



A8新媒体集团  
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 00800

2017  
INTERIM REPORT



FINGER FUN

AB影视  
AB Film & Television



MECHANIST  
GAMES



88  
LIVE



国家音乐产业基地  
NATIONAL MUSIC INDUSTRY PARK



黑岩  
heiyang.com



映客直播

少年dream



尖叫现场  
Live @ LIVE

荷夏

青松基金  
QINGSONG FUND

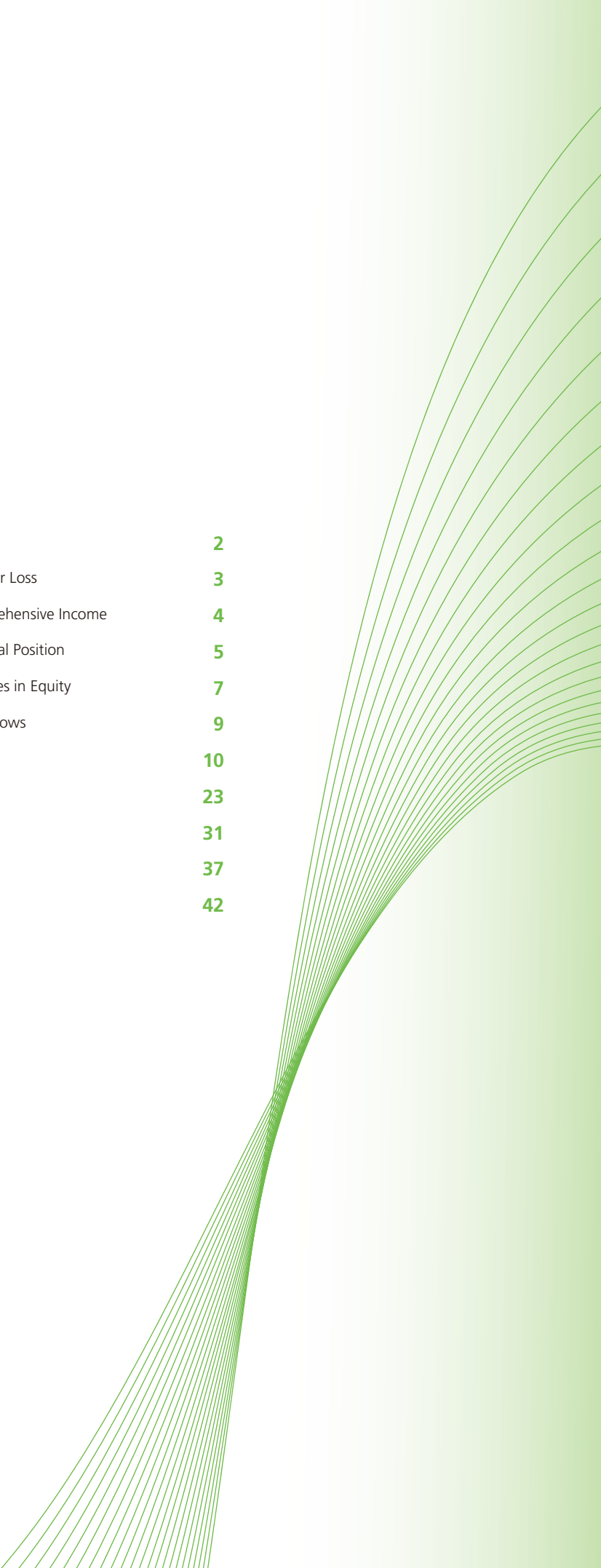


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## CORPORATE INFORMATION

### 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  
Industrial and Commercial Bank of China (Asia) Limited

### REGISTERED OFFICE

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

### HEAD OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 3306-12, 33/F  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### WEBSITE

[www.a8nmg.com](http://www.a8nmg.com)

### STOCK CODE

00800

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
REVENUE, net of business tax and surcharges	4	55,802	91,645
Cost of services provided		(26,038)	(52,257)
Gross profit		29,764	39,388
Other income and gains, net	4	15,070	15,776
Selling and marketing expenses		(7,779)	(8,557)
Administrative expenses		(15,046)	(16,188)
Other expenses, net		(4,970)	(1,147)
Finance costs	5	(1,403)	–
Share of losses of associates		(1,735)	(7,503)
Share of losses of joint ventures		(1,047)	(2,071)
<b>PROFIT BEFORE TAX</b>	6	<b>12,854</b>	19,698
Income tax expense	7	(2,823)	(3,350)
<b>PROFIT FOR THE PERIOD</b>		<b>10,031</b>	16,348
Attributable to:			
Owners of the Company		10,014	16,350
Non-controlling interests		17	(2)
		<b>10,031</b>	16,348
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	9		
Basic (RMB per share)		0.4 cent	0.9 cent
Diluted (RMB per share)		0.4 cent	0.9 cent

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	10,031	16,348
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	(7,786)	2,380
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,245	18,728
Attributable to:		
Owners of the Company	2,228	18,730
Non-controlling interests	17	(2)
	2,245	18,728

