2019, Beijing Zhangwen plans to launch the synchronous research and development among film & television, audio works and comics of three novels, which are based on the content system of the same world values. There are certain connections among the contents of these novels.

Events After the Reporting Period

From 30 June 2019 to the date of this report, the Group did not have other major events.

MANAGEMENT DISCUSSION AND ANALYSIS

2 FINANCIAL REVIEW

Revenue and profit/(loss) attributable to equity holders of the Company

For the six months ended 30 June 2019, the revenue of the Group amounted to approximately RMB60.2 million, representing a decrease of approximately 24.3% as compared with the corresponding period in 2018 (2018: approximately RMB79.5 million).

Digital entertainment services

For the six months ended 30 June 2019, the revenue of digital entertainment services of the Group amounted to approximately RMB23.0 million, representing a decrease of approximately 45.9% as compared with the corresponding period in 2018 (2018: approximately RMB42.4 million). The decrease was mainly resulted from the decrease of approximately RMB26.4 million in revenue from game related services compared with the corresponding period in 2018.

Property investment business

For the six months ended 30 June 2019, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB37.2 million, basically the same as the corresponding period last year (2018: approximately RMB37.1 million).

For the six months ended 30 June 2019, the loss attributable to equity holders of the Company amounted to approximately RMB11.8 million, while it was a profit of approximately RMB33.1 million for the corresponding period last year. This change was mainly attributable to the loss of approximately RMB17.0 million in fair value of the financial assets at fair value through profit or loss related to Lanlanlanlan Film & Television invested by the Group and the unsatisfactory performance of the network drama "Matchmakers of Great Zhou Dynasty" produced by the Group.

Cost of services provided

For the six months ended 30 June 2019, the cost of services provided of the Group amounted to approximately RMB35.7 million, representing a decrease of approximately 8.8% as compared with the corresponding period in 2018 (2018: approximately RMB39.1 million). The decrease was mainly due to the decrease of approximately RMB18.9 million in related cost compared with the corresponding period in 2018 accompanied with the decrease in game related revenue and was offset by an increase of approximately RMB16.6 million in the production cost of the network drama "Matchmakers of Great Zhou Dynasty".

Digital entertainment services

For the six months ended 30 June 2019, the cost of services provided of digital entertainment services amounted to approximately RMB27.1 million, decreased by approximately 8.3% as compared with the corresponding period in 2018 (2018: approximately RMB29.5 million), which mainly resulted from the decrease in the cost paid to distribution channels and business alliance accompanied with the decrease in game related revenue, and was offset by the increase in the production cost of the network drama "Matchmakers of Great Zhou Dynasty". The cost of services provided mainly comprises the cost paid to mobile operators, distribution channels, business alliances, production cost of network films and dramas and other costs such as game copyrights and direct labor costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Property investment business

For the six months ended 30 June 2019, the cost of services provided of property investment business amounted to approximately RMB8.6 million, decreased by approximately 10.3% as compared with the corresponding period in 2018 (2018: approximately RMB9.6 million). It mainly comprised of employee's compensation, utility charges and other maintenance costs in relation to the investment properties.

Gross profit

For the six months ended 30 June 2019, the gross profit of the Group amounted to approximately RMB23.0 million, representing a decrease of approximately 40.5% as compared with the corresponding period in 2018 (2018: approximately RMB38.7 million). The overall gross margin ratio of the Group was approximately 38.2% for the six months ended 30 June 2019, as compared with approximately 48.6% for the corresponding period last year. The decrease of the overall gross margin ratio of the Group was mainly resulted from the negative gross margin ratio of film and television production business.

Other income and gains, net

For the six months ended 30 June 2019, the other income and gains of the Group were approximately RMB10.1 million, representing a significant decrease of approximately 79.4% as compared with the corresponding period last year (2018: approximately RMB48.9 million). The decrease was mainly due to that for the six months ended 30 June 2018, the recognition of gain on fair value change of financial assets at fair value through profit or loss in relation to the Group's investment in Lanlanlanlan Film & Television and investment property amounted to approximately RMB28.7 million and RMB6.0 million, respectively, while loss on fair value change of financial assets at fair value through profit or loss in relation to the Group's investment in Lanlanlanlan Film & Television and investment property amounted to approximately RMB17.0 million and RMB5.0 million were recognized under other expenses for the six months ended 30 June 2019.

Selling and marketing expenses

For the six months ended 30 June 2019, the selling and marketing expenses of the Group amounted to approximately RMB4.1 million, significantly decreased by approximately 81.3% as compared with the corresponding period in 2018 (2018: approximately RMB22.1 million). The decrease in selling and marketing expenses was mainly due to the decrease of the game promotion expenses and labor expenses amounted to approximately RMB14.5 million and RMB2.9 million, respectively, resulted from the reduction of game related publishing business.

Administrative expenses

For the six months ended 30 June 2019, the administrative expenses of the Group amounted to approximately RMB29.3 million, representing an increase of approximately 27.8% as compared with the corresponding period in 2018 (2018: approximately RMB22.9 million). The increase was mainly due to the business combination of Mu77 completed in March 2018 and all its expenses were consolidated into the Group during the reporting period.