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	150,015	153,082
Investment properties	11	380,000	370,000
Prepaid land lease payments		13,030	13,192
Prepayment for acquisition of items of property, plant and equipment		1,779	1,548
Intangible assets		11,156	8,529
Investments in associates		26,679	28,414
Investments in joint ventures		21,886	22,933
Available-for-sale investments	12	68,994	60,994
Deferred tax assets		3,414	2,991
		<b>676,953</b>	661,683
<b>CURRENT ASSETS</b>			
Trade receivables	13	9,285	8,641
Prepayments, deposits and other receivables		16,279	15,510
Financial assets at fair value through profit or loss	14	315	326
Available-for-sale investments	12	18,000	8,700
Restricted cash balances and pledged deposits		155,401	33,664
Cash and cash equivalents		619,747	446,906
		<b>819,027</b>	513,747
Non-current asset held for sale	15	192,604	192,604
		<b>1,011,631</b>	706,351
<b>CURRENT LIABILITIES</b>			
Trade payables	16	27,255	20,923
Other payables and accruals		52,168	129,965
Interest-bearing bank borrowings		92,150	26,870
Tax payable		7,320	8,330
Deferred income		7,174	8,120
		<b>186,067</b>	194,208
<b>NET CURRENT ASSETS</b>		<b>825,564</b>	512,143
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,502,517</b>	1,173,826

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**

As at 30 June 2017

	Note	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		62,860	60,360
Deferred income		8,717	6,058
Other payables		—	17,500
Total non-current liabilities		71,577	83,918
Net assets		1,430,940	1,089,908
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	17	23,376	15,123
Reserves		1,408,249	1,075,487
<b>Non-controlling interests</b>		1,431,625 (685)	1,090,610 (702)
Total equity		1,430,940	1,089,908



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company													Total equity	
	Shares held under				Employee			Statutory			Non-		Total		
	Issued capital	premium account	award scheme	Merger reserve	Surplus contributions	share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Reserve funds	Reserve fund	Retained profits	controlling interests			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)			(Unaudited)
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2017		15,123	663,208'	(4,672)'	29,135'	10,522'	30,083'	13,812'	10,016'	21,701'	4,422'	297,260'	1,090,610	(702)	1,089,908
Profit for the period		-	-	-	-	-	-	-	-	-	-	10,014	10,014	17	10,031
Other comprehensive income for the period:															
Exchange differences on translation of financial statements		-	-	-	-	-	-	(7,786)	-	-	-	-	(7,786)	-	(7,786)
Total comprehensive income for the period		-	-	-	-	-	-	(7,786)	-	-	-	10,014	2,228	17	2,245
Issue of new shares	17	8,253	330,129	-	-	-	-	-	-	-	-	-	338,382	-	338,382
Share issue expenses	17	-	(1,178)	-	-	-	-	-	-	-	-	-	(1,178)	-	(1,178)
Equity-settled share-based payment arrangements		-	-	-	-	-	1,583	-	-	-	-	-	1,583	-	1,583
At 30 June 2017		23,376	992,159*	(4,672)*	29,135*	10,522*	31,666*	6,026*	10,016*	21,701*	4,422*	307,274*	1,431,625	(685)	1,430,940

\* These reserve accounts comprise the consolidated reserves of RMB1,408,249,000 (31 December 2016: RMB1,075,487,000) in the condensed consolidated statement of financial position.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2017

	Attributable to owners of the Company													Total equity
	Issued capital	Shares held under		Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total	Non-controlling interests	
		Share premium account	share award scheme											
		(Unaudited) RMB'000	(Unaudited) RMB'000											
At 1 January 2016	15,123	663,208	(4,942)	29,135	10,522	27,586	1,087	10,016	21,701	4,422	272,182	1,050,040	(697)	1,049,343
Profit for the period	-	-	-	-	-	-	-	-	-	-	16,350	16,350	(2)	16,348
Other comprehensive income for the period:														
Exchange differences on translation of financial statements	-	-	-	-	-	-	2,380	-	-	-	-	2,380	-	2,380
Total comprehensive income for the period	-	-	-	-	-	-	2,380	-	-	-	16,350	18,730	(2)	18,728
Equity-settled share-based payment arrangements	-	-	-	-	-	1,917	-	-	-	-	-	1,917	-	1,917
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(162)	-	-	-	-	162	-	-	-
Employee share award scheme:														
- release of award shares	-	-	201	-	-	(201)	-	-	-	-	-	-	-	-
At 30 June 2016	15,123	663,208	(4,741)	29,135	10,522	29,140	3,467	10,016	21,701	4,422	288,694	1,070,687	(699)	1,069,988

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from operations	11,117	11,293
Tax paid	(1,756)	(681)
Net cash flows from operating activities	<b>9,361</b>	10,612
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale investments	(17,300)	(55,000)
Increase in prepayments for acquisition of items of property, plant and equipment	(483)	–
Purchases of items of property, plant and equipment	(5,605)	(1,473)
Payment for acquisition of a non-current asset held for sale	(87,500)	–
Purchases of intangible assets	(2,256)	–
Interest received	5,066	4,457
(Increase)/decrease in restricted cash and pledged deposits	(121,737)	65,129
Decrease/(increase) in time deposits with original maturity of more than three months when acquired	30,015	(199,251)
Capital injection in an associate	–	(3,000)
Proceeds from redemption of convertible notes	–	101,572
Refund of refundable collateral security	–	(60,000)
Other cash flows arising used in investing activities	–	(1,442)
Net cash flows used in investing activities	<b>(199,800)</b>	(149,008)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of new shares	338,382	–
Share issue expenses	(1,178)	–
New bank loans	107,150	–
Interest paid	(1,403)	–
Repayment of bank loans	(41,870)	–
Net cash flows from financing activities	<b>401,081</b>	–
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of period	210,642	(138,396)
Effect of foreign exchange rate changes, net	416,891	429,745
	(7,786)	2,380
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>619,747</b>	293,729
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	93,550	81,963
Time deposits	526,197	411,017
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<b>619,747</b>	492,980
Time deposits with original maturity of more than three months when acquired	–	(199,251)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<b>619,747</b>	293,729