Share of profits and losses of associates

For the six months ended 30 June 2019, the Group shared profits and losses of associates amounted to approximately RMB6.0 million, increased by approximately 61.3% as compared with the corresponding period in 2018 (2018: approximately RMB3.7 million). The increase was mainly due to the shared profits of Beijing Zhangwen increased by approximately RMB2.4 million as compared with the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax credit/(expense)

For the six months ended 30 June 2019, income tax credit of the Group amounted to approximately RMB4.7 million, while the income tax expense for the corresponding period in 2018 was approximately RMB10.3 million. This change was mainly due to the deferred tax credit amounted to approximately RMB5.5 million derived from the decreased fair value of financial asset at fair value through profit or loss and investment property for the six months ended 30 June 2019, while it was due to the deferred tax expenses amounted to approximately RMB8.7 million derived from the increased fair value of financial asset at fair value through profit or loss and investment property for the corresponding period last year.

The effective tax rate of the Group was approximately 23.5% in the six months ended 30 June 2019 (2018: approximately of 24.5%).

Non-current assets

As at 30 June 2019, the total non-current assets of the Group amounted to approximately RMB1,197.3 million (2018: approximately RMB1,199.4 million), decreased by approximately RMB2.1 million. The decrease was mainly due to the decrease of financial assets at fair value through profit and loss, intangible assets, investment in associates, investment properties and property, plant and equipment amounted to approximately RMB15.3 million, RMB11.0 million, RMB9.1 million, RMB5.0 million and RMB4.9 million, respectively, and was mainly offset by the increase of financial assets at fair value through other comprehensive income amounted to approximately RMB42.0 million.

Current assets and current liabilities

As at 30 June 2019, the total current assets of the Group amounted to approximately RMB620.3 million (2018: approximately RMB656.4 million), decreased by approximately RMB36.1 million.

The decrease was mainly due to the decrease of restricted cash balances and pledged deposits, inventories in relation to network drama production, prepayments, other receivables and other assets and financial assets at fair value through profit or loss amounted to approximately RMB23.8 million, RMB15.5 million, RMB13.0 million and RMB4.5 million respectively, which was offset by the increase of cash and cash equivalents amounted to approximately RMB24.4 million. As at 30 June 2019, account receivables amounted to approximately RMB6.3 million (2018: approximately RMB10.1 million), and the turnover days of trade receivables was approximately 25 days (2018: approximately 30 days).

As at 30 June 2019, the total current liabilities of the Group amounted to approximately RMB251.1 million (2018: approximately RMB299.4 million), decreased by approximately RMB48.2 million. The decrease was mainly resulted from the decrease in other payables and accruals, interest-bearing bank borrowings and trade payables amounted to approximately RMB22.0 million, RMB15.1 million and RMB10.8 million respectively. The decrease of other payables and accruals mainly due to the investment payment for the acquisition of subsidiary company Mu77. The Group's interest-bearing borrowings are the effective and low-cost way to use cross-border capital to support the group's business development and business combination.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2019, cash and bank balances and highly liquid short-term assets of the Group including cash and cash equivalents, restricted cash and pledged deposits and financial assets at fair value through profit or loss amounted to approximately RMB597.9 million in aggregate (2018: approximately RMB601.8 million). Among which, approximately RMB239.1 million, or approximately 40% was denominated in RMB.

As at 30 June 2019, the Group had short-term interest-bearing bank borrowings in aggregate amounted to approximately RMB180.0 million (2018: approximately RMB195.1 million), and the gearing ratio which is measured by the net borrowings over the total assets is 9.9% (2018: approximately 10.5%).

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

As at 30 June 2019, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Cash flow

Net cash inflow from operating activities of the Group for the six months ended 30 June 2019 was approximately RMB32.9 million, resulted from cash inflow generated from operations of approximately RMB34.0 million and the income tax paid of approximately RMB1.1 million.

Net cash outflow from investing activities of the Group for the six months ended 30 June 2019 was approximately RMB55.2 million, due to the increase of short term time deposits over three months and the cash outflow for paying the last installment for the acquisition of 51% equity interest in Mu77 amounted to approximately RMB66.1 million and RMB24.9 million respectively, which were partly offset by decrease of restricted cash balances and pledged deposits and the cash inflow of interest received amounted to approximately RMB23.8 million and RMB9.3 million, respectively.

Net cash outflow from financing activities of the Group for the six months ended 30 June 2019 was approximately RMB19.2 million, mainly resulted from repayment of principal and interest of the bank loans amounted to approximately RMB230.8 million and RMB3.7 million, respectively, which were partly offset by the receipt of principal of new bank loans of approximately RMB215.7 million.

Human resources

As at 30 June 2019, the Group had 123 employees (as at 30 June 2018: 188 employees). The average headcounts of the period was 136 while it was 165 for the corresponding period in 2018. The decrease is mainly attributable to the reduction of employees of game publishing business. Total employee costs for the six months ended 30 June 2019, including directors' emoluments, amounted to approximately RMB20.7 million (2018: approximately RMB19.2 million). The increase in employee costs was mainly due to the event that the Group completed the acquisition of Mu77 in March 2018 and all of its labor expenses were consolidated to the Group during the reporting period, and the severance package which were resulted from the termination of employment in the game related service.

Employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed regularly. A share option scheme and a share award scheme have also been put in place for the Company to encourage employees to work towards enhancing the value of the Company and promote the long-term growth of the Company. Furthermore, the Group offers training programs for employees to upgrade their skills and knowledge on a regular basis.

MANAGEMENT DISCUSSION AND ANALYSIS

3 USE OF PROCEEDS

On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited ("Ever Novel") pursuant to which Ever Novel agreed to subscribe for in cash, and the Company agreed to allot and issue 931,800,000 new shares of the Company at a subscription price of HK$0.41 per Share ("Subscription"). Completion of the Subscription took place on 20 February 2017. The gross proceeds and net proceeds from the Subscription were approximately HK$382.0 million and HK$380.5 million respectively.

As of the date of this report, the accumulated amount of RMB101,421,500 of the proceeds from the Subscriptions have been used. Among which, approximately RMB59,557,500 of the net proceeds from the Subscription were utilized for the acquisition of 51% equity interest in MU77SH, RMB16,977,000 were used for the first payment for the acquisition of MU77HK and controlling MU77SH through implementing a series of VIE agreements and arrangements before this reporting period. During the reporting period, approximately RMB24,887,000 of the net proceeds from the Subscription were used as the second payment for the acquisition of MU77HK and controlling MU77SH through implementing a series of VIE agreements and arrangements.

As disclosed in the circular of the Company dated 25 January 2017, it was intended that the net proceeds from the Subscription would be utilized for further investment of the Group as and when opportunities arise, with a focus on mobile game industry chain. The Company intends to use the entirety of the proceeds from the Subscription for future acquisition of upstream and downstream mobile game industry chain company(ies). The use of the proceeds of the Subscription is the same as that of the subscription agreement entered by the Group.

On the date of this report, the remaining amount of the proceeds from the Subscription was RMB235,204,000. The company has no plans to change the use of the proceeds from the Subscription for the time being. The remaining unutilized proceeds from the Subscription will be used as intended. As at the date of this report, the Company has not identified other suitable business or investment opportunities. The Company will continue to use its best endeavors to identify appropriate business opportunities for investment. Currently, the Company placed such unutilized proceeds as short-term interest-bearing deposits in licensed bank in Hong Kong.

4 SIGNIFICANT INVESTMENTS

The Group did not launch any new significant investment during the six months ended 30 June 2019.

5 MAJOR RISKS AND UNCERTAINTIES

The Group's operating performance, financial position and development prospects may be affected by risks and uncertainties directly or indirectly related to the Group's business. The risk factors listed below may lead to significant differences in the Group's operating performance, financial position and development prospects from expected or past performance. These factors are not comprehensive. In addition to the following, there may be other risks and uncertainties that are not known by the Group or may not be significant at present, but may become significant in the future.

Business Risk

The business of the Group's property investment segment is mainly leasing and property management, which may be affected by fluctuations in market prices of rent and property fees and uncertainty of tenant mobility.

Digital entertainment segment is engaged in game research & development, film & television production and music-based entertainment. Some projects have a long development and production cycle, face fierce competition within the industry and changeable tastes of audiences. If the Group fails to adapt and respond successfully, it may adversely affect the business performance and development prospects.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's investment performance in projects like Beijing Zhangwen, Lanlanlanlan Film & Television is mainly determined by the operation of these invested companies. If the invested companies fail to achieve the expected performance target, it might adversely affect the Group's business.

Policy Risk

In order to carry out various business, the Group must abide relevant policies and regulations. Changes in policies and regulations will affect the development of the Group's business, such as the adjustment of the cultural authorities' policies on the application of new game licences, and the adjustment of the approval standards of the State General Administration of Press, Publication, Radio, Film and Television on web drama, which may lead to significant changes in operating costs and revenues of the Group's business.

Foreign Exchange Risk

On 30 June 2019, HK Dollars and US Dollars in cash and cash equivalents held by the Group were approximately HK$21.2 million and US$49.5 million. The Group's main business is located in China, and most of its revenues and expenditures are settled in RMB. Therefore, the Group may face the risk of foreign currency exchange.

6 IMPLEMENT OF TARGET PROFIT OF LANLANLANLAN FILM & TELEVISION

On 13 December 2017, Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (深圳市雲海情天文化傳播有限公司, "Yunhai Qingtian"), the Company's wholly owned subsidiary acquired 5% equity interest in Lanlanlanlan Film & Television by way of capital increase ("2017 Capital Increase"). On 18 December 2017, Yunhai Qingtian entered into equity transfer agreements and equity transfer supplementary agreements with independent third parties to acquire 5% equity interest in Lanlanlanlan Film & Television (the "2017 Acquisition"). On 13 March, 2018, the Group acquired an additional 13.56% equity interest in Lanlanlanlan Film & Television from several independent third parties (the "2018 Acquisition"). After the completion of the 2018 acquisition, the Group owned 23.56% of equity interest in Lanlanlanlan Film & Television.