## 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”) was 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.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2016, except in relation to the following revised International Financial Reporting Standards, (“IFRSs”, which also include IASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial information:

Amendments to IAS 7	<i>Statement of Cash Flows: Disclosure Initiative</i>
Amendments to IAS 12	<i>Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses</i>
Amendments to IFRS 12 included	<i>Disclosure of Interests in Other Entities</i>
<i>Annual Improvements</i>	
<i>2014-2016 Cycle</i>	

The adoption of the above revised IFRSs has had no significant financial effect on the interim financial information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## NOTES TO INTERIM FINANCIAL INFORMATION

### 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 music-based entertainment and game-related services in the PRC; and
- (b) the property investment segment invests in properties for rental and management fee income in the PRC.

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

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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Segment net revenue	24,163	64,985	31,639	26,660	55,802	91,645
Cost of services provided	(17,884)	(44,645)	(8,154)	(7,612)	(26,038)	(52,257)
Gross profit	6,279	20,340	23,485	19,048	29,764	39,388
Segment results	(5,951)	(49)	33,485	28,048	27,534	27,999
Reconciliation:						
Bank interest income					5,066	4,457
Finance costs					(1,403)	-
Corporate and other unallocated income and expenses, net					(18,343)	(12,758)
Profit before tax					12,854	19,698
Income tax expense					(2,823)	(3,350)
Profit for the period					10,031	16,348

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

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

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

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
<b>Revenue</b>		
<b>Digital entertainment</b>		
Game-related revenue	20,804	57,072
Music-based entertainment	3,428	7,920
<b>Sub-total</b>	<b>24,232</b>	64,992
<b>Property investment</b>		
Rental and management fee income	31,898	27,627
	56,130	92,619
Less: Business tax and surcharges	(328)	(974)
Net revenue	55,802	91,645
<b>Other income and gains, net</b>		
Bank interest income	5,066	4,457
Fair value gains on investment properties	10,000	9,000
Foreign exchange differences, net	–	2,234
Others	4	85
	15,070	15,776

### 5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Interest on bank loans	1,403	–

## NOTES TO INTERIM FINANCIAL INFORMATION

### 6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Depreciation	4,422	3,626
Amortisation of intangible assets	2,078	1,060
Amortisation of prepaid land lease payments	162	162
Impairment of an investment in an associate	–	978
Fair value loss on financial assets at fair value through profit or loss	11	46
Exchange differences, net <sup>***</sup>	4,802	(2,234)

\* 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.

### 7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2017 and 2016, respectively.

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 for the six months ended 30 June 2017 and 2016 is as follows:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Current – PRC		
Charge for the period	510	999
Underprovision/(overprovision) in the prior years	236	(377)
Deferred	2,078	2,728
Total tax charge for the period	2,823	3,350

## NOTES TO INTERIM FINANCIAL INFORMATION

### 8. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

### 9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the six months ended 30 June 2017 is based on the profit for the period attributable to equity holders of the Company of RMB10,014,000 (six months ended 30 June 2016: RMB16,350,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2017 of 2,489,853,000 (six months ended 30 June 2016: 1,814,260,000).

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2017 and 2016 in respect of a dilution as the impact of the shares options outstanding and the awarded shares had an anti-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 RMB1,465,000 (six months ended 30 June 2016: RMB1,677,000). There were disposals and/or write-off of property, plant and equipment of RMB110,000 (six months ended 30 June 2016: RMB80,000) during the six months ended 30 June 2017.

### 11. INVESTMENT PROPERTIES

	(Unaudited) RMB'000
As at 1 January 2016	349,000
Fair value gains on investment properties	21,000
As at 31 December 2016 and 1 January 2017	<b>370,000</b>
Fair value gains on investment properties	<b>10,000</b>
As at 30 June 2017	<b>380,000</b>

The Group's investment properties were revalued on 30 June 2017 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 RMB380,000,000 and RMB370,000,000 as at 30 June 2017 and 31 December 2016, respectively, are subject to restrictions on sale and transfer.

#### Fair value hierarchy

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

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 30 June 2017 (Unaudited): Recurring fair value measurement for:				
Commercial buildings	–	–	380,000	380,000
As at 31 December 2016 (Audited): Recurring fair value measurement for:				
Commercial buildings	–	–	370,000	370,000

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 2017	31 December 2016
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	RMB125	RMB123
		Rental growth rate (per annum)	5.0%	5.0%
		Discount rate	10.4%	10.3%

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. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
<b>Current</b>			
Unlisted financial products, at fair value	(a)	18,000	8,700
<b>Non-current</b>			
Unlisted equity investments, at cost	(b)	68,994	60,994
		<b>86,994</b>	<b>69,694</b>

Notes:

- (a) The current available-for-sale investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates from 3.8% to 3.9% per annum.

In order to determine the fair value of the unlisted financial products, which has been categorised as level 3 hierarchy in fair value measurement, significant unobservable inputs including expected rate of return of 3.8% to 3.9% have been used.

The sensitivity of fair value of the input is a 1% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by RMB180,000/(RMB180,000).

## NOTES TO INTERIM FINANCIAL INFORMATION

### 12. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Notes: (Continued)

- (b) During the period, Shenzhen Kuaitonglian Technology Company Limited ("Kuaitonglian"), a wholly-owned subsidiary of the Company, subscribed to Qingsong Fund III pursuant to a partnership agreement dated 16 May 2017 for a total investment of RMB20 million. Qingsong Fund III mainly invests in the pan entertainment industry, education industry and consumer industry and focuses on creative enterprises at their initial stage of foundation and/or their early and medium stage of development within the industry.

### 13. TRADE RECEIVABLES

An aged 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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Billed		
Within 1 month	96	445
Over 1 month but less than 2 months	669	1,000
Over 2 months but less than 3 months	594	462
Over 3 months but less than 4 months	424	409
Over 4 months	2,531	68
	4,314	2,384
Unbilled	4,971	6,257
	9,285	8,641

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.

### 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

### 15. NON-CURRENT ASSET HELD FOR SALE

As at 30 June 2017, an internet company with a carrying amount of RMB192,604,000, was classified as a non-current asset held for sale as the Group intends to dispose of the investment in coming year. The directors consider the sale to be highly probable in the forthcoming year.

## NOTES TO INTERIM FINANCIAL INFORMATION

### 16. TRADE PAYABLES

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 1 month	4,633	1,327
1 to 3 months	1,985	1,231
4 to 6 months	1,413	618
Over 6 months	19,224	17,747
	<b>27,255</b>	<b>20,923</b>

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

### 17. SHARE CAPITAL

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
<b>Authorised:</b>		
3,000,000,000 ordinary shares of HK\$0.01 each	26,513	26,513
<b>Issued and fully paid:</b>		
2,766,992,628 (31 December 2016: 1,835,192,628) ordinary shares of HK\$0.01 each	23,376	15,123

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 2017	1,835,192,628	18,352	806,797	15,123	663,208	678,331
Issue of new shares	931,800,000	9,318	372,720	8,253	330,129	338,382
Share issue expenses	-	-	(1,335)	-	(1,178)	(1,178)
As at 30 June 2017	2,766,992,628	27,670	1,178,182	23,376	992,159	1,015,535

## NOTES TO INTERIM FINANCIAL INFORMATION

### 17. SHARE CAPITAL (CONTINUED)

On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited (“Ever Novel”), whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu Xiaosong (“Mr. Liu”), the Chairman of the Group, pursuant to which Ever Novel agreed to subscribe an aggregate of 931,800,000 new shares of the Company at a price of HK\$0.41 per share. The subscription was completed on 20 February 2017 and the Group raised a total of approximately HK\$382 million (equivalent to RMB338.4 million), before expenses.

### 18. SHARE OPTION SCHEME

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

	Weighted average exercise price HK\$ per share	Number of options '000
As at 1 January 2016	0.84	49,779
Granted during the period	0.56	8,910
Lapsed during the period	1.30	(1,970)
Cancelled during the period	1.32	(5,417)
		<hr/>
As at 30 June 2016	0.72	51,302
		<hr/>
As at 1 January 2017	<b>0.73</b>	<b>46,382</b>
Granted during the period	<b>0.51</b>	<b>5,150</b>
		<hr/>
As at 30 June 2017	<b>0.71</b>	<b>51,532</b>

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

At the date of approval of these interim financial information, the Company had approximately 51,532,000 share options outstanding under the share option scheme, which represented approximately 1.86% of the Company's shares in issue as at that date.

For the six months ended 30 June 2017, the fair value of the share options granted was HK\$1,230,000 at HK\$0.24 each (six months ended 30 June 2016: HK\$2,587,000 at HK\$0.29 each). The Group recognised a share option expense of RMB1,583,000 (six months ended 30 June 2016: RMB1,917,000) during the six months ended 30 June 2017 in respect of share options granted in the current and prior periods.

## NOTES TO INTERIM FINANCIAL INFORMATION

### 19. COMMITMENTS

The Group had the following commitments as at the end of the reporting period:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Contracted, but not provided for: Investments	12,000	–

### 20. RELATED PARTY TRANSACTION

In addition to those detailed elsewhere in this interim financial information, during the current period, the Group has the following transaction:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Game licence fee paid	–	1,500

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

## NOTES TO INTERIM FINANCIAL INFORMATION

### 21. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments are reasonable approximation to their fair values.

#### Fair value hierarchy

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

#### Assets measured at fair value

##### As at 30 June 2017

	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	Total (Unaudited) RMB'000
Financial assets at fair value through profit or loss	315	–	–	315
Available-for-sale investments: Unlisted financial products, at fair value	–	–	18,000	18,000
	<b>315</b>	<b>–</b>	<b>18,000</b>	<b>18,315</b>

##### As at 31 December 2016

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

## NOTES TO INTERIM FINANCIAL INFORMATION

### 21. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

### 22. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved by the Board on 23 August 2017.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND OUTLOOK

#### Business review for the first half of 2017

According to the *Pan-entertainment Industry White Paper in China 2017* published by the Ministry of Industry and Information Technology of the PRC (《二零一七年中國泛娛樂產業白皮書》), the pan-entertainment industry has become a significant part of the national economy and the driving power to its growth. In 2017, the gross value of output by the pan-entertainment industry is forecasted to reach up to RMB480 billion, with growing rate at more than 15%. Following the industry development trend, in the first half of 2017, the Group has continued to cultivate the pan-entertainment business, strengthened the linkage between film & television & media products and games in order to develop competitive Intellectual Property (“IP”); created its online and offline music industry chain.