According to the supplementary agreement on Capital Increase and equity transfer supplementary agreement for 2017 Acquisitions, Ms. Liu Zewen ("Founder A") and Mr. Zhang Jinsheng ("Founder B", collectively known as the "Founders" with Founder A), taking the Group as the beneficiary, undertook that the net profit (excluding non-recurring gains or losses, known as "Audited Profit") audited by accounting firms in the financial years ended 31 December, 2017, 2018 and 2019, and shown in the consolidated financial statements of Lanlanlanlan Film & Television and its affiliates (collectively referred to as Lanlanlanlan Group) confirmed by the Group shall be no less than RMB40 million, RMB60 million and RMB90 million respectively ("Target Profit"). If Lanlanlanlan Film & Television fails to achieve 90% of the target profit in any financial year up to 31 December, 2017, 2018 and 2019, the Founders shall compensate the Group with cash ("Cash Compensation") or equity interest of Lanlanlanlan Film & Television ("Equity Compensation").

According to the audited consolidated financial statements of Lanlanlanlan Group for the financial year ended 31 December 2017, the Audited Profit of Lanlanlanlan Group in 2017 was RMB25,054,105. Since the Audited Profit in 2017 was less than 90% of the target profit in that year, the Founders should compensate the Group by Cash Compensation or Equity Compensation as chosen by the Group.

On 4 July 2018, founders of Yunhai Qingtian and Lanlanlanlan Film & Television entered into a performance compensation implementation agreement ("Compensation Agreement"). Accordingly, the Founders transferred 5.96% of equity interests of Lanlanlanlan Film & Television to Yunhai Qingtian at the consideration of RMB1 yuan (the "2017 Equity Compensation"). The 2017 Equity Compensation was completed. On 30 June 2019, the Group owned 29.52% of Lanlanlanlan Film & Television.

MANAGEMENT DISCUSSION AND ANALYSIS

According to the audited consolidated financial statements of Lanlanlanlan Group for the financial year ended 31 December 2018, the audited loss of Lanlanlanlan Group in 2018 was RMB65,042,000. Since the Audited Profit in 2018 was less than 90% of the Target Profit in that year, the Founders shall compensate the Group by Cash Compensation or Equity Compensation as chosen by the Group. Based on the 2017 Capital Increase Supplemental Agreement and 2017 Equity Transfer Supplemental Agreement, the Cash Compensation payable by the Founders and/or the Lanlanlanlan Film & Television would amount to approximately RMB118,790,000.

On 25 March 2019, Yunhai Qingtian, a wholly-owned subsidiary of the Company, issued a notice ("Exercise Notice") to the Founders pursuant to which the Group requested the Founders to compensate the Group with Cash Compensation for the nonfulfillment of the performance guarantee for 2018 as mentioned above. By way of the Exercise Notice, the Group also exercised the Equity Purchase Right by requesting the Founders to purchase all of the equity interests in Lanlanlanlan Film & Television as transferred to the Group under the 2017 Acquisitions, the 2017 Capital Increase and the 2018 Acquisitions (i.e. an aggregate of 23.56%) ("Disposal").

On the same day, in response to the Exercise Notice, the Founders executed an undertaking letter ("Undertaking Letter") in favor of Yunhai Qingtian pursuant to which the Founders have undertaken to the Group to perform its obligations to compensate the Group by way of Cash Compensation and purchase all of the equity interests in Lanlanlanlan Film & Television as transferred to the Group under the 2017 Acquisitions, the 2017 Capital Increase and the 2018 Acquisitions (i.e. an aggregate of 23.56%).

However, as stated under the Undertaking Letter, in view of serious shortage of fund, the Founders will perform their obligations to compensate the Group with Cash Compensation and purchase all of the equity interests of the Group as mentioned in the Exercise Notice (i.e. an aggregate of 23.56%) within three years from the date of the Undertaking Letter ("Extension Period") and will pay the default interest in accordance with the terms and conditions of the 2017 Capital Increase Supplemental Agreement, the 2017 Equity Transfer Supplemental Agreement and the 2018 Equity Transfer Supplemental Agreement. The Founders also undertook that all cash dividends received from Lanlanlanlan Film & Television would be used for Cash Compensation or purchasing all the equity interests in Lanlanlanlan Film & Television as mentioned above.

In anticipation of the non-fulfilment of the Target Profit for 2018 by Lanlanlanlan Film & Television, the Founders paid an aggregate of RMB5,000,000 to the Group as part of the equity purchase price for the Disposal on 29 January 2019 ("First Payment").

Taking into account the First Payment made by the Founders and assuming the completion of the Disposal will only take place on the last day of the Extension Period and no payment of consideration is made by the Founders to the Group during the Extension Period, the Group shall be entitled to default interest, in aggregate, of RMB60,545,804 payable by the Founders. On this basis, the maximum consideration for the Disposal, i.e. being the sum of the equity purchase price for the 23.56% equity interest in Lanlanlanlan Film & Television of RMB146,380,434 and the maximum default interest receivable of RMB60,545,804, is RMB206,926,238. The Company is of the view that it is of great uncertainty to recover all the consideration from the Founders as it mainly depends on the ability of the Lanlanlanlan Film & Television to declare dividends and the financial positions of the Founders.