#### **Film & television production**

In April 2017, the Group has set up its wholly-owned subsidiary – Jisu Woniu Film & Television Media (Shenzhen) Co., Limited (「極速蝸牛影視傳媒(深圳)有限公司」, “A8 Film & Television”), aiming at engaging in the business of producing network dramas, videos, films and the like, and incubating IP. The establishment of A8 Film & Television will provide support to the Group’s game publishing business, linking the two business units together to mutual better development. In the first half of 2017, A8 Film & Television has started to cooperate with a number of well-known scriptwriters and directors, kicking start its production business on short videos and network dramas, etc.

#### **Mobile games publishing platform**

After the explosive development in 2014, the mobile games market starts to grow rationally. Along with the continuous increase of development and operation costs, exploiting users’ value in depth, enhancing products quality and refining operation have become the major development directions of most mobile games developers at the current stage.

In the first half of 2017, the Group has maintained its current strategy focusing on prime games with long operation period, while commencing to explore the new direction towards social mobile games. In the period, the Group’s mobile game publishing business primarily developed on the below aspects:

1. *Focus on recreational and competitive games which have more socializing nature*

Social games like “Werewolf Killers” are new types of products in which the Group is interested. This is a new direction the Group is exploring. Launched in March 2017, “Werewolf Killer” (「狼人殺」) attracted around 3 million new users accumulatively in three months on platforms of the Group. Its users’ 7-day retention rate stayed at above 10% for the second quarter in 2017. Thanks to the increasing popularity of werewolf killers games nationwide, “Werewolf Killers” (「狼人殺」) published by the Group is expected to soar continually.

2. *Further exploring the overseas markets*

As the first mobile game published abroad by the Group, “War of Kings” (「神之戰」) launched in the United States. The Group will keep on exploring overseas markets for other mobile games.

3. *Continuous development on prime mobile games with long operation period*

As an evergreen product of the Group which lasts for four years, “Papa Three Kingdoms” (「啪啪三國」) still maintained receiving RMB2 to RMB3 million on average per month. Its active user numbers and payment data also stayed stable.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Online and offline music industry chain***

In the first half of 2017, Beijing Duomi Online Technology Co. Ltd. (「北京多米在線科技股份有限公司」, “Beijing Duomi”) focused on developing its music performance business which is based on content creation, devoting full efforts to create unique performance contents. Beijing Duomi has co-hosted with Migu Music Co., Ltd. (「咪咕音樂有限公司」, “Migu Music”), a wholly-owned subsidiary of China Mobile Communications Corporation and co-produced with IQIYI to launch a brand-new performance brand – Live 4 LIVE 尖叫現場 (“Live 4 LIVE”). Live 4 LIVE plans to hold 55 consecutive music performance activities. In the first half of 2017, Live 4 LIVE cooperated with a number of well-known singers including Zhou Bichang, Dimash, Justin, Huang Ling, Tez Cadey (a DJ from France), Aoi Teshima (a healing-style female singer from Japan), and six influential female Chinese singers – Su Huilun, Pan Yueyun, Xin Xiaoqi, Wan Fang, Zhao Yonghua and wawa, etc. Live 4 LIVE held 12 concerts and had footprint over five cities, namely Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu which are influential in culture consumption.

Through launching migu co-membership system with Migu Music, Beijing Duomi promoted the development of its wireless music business. After half-year’s efforts, Live 4 LIVE has gained certain brand awareness. In addition to revenue from tickets, revenue from advertising also met the anticipation. The revenues from Live 4 LIVE are expected to keep growing.

### ***Cultural industry park – National Music Industry Park – A8 Music Building***

A8 Music Building is the National Music Industry Park. It is located in the core area of Shenzhen Bay area in Nanshan District, Shenzhen, next to Shenzhen Software Industrial Park and close to Qianhai and Houhai, and has a superior location. The total gross floor area is more than 50,000 sq.ms which include commercial office, commercial retail and parking lots. In March 2017, A8 Music Building was successfully selected as the Extraordinary Property Management Project of the Year in the property management competition. Through several rounds of onsite inspection and voting by government experts, A8 Music Building won the first place of Nanshan district with a score up to 98 points. The property investment business of A8 Music Building has been re-designated as the principal business of the Group since the mid-2015. A8 Music Building has generated an overall income of approximately RMB31.90 million in the first half of 2017, representing an increase of approximately 15.5% as compared to the same period of last year.

Furthermore, offline live music performance brand A8Live is operated together with the LiveHouse Theater located in the podium of the A8 Music Building, its business functions include live music performance, maker café, professional studio, band rehearsal rooms and music education center. A8Live has held around 61 performance activities in the first half of 2017 in diversified activity forms such as artists performance, band shows, concerts, fans meeting, press releases, charitable activities and live broadcasts, etc. Artists being invited to A8Live are becoming more international, including well-known artists and bands such as Declan Galbraith, Wuwuhui, Huang Ling, Dingdang, Huang Qianshan and the like. Going forward, celebrities having performances in venues such as LiveHouse will become a trend. Interactive performance with short distance will be a selling point for LiveHouse to attract audience. By handling such performance activities, A8Live team has accumulated extensive experience. The enhanced brand will facilitate the subsequent exploration of the operation of LiveHouse and O2O model to a larger extent.