DISCLOSURE OF INTERESTS

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

As at 30 June 2019, 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 Xiaosong ("Mr. Liu")	Founder of trust[2]	1,455,867,398	Nil	53.90%
	Beneficial Owner	5,766,000	41,575,600[3]	1.75%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000[3]	0.19%
Mr. Chan Yiu Kwong	Beneficial Owner	Nil	1,415,000[3]	0.05%
Ms. Wu Shihong	Beneficial Owner	Nil	1,320,000[3]	0.05%
Mr. Li Feng	Beneficial Owner	Nil	1,050,000[3]	0.04%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2019 (i.e. 2,700,886,628 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 Technology Limited ("Prime Century") in the Company. As at 30 June 2019, 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 20 June 2019, the Company granted share options to Mr. Liu under the 2018 Share Option Scheme (detailed in the section "Share Option Schemes") adopted by the Company on 25 May 2018 to subscribe an aggregate of 18,543,000 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 30 June 2019, Mr. Liu held an aggregate of 41,575,600 shares of the underlying shares in the equity derivatives of the Company.

DISCLOSURE OF INTERESTS

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
深圳市華動飛天網絡技術開發有限公司 ("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	25,383,000[6]	28.71%
Beijing Zhangwen[7]	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 30 June 2019, 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, 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 30 June 2019, the Company was interested in 22.51% 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 28.71% 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 30 June 2019, 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, 深圳市浩祥投資有限公司 (Shenzhen Haoxiang Investment Co., Ltd) (the English name is for identification purpose only), 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 30 June 2019, 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.

DISCLOSURE OF INTERESTS

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. As at 30 June 2019, both two share option schemes ended. The exercise period of the Company's share options under the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") ended on 21 May 2012 and the 2008 share option scheme (the "2008 Share Option Scheme") ended on 26 May 2018. No further share options will be granted under both the Pre-IPO Share Option Scheme and the 2008 Share Option Scheme.

On 25 May 2018, the shareholders of the Company adopted a new share option scheme (the "2018 Share Option Scheme") (with Pre-IPO Share Option Scheme and 2008 Share Option Scheme collectively called the "Share Option Schemes") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. As of 30 June 2019, 78,207,000 share options under the 2018 Share Option Scheme was granted.

During the six months ended at 30 June 2019, no share option granted under the Share Option Schemes was exercised, and 200,000 share options were lapsed following the end of the exercise period.

The following table discloses movements in the Company's share options outstanding under the Share Option Schemes during the period:

Name/category of participants	At 31 December 2018	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2019	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											
Mr. Liu	23,032,600	–	18,543,000	–	–	41,575,600					
	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
	1,715,000	–	–	–	–	1,715,000	9 Jan 2018	One-half of the share options granted will be vested on 16 May 2018 and the other one-half on 16 May 2019	9 Jan 2025	0.57	0.56
	–	–	18,543,000	–	–	18,543,000	20 June 2019	The share options granted was fully vested at one time on 20 June 2019	20 June 2029	0.221	0.220

DISCLOSURE OF INTERESTS

Name/category of participants	At 31 December 2018	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2019	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
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
Chan Yiu Kwong	1,415,000	–	–	–	–	1,415,000					
	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
	1,100,000	–	–	–	–	1,100,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Wu Shihong	1,320,000	–	–	–	–	1,320,000					
	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
	900,000	–	–	–	–	900,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Li Feng	1,050,000	–	–	–	–	1,050,000					
	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
	900,000	–	–	–	–	900,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Subtotal	**31,817,600**	**–**	**18,543,000**	**–**	**–**	**50,360,600**					

DISCLOSURE OF INTERESTS

Name/category of participants	At 31 December 2018	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2019	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											
	200,000	–	–	200,000	–	–	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
	1,377,054	–	–	–	–	1,377,054	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
	–	–	59,664,000	–	–	59,664,000	28 June 2019	50%, 30% and 20% of the share options granted will be vested every 12-month period starting from 30 June 2019 respectively	28 June 2029	0.219	0.219
Subtotal	**2,827,054**	**–**	**59,664,000**	**200,000**	**–**	**62,291,054**					
TOTAL	**34,644,654**	**–**	**78,207,000**	**200,000**	**–**	**112,651,654**					

During the six months ended 30 June 2019, 78,207,000 share options were granted under the Share Option Scheme and 200,000 share options granted under the Share Option Scheme was lapsed following the end of the exercise period. No share option granted under the Share Option Scheme was cancelled.

As at the date of approval of this interim report, there were 112,651,654 outstanding share options granted under the Share Option Scheme, representing approximately 4.17% of the issued share capital of the Company.

Please refer to note 17 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

DISCLOSURE OF INTERESTS

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 Share Option Schemes.

During the six months ended 30 June 2019, no awarded share was granted under the Share Award Scheme, 108,500 awarded shares were released to awarders, no awarded share was lapsed.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2019, 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 shareholders	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	57.16%
River Road	Interest in controlled corporation [2]	1,455,867,398	53.90%
Knight Bridge	Interest in controlled corporation [2]	1,455,867,398	53.90%
Ever Novel	Interest in controlled corporation [3]	379,496,303	14.05%
	Beneficial Owner [3]	1,076,371,095	39.85%
Prime Century	Beneficial Owner [3]	379,496,303	14.05%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2019 (i.e. 2,700,886,628 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 Holding Limited ("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 30 June 2019, 1,543,747,398 Shares in total).