### ***IP reservation – Beijing Zhangwen***

Along with the development of network communication technology and popularization of mobile internet, contents have become gateways which attracts users. Contents also connect multiple consumption modules. In this context, the Group has cooperated with Beijing Zhangwen Information Technology Co., Ltd. (「北京掌文信息技術有限公司」, “Beijing Zhangwen”) in reserving IP to provide great literature resource to A8 Film & Television.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business outlook for the second half of 2017

In the second half of 2017, the Group will continue to reinforce its strategy in the pan-entertainment industry chain. On one hand, the Group will proactively seek for investment opportunities in the pan-entertainment industry, accelerating its development by outbound expansion; at the same time, the Group will enhance the operation of every single business units.

#### ***Film & television production***

A8 Film & Television, targeting at the new generation of 90s, starting from fine literature IPs of Beijing Zhangwen, combines external cooperating channels to produce film and television products to incubate IPs. It will build its own teams on screenwriting, directing, producing, promoting and releasing.

In the second half of 2017, two network dramas and one short video projects have been kicked off. First, A8 Film & Television will work with famous scenarist Yan Kun (「閔坤」) to produce network drama “Gaimingshi” (「改命師」). “Gaimingshi” (「改命師」) is the third of the novel series of Ghost Agent (「陰陽代理人」) which totally has five series. On the official website of Heiyan (「黑岩」) of Beijing Zhangwen, this novel has around 32 million hits. Second, A8 Film & Television has cooperated with famous director and scenarist Xiang Guoqiang (「相國強」) to produce a suspense-style short video series One Thousand “Bizarre Nights” (「一千奇異夜」) (tentative name), which is currently in filming. Third, youthful fantastic network drama “Meeting You” (「遇見」) (tentative name) has been in the stage of playwriting, whose chief consultant be Tang Baoqin (「唐寶琴」).

#### ***Mobile games publishing platform***

The Group will continue to deepen the interaction between mobile game publishing and other business units, to bring synergy effect in the game publishing in future. Mobile games such as “Papa Three Kingdoms” (「啪啪三國」) and “Werewolf Killers” (「狼人殺」) launched by the Group are from projects invested by Qingsong Fund. The Group is an investor of Qingsong Fund. The investment business of the Group provided more new opportunities for the game publishing business. Going forward, the Group will try to develop and launch games for IP incubated by A8 Film & Television.

#### ***Strategy for overseas markets – further penetrating markets in Europe and the United States, opening up markets in Hongkong, Macao and Taiwan***

The Group will keep improving War of Kings (「神之戰」) which was launched in the United States. More adjustments will be made gradually to ensure number of new users’ steadily increase. “Xiawuyu” (「俠物語」) has passed domestic data tests and reached excellent data level which achieved above Grade A by channel rating. In the third quarter in 2017, “Xiawuyu” (「俠物語」) is expected to be launched in Hongkong and Macao.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Strategy for domestic markets – focusing on recreational and competitive games which have more socializing nature***

The Group will continuously focus on its new direction on creational and competitive mobile games, starting to layout on easy-to-play, with socializing nature, as a breakthrough in the markets.

### ***Online and offline music industry chain***

In the second half of 2017, Beijing Duomi will make every effort to conduct the operation of Live 4 LIVE music performance activities, expanding its branding influence. By high-quality performance facilities and environment, close watching experience, uniquely creative performance and creative artist group and performers, Beijing Duomi aims to establish a cultural performing brand image with good taste. The promotion of Beijing Duomi fully leverages the strength of internet. At the same time, Beijing Duomi will take advantage of the influence and good word of mouth of Live 4 LIVE, to experiment on other unique contents. Beijing Duomi attempts another music performance projects independent from “Live 4 LIVE” utilizing its rich experience in hosting offline performance activities.

Beijing Duomi will keep on strengthening the operation of “Oops” (「偶撲」) platform and “Duomi Music” platform. Beijing Duomi aims to build connections among online music, offline performance, membership and fan economy, to create synergy effect and online and offline interaction.

### ***Cultural industry park – National Music Industry Park – A8 Music Building***

In the second half of 2017, the Company will move forward the development of A8Live towards branding and content making. We will continue to expand performance business and reinforce branding promotion and industrial influence. A8Live plans to work together with famous domestic performance brands, such as Sony, Damai, Migu Music, Taihe Music, Tencent Music and the like, continuing to introduce high-quality performance and enriching its performance contents. In the second half of 2017, income from performance business of A8Live is expected to increase by enhancing performance quality and increasing the number of performance activities.

With the ancillary facilities getting mature and a great number of outstanding cultural and technology companies moving into A8 Music Building, A8 Music Building has become a cultural landmark of Shenzhen City. The industry portfolio of the cultural industry park has been optimized. We will keep exploring new cultural industry models, to stabilize the income increase of the industry park. At the same time, the Group will continue to enhance the property management level and provide better service for clients, in order to receive consistent and stable income.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Revenue and profit attributable to equity holders of the Company

For the six months ended 30 June 2017, the revenue of the Group amounted to approximately RMB56.1 million, representing a decrease of approximately 39.4% as compared with the corresponding period in 2016 (2016: approximately RMB92.6 million).

##### *Digital entertainment services*

For the six months ended 30 June 2017, the revenue of digital entertainment services of the Group amounted to approximately RMB24.2 million, representing a decrease of approximately 62.7% as compared with the corresponding period in 2016 (2016: approximately RMB65.0 million). The decrease was mainly resulted from the decrease of game related services amounted to approximately RMB36.3 million.

##### *Property investment business*

For the six months ended 30 June 2017, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB31.9 million, representing an increase of approximately 15.5% as compared with the last corresponding period (2016: approximately RMB27.6 million). The increase was mainly due to the increased occupancy rate and unit rental resulted from high quality property management services.

For the six months ended 30 June 2017, the profit attributable to equity holders of the Company amounted to approximately RMB10.0 million, representing a decrease of approximately 38.8% as compared with the corresponding period in 2016 (2016: approximately RMB16.4 million). The decrease was mainly attributable to the underperformed mobile game related services of the Group resulted from the delay in launching several mobile games, which was partially offset by the increase of contribution from property investment business of the Group.

#### Cost of services provided

For the six months ended 30 June 2017, the cost of services provided of the Group amounted to approximately RMB26.0 million, representing a decrease of approximately 50.2% as compared with the corresponding period in 2016 (2016: approximately RMB52.3 million).

##### *Digital entertainment services*

For the six months ended 30 June 2017, the cost of services provided of digital entertainment services amounted to approximately RMB17.9 million, decreased by approximately 59.9% as compared with the corresponding period in 2016 (2016: approximately RMB44.6 million), which mainly resulted from the decrease in revenue shared with distribution channels and business alliances accompanied with the fall in related revenue. The cost of services provided mainly comprises revenue shared with mobile operators, distribution channels, business alliances and other costs such as music copyrights, game publishing rights and direct labor costs.

Revenue shared with mobile operators and distribution channels mainly ranged from 30% to 60% of total digital entertainment services revenue received from mobile users and it averaged at approximately 44.4% for the six months ended 30 June 2017 (2016: approximately 50.4%), while revenue shared with business alliances averaged at approximately 15.4% of total digital entertainment services revenue for the six months ended 30 June 2017 (2016: approximately 15.2%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Property investment business***

For the six months ended 30 June 2017, the cost of services provided of property investment business amounted to approximately RMB8.2 million, increased by approximately 7.1% as compared with the corresponding period in 2016 (2016: approximately RMB7.6 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 2017, the gross profit of the Group amounted to approximately RMB29.8 million, representing a decrease of approximately 24.4% as compared with the corresponding period in 2016 (2016: approximately RMB39.4 million). The overall gross margin ratio of the Group was approximately 53.0%, as compared with approximately 42.5% for the last corresponding period. The increase of the overall gross margin ratio was mainly resulted from the increase in contribution of property investment business which generated higher profit ratio.

### **Other income and gains, net**

For the six months ended 30 June 2017, the other income and gains of the Group were approximately RMB15.1 million, as compared with a net gain of approximately RMB15.8 million for the last corresponding period, representing a slight decrease of approximately 4.5%. The decrease was mainly due to the decrease in the foreign exchange gain amounted to approximately RMB2.2 million, which was partly offset by the increase of fair value gain on investment properties and bank interest income amounted to approximately RMB1.0 million and RMB0.6 million, respectively.

### **Selling and marketing expenses**

For the six months ended 30 June 2017, the selling and marketing expenses of the Group amounted to approximately RMB7.8 million, decreased by 9.1% as compared with the corresponding period in 2016 (2016: approximately RMB8.6 million). The decrease in selling and marketing expenses was mainly due to the decrease of labor cost.

### **Administrative expenses**

For the six months ended 30 June 2017, the administrative expenses of the Group amounted to approximately RMB15.0 million, representing a decrease of 7.1% as compared with the corresponding period in 2016 (2016: approximately RMB16.2 million), which resulted from effective cost control activities carried out during the period.

### **Share of losses of associates**

For the six months ended 30 June 2017, the Group shared losses of associates amounted to approximately RMB1.7 million, representing a significant decrease of 76.9% as compared with approximately RMB7.5 million in the last corresponding period. The decrease was mainly due to shared loss of Beijing Duomi amounted to approximately RMB5.3 million in last corresponding period while no losses had been taken up for this period as the investment cost of Beijing Duomi had been reduced to zero as at 31 December 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Tax

For the six months ended 30 June 2017, income tax of the Group amounted to approximately RMB2.8 million, as compared with approximately RMB3.4 million for the corresponding period in 2016.

The effective tax rate of the Group was approximately 22.0% in the six months ended 30 June 2017 (2016: approximately of 17.0%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 15% and 25% in the respective operating subsidiaries of the Group in 2017. The decrease in tax expense was mainly due to the increase of the deferred tax assets amounted to approximately RMB0.7 million which related to deferred income.

### Non-current assets

As at 30 June 2017, the total non-current assets of the Group amounted to approximately RMB677.0 million (2016: approximately RMB661.7 million), increased by approximately RMB15.3 million. The increase was mainly due to the increase of fair value gain on investment properties of A8 Music Building and available-for-sale investments amounted to approximately RMB10.0 million and RMB8.0 million, respectively, which were partly offset by the decrease of property, plant and equipment amounted to approximately RMB3.1 million.

### Current assets and current liabilities

As at 30 June 2017, the total current assets of the Group amounted to approximately RMB1,011.6 million (2016: approximately RMB706.4 million), increased by approximately RMB305.3 million.