3. As at 30 June 2019, 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 30 June 2019, 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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services and mobile online game 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 Group entered into original contracts relating to the Contractual Arrangement (the "2004 Contractual Arrangements") in 2004. In 2015, 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 (the "2015 Contractual Arrangements") to replace the 2004 Contractual Arrangements 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.

The 2015 Contractual Arrangements

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 and property investment business.

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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

3. *Summary of the Major Terms of the Underlying Contracts of the 2015 Contractual Arrangements*

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") and 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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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 period ended 30 June 2019 were approximately RMB55,200,000, RMB1,186,400,000 and RMB903,500,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuaitonglian amounted to approximately RMB48,500,000, RMB2,500,000 and RMB4,200,000, respectively, representing approximately 81%, 4% and 7% 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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

The 2018 Contractual Arrangements

On 20 February 2018, the Company entered into a investment agreement (the "Investment Agreement") with the relevant parities and issued an announcement. As part of the Reorganisation under the Investment Agreement (MU77SH is the operating company established in PRC under the 2018 Contractual Agreements), on 28 December 2018 (after trading hours), the relevant parties entered into multiple agreements (the "2018 Contractual Arrangements") in relation to MU77SH. Through the 2018 Contractual Agreements, Yun Qing Network Technology (Shanghai) Co., Ltd. (蘊清網絡科技(上海)有限公司) (the "WFOE"), the indirect non wholly-owned subsidiary of the Company, has effective control over the finance and operation of MU77SH and enjoys the entire economic interests and benefits generated by MU77SH.

1. *Particulars of MU77SH and its registered owners*

上海木七七網絡科技有限公司 ("**MU77SH**")

MU77SH is a limited liability company established in the PRC. The registered shareholders of MU77SH are Yunhai Qingtian (51%), Tianjin Muba Business Management Consulting Center (Limited Partnership) (天津木巴企業管理咨詢中心(有限合夥)) ("Tianjin Muba") (39%) and Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司) ("Linzhi Tencent") (10%).

2. *Description of MU77SH's business*

MU77SH is principally engaged in mobile online game research and development and operation in the PRC and overseas.

3. *Summary of the Major Terms of the Underlying Contracts of the 2018 Contractual Arrangements*

a. *The Exclusive Business Cooperation Agreement*

MU77SH shall engage the WFOE as the exclusive service provider to provide MU77SH with comprehensive business support, technical and consulting services, including but not limited to, technical services, internet network support, business consultation, intellectual property licensing, equipment or leasing of equipment, market consultation, system integration, research and development of products and system maintenance and all or part of the services within the business scope of MU77SH as determined by the WFOE from time to time ("Services").

During the term of the Exclusive Business Cooperation Agreement, without the prior written consent of the WFOE, MU77SH is not allowed to engage or cooperate with any third party for the provision of the Services. The WFOE has the right to designate a third party to provide the Services to MU77SH.

The WFOE has the entire and exclusive rights and interests to all the rights, proprietary rights, interests and intellectual properties, including but not limited to, copyright, patents, patent applications, trademarks, software, know-how, trade secrets and others, whether developed or created by the WFOE or by MU77SH, from the performance of the Exclusive Business Cooperation Agreement.

MU77SH shall pay to the WFOE a service fee which is equal to 100% of its net income on a monthly basis ("Service Fee"). During the term of the Exclusive Business Cooperation Agreement, the WFOE has the right to adjust the Service Fee without the consent of MU77SH. The Service Fee was determined by the parties to ensure that the WFOE will enjoy the economic benefits of the VIE Agreements.

The Exclusive Business Cooperation Agreement has a term of 10 years from the date of execution, unless otherwise extended or terminated by the parties thereto. The term of the Exclusive Business Cooperation Agreement may be extended by written confirmation of the WFOE and by such period of time at the decision of the WFOE, to which MU77SH shall accept without any conditions.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

b. *The Equity Pledge Agreement*

According to the Equity Pledge Agreement, the PRC equity owners, namely Yunhai Qingtian, Tianjin Muba and Linzhi Tencent, shall undertake the following obligations to WFOE:

(i) not to transfer or agree others to transfer all or any part of the PRC Equity Owners' equity interests in MU77SH or create or allow the encumbrance thereon of any pledged equity interests or other properties which may affect the rights and benefits of the WFOE without the WFOE's prior written consent, save in respect of the performance in accordance with the Exclusive Call Option Agreement;

(ii) to compensate all loss and damage caused to the WFOE if the PRC Equity Owners fail to perform or partly perform their warranties, undertakings, agreements, representations and conditions under the Equity Pledge Agreement;

(iii) if there is a possibility of decline in the value of the equity interest which may jeopardise the interest of the WFOE, the WFOE may require the PRC Equity Owners to provide additional pledge or security, and if the PRC Equity Owners fail to provide the same, the WFOE may at any time put up the pledged equity interests for auction or sell the pledged equity interests, the proceeds from which may be used to early repay the secured indebtedness and any expenses incurred thereby shall be borne by the PRC Equity Owners; and

(iv) the PRC Equity Owners and/or MU77SH shall not (or procure other parties to) increase, decrease or transfer the registered capital of MU77SH (or invested capital to MU77SH) or create any encumbrance thereon of the registered capital of MU77SH (including equity interest).