The increase was mainly due to the increase of cash and cash equivalents, restricted cash balances and pledged deposits and available-for-sale investments amounted to approximately RMB303.9 million, resulted from the net proceeds received from issuing new shares completed on 20 February 2017 amounted to approximately RMB337.2 million. Trade receivables amounted to approximately RMB9.3 million (2016: approximately RMB8.6 million), and the turnover days of trade receivables was approximately 67 days (2016: approximately 39 days).

As at 30 June 2017, the total current liabilities of the Group amounted to approximately RMB186.1 million (2016: approximately RMB194.2 million), decreased by approximately RMB8.1 million. The decrease was mainly resulted from the decrease in other payables and accruals amounted to approximately RMB77.8 million, which was partly offset by the increase of interest-bearing bank borrowings and trade payables of approximately RMB65.3 million and RMB6.3 million, respectively. The decrease in other payables and accruals were mainly resulted from the payment for acquisition of 35% equity interests in Beijing Zhangwen amounted to approximately RMB87.5 million subject to the payment provision in the subscription agreement.

### Liquidity and financial resources

As at 30 June 2017, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash and pledged deposits, available-for-sale investments and financial assets at fair value through profit or loss amounted to approximately RMB793.5 million (2016: approximately RMB489.6 million). Among which, approximately RMB253.8 million, or approximately 32% was denominated in RMB.

As at 30 June 2017, the Group have short-term interest-bearing bank borrowings in aggregate amounted to approximately RMB92.2 million (2016: approximately RMB26.9 million), and the gearing ratio which is measured by the net borrowings over the total assets is 5.5% (2016: approximately 2.0%).

## MANAGEMENT DISCUSSION AND ANALYSIS

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 2017, 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 2017 was approximately RMB9.4 million, resulted from cash inflow generated from operations of approximately RMB11.1 million and the tax paid of approximately RMB1.8 million.

Net cash outflow from investing activities of the Group for the six months ended 30 June 2017 was approximately RMB199.8 million, resulted from the cash outflow for increase of restricted cash and pledged deposits, payment for acquisition of non-current asset held for sale related to 35% of equity interest in Beijing Zhangwen, acquisition of available-for-sale investments amounted to approximately RMB121.7 million, RMB87.5 million and RMB17.3 million, respectively, which were partly offset by the decrease in time deposits more than three months and interest received amounted to approximately RMB30.0 million and RMB5.1 million, respectively.

Net cash inflow from financing activities of the Group for the six months ended 30 June 2017 was approximately RMB401.1 million, mainly resulted from net proceeds received from issue of new shares and principal of new bank loan amounted to approximately RMB337.2 million and RMB107.2 million, respectively, which were partly offset by the repayment of principal and interest of the bank loans of approximately RMB41.9 million.

### Human resources

As at 30 June 2017, the Group had 146 employees (as at 30 June 2016: 122 employees). However, the average headcounts of the period was 106 while it was 135 for the corresponding period in 2016. Total employee costs for the six months ended 30 June 2017, including directors' emoluments, amounted to approximately RMB11.1 million (2016: approximately RMB14.0 million). The decrease in employee costs was mainly resulted from the labor adjustment in relation to business restructuring.

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.



## DISCLOSURE OF INTERESTS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, the Directors and chief executives 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

Name of Directors	Nature of interest	Number of shares		Approximate percentage of interest in the Company’s issued share capital <sup>1</sup>
		Ordinary shares	Underlying Shares (under equity derivatives of the Company)	
Mr. Liu	Founder of trust <sup>2</sup>	1,455,867,398	Nil	52.62%
	Beneficial Owner	5,766,000	21,914,910 <sup>3</sup>	1.00%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000 <sup>3</sup>	0.18%
Mr. Chan Yiu Kwong	Beneficial Owner	105,000	315,000 <sup>3</sup>	0.02%
Ms. Wu Shihong	Beneficial Owner	Nil	420,000 <sup>3</sup>	0.02%
Mr. Li Feng	Beneficial Owner	Nil	150,000 <sup>3</sup>	0.01%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2017 (i.e. 2,766,992,628 Shares).
- 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 2017, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.
- Details of share options held by the Directors are shown in the section of “Share Option Schemes”.

## 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
Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") <sup>1</sup>	Mr. Liu	Beneficial owner	RMB21,510,000 <sup>2</sup>	75%
Duomi Music Holding Ltd ("Duomi Music") <sup>3</sup>	Mr. Liu	Interest of controlled corporation	35,435,640 <sup>4</sup>	33.94%
Beijing Duomi <sup>5</sup>	Mr. Liu	Beneficial owner	23,637,000 <sup>6</sup>	27.08%

*Notes:*

- 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.
- This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.
- Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 30 June 2017, the Company was interested in approximately 48.13% of the shares of Duomi Music through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned holding company, Fortune Light Investments Limited ("Fortune Light"), was interested in approximately 33.94% of the shares of Duomi Music.
- This represents the number of shares of Duomi Music held by Mr. Liu.
- Beijing Duomi is a limited liability company incorporated in the PRC. As at 30 June 2017, the Company was interested in 22.80% of the registered capital of Beijing Duomi through its wholly-owned subsidiary, Kwaitonglian, and therefore Beijing Duomi is an associated corporation of the Company. Mr. Liu was directly interested in 27.08% of the shares of Beijing Duomi.
- This represents the number of shares of Beijing Duomi held by Mr. Liu.

Save as disclosed above, as at 30 June 2017, none of the Directors, chief executives of the Company 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.

The exercise period of the Company