The Pledge shall become effective on the date when the Pledge is duly registered with the relevant Administration for Market Regulation or Administration for Industry and Commerce (the "Register Administration"), until all payment obligations secured by the Pledge have been fulfilled. The term of the Pledge under the Equity Pledge Agreement will be extended accordingly if the term of the Exclusive Business Cooperation Agreement is extended.

c. *The Exclusive Call Option Agreement*

The PRC Equity Owners irrevocably grant to the WFOE an exclusive option, at any time and from time to time, to purchase or designate any individual(s) and/or entity(ies) ("Designated Purchaser(s)") to purchase all or part of the equity interest in MU77SH held by the PRC Equity Owners through a single or a series of transaction(s), subject to compliance with applicable PRC laws and regulations. The PRC Equity Owners and MU77SH undertake that, among other things, they shall not without the prior written consent of the WFOE:

(i) in any manner supplement, alter or revise the articles of association and regulations of MU77SH, increase or decrease its registered capital, or alter the structure of its registered capital in other manners;

(ii) sell, transfer, mortgage or dispose of in any other manner the legal or beneficial interest in any assets, business or revenues of MU77SH, or allow the encumbrance thereon of any security interest;

(iii) sell, transfer, mortgage or dispose of in any other manner the legal or beneficial interest in the equity interest in MU77SH, or allow the encumbrance thereon of any security interest, save in respect of the Pledge in accordance with the terms of the Equity Pledge Agreement;

(iv) cause or permit MU77SH to merge, consolidate with, acquire or invest with any person; and

(v) in any manner distribute dividends to the shareholder(s) of MU77SH.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

The consideration for the purchase of the equity interest in MU77SH shall be a minimum purchase price as permitted by the prevailing PRC laws, unless valuation is required by the applicable PRC laws at the time of exercise of option by the WFOE. The PRC Equity Owners undertake to return the full amount of consideration received by them to the WFOE or the Designated Purchaser(s). The purchase price was determined by the parties to ensure that the WFOE will enjoy the economic benefits of the VIE Agreements.

The Exclusive Call Option Agreement has an initial term of 10 years from the date of its execution and will be extended automatically and for such period of time to be confirmed by the WFOE, unless otherwise determined by the WFOE.

d. *The Powers of Attorney*

The PRC Equity Owners irrevocably appoint the WFOE or its successors (including the liquidator of the WFOE upon liquidation of the WFOE) as their exclusive agent and authorized person to act for all matters pertaining to MU77SH and to exercise all of their rights as shareholders of MU77SH, including but not limited to:

(i) proposing to convene, call and attend shareholders' meetings of MU77SH and signing minutes;

(ii) exercising all the rights and voting rights as shareholders of MU77SH provided for under the PRC laws and the articles of association of MU77SH, including but not limited to sale, transfer, pledge or disposal of any or all the equity interests in MU77SH and filing documents with Register Administration; and

(iii) nominating and appointing the legal representative (i.e. chairman of the board), directors, supervisors, chief executive officer (or manager) and other senior management of MU77SH.

The Power of Attorney shall take effect from the date of its execution and remain irrevocable and effective so long as the PRC Equity Owners remain the shareholders of MU77SH, unless otherwise instructed by the WFOE.

Dispute resolution

The VIE Agreements are governed by and construed in accordance with the PRC laws. Each of the VIE Agreements contains a dispute resolution clause to the effect that, amongst others, any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In the event that the dispute cannot be resolved within 30 days through negotiation, any party may submit the said dispute to Shanghai International Economic and Trade Arbitration Commission (Shanghai International Arbitration Center) (上海國際經濟貿易仲裁委員會(上海國際仲裁中心)) for arbitration in accordance with the then prevailing arbitration rules. The arbitration shall be conducted in Shanghai and the language used in the arbitration shall be Chinese. The decision of the arbitration shall be final, conclusive and binding on the parties. Further, the arbitrators may award remedies over the shares and/or assets (including but not limited to land and properties) of MU77SH, injunctive reliefs (such as for the conduct of business and mandatory transfer of equity interest or assets) or order the winding up of MU77SH. The courts of competent jurisdictions (i.e. the courts in the PRC, Hong Kong, the Cayman Islands and locations where the principal assets of the parties are located) are empowered to grant interim remedies pending the formation of an arbitral tribunal or under appropriate circumstances.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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

The consolidated total revenue of MU77SH amounted to RMB3,400,000 for the period ended 30 June 2019, which represented 6% of the consolidated total revenue of the Group.

The 2018 Contractual Arrangements were executed on 28 December 2018. The consolidated total assets and the consolidated total net assets of MU77SH for the period ended 30 June 2019 were approximately RMB19,100,000 and RMB5,800,000, respectively.

5. *Risks Relating to the Contractual Arrangements*

(1) The PRC government may determine that the VIE Agreements do not comply with the applicable laws and regulations

There can be no assurance that the VIE Agreements will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Agreements will be deemed to be in compliance with the PRC laws and regulations.

(2) Possible impact of the Draft Foreign Investment Law

Accordingly, if the Draft Foreign Investment Law is adopted and becomes law, in the event that the mobile online game business of MU77SH is still classified as prohibited or restricted foreign investment businesses in the Negative List 2018, then there may be great uncertain impact on the existing corporate structure, corporate governance and the viability of business operations.

(3) The VIE Agreements may not be as effective as direct ownership in providing control over MU77SH

The Group relies on contractual arrangements under the VIE Agreements with MU77SH to operate the mobile online game business in the PRC. The VIE Agreements may not be as effective as direct ownership in providing the Group with control over MU77SH. For example, if the WFOE has direct ownership of MU77SH, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of MU77SH. However, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owners of their obligations under the VIE Agreements to exercise control over MU77SH. In addition, if the PRC Equity Owners or MU77SH fail to perform their respective obligations under the VIE Agreements or otherwise have disputes with the Group, the Group may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. There can be no assurance that the outcome will be in the Group's favor and it may adversely affect the Group's ability to control MU77SH.

(4) The PRC Equity Owners may potentially have a conflict of interests with the Group

The Group's control over MU77SH is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Pursuant to the Powers of Attorney, the PRC Equity Owners will irrevocably appoint the WFOE as their exclusive agent and authorized person to exercise their rights as the shareholders of MU77SH. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Group will consider removing and replacing the PRC Equity Owners through procuring the WFOE to exercise its option under the Exclusive Call Option Agreement.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

(5) The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

The Group may face material adverse tax consequence if the PRC tax authorities determine that the arrangement under the VIE Agreements was not entered into on an arm's length basis. If the PRC tax authorities determine that the VIE Agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or MU77SH for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or MU77SH.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of MU77SH or the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

(6) Certain terms of the VIE Agreements may not be enforceable under PRC laws

The VIE Agreements are governed by the PRC laws and all disputes which cannot be resolved by negotiations will be submitted for arbitration, whose ruling will be final and binding. Accordingly, the VIE Agreements would be interpreted in accordance with the PRC laws and disputes would be resolved in accordance with PRC legal procedures. The uncertainties in the PRC legal system could limit the Group's ability to enforce the VIE Agreements. In the event that the Group is unable to enforce the VIE Agreements, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over MU77SH.

(7) A substantial amount of costs and time may be involved in transferring the ownership of MU77SH to the Group under the Exclusive Call Option Agreement

The Exclusive Call Option Agreement grants the WFOE a right to purchase all or part of the equity interest in MU77SH at the lowest price permitted by PRC law, under which the WFOE or its designated individual(s) and/or entity(ies) is entitled to purchase the equity interest in MU77SH from the PRC Equity Owner through a single or a series of transaction(s).

In case the WFOE exercises its option to acquire all or part of the equity interests in MU77SH under the Exclusive Call Option Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under the PRC laws. In addition, such acquisition may be subject to a minimum price limitation (such as an appraised value for the equity interests in MU77SH) or other price limitations as imposed by the applicable PRC laws. Further, a substantial amount of costs and time may be involved in transferring the ownership of MU77SH to the WFOE or its designated individual(s) and/or entity(ies), which may have a material adverse impact on the Group's business, prospects and results of operation.

(8) The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the operation of MU77SH, the results of the Group may be adversely affected.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

(9) *Economic risks the WFOE bears as the primary beneficiary of MU77SH, financial support to MU77SH and potential exposure of the Group to losses*

As the primary beneficiary of MU77SH, the WFOE will share both profit and loss of MU77SH and bears economic risks which may arise from difficulties in the operation of MU77SH's business. The WFOE may have to provide financial support in the event of financial difficulty of MU77SH. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of MU77SH and the need to provide financial support to it.

A PRC legal opinion has been obtained by the Company, pursuant to which the PRC lawyers advice that the VIE Agreement does not violate any PRC laws and regulations applicable to the business of MU77SH and the WFOE, nor would be deemed as "concealing illegal intention with a lawful form" and does not violate the "PRC Contract Law".

6. Material Change

Save as disclosed above, as at the date of this report, there is no material change in the 2018 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 2018 Contractual Arrangements or failure to unwind when the restrictions that led to the adoption of the 2018 Contractual Arrangements are removed.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2019, all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules were met by the Company, except for the deviation from code provision A.2.1 providing for the roles of chairman and chief executive officer (the "CEO") to be performed by different individuals.

Mr. Liu 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 make better business decision for the Group in performing the roles of the chairman and CEO. 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 this reporting period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Own Code which covers the Model Code as set out in Appendix 10 of the Listing Rules on the Stock Exchange as its code of conduct governing the Directors' dealings in the Company's securities. Having made specific enquiries with all the Directors, they all confirmed that they have complied with the required standards set out in the Own Code (covering the Model Code) throughout the period under review.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2019. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial information was prepared in accordance with applicable accounting standards and fairly presented the Group's financial position and results for the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters. The Audit Committee has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2019.

On behalf of the Board
A8 New Media Group Limited
Chairman & Executive Director
Liu Xiaosong

Hong Kong, 22 August 2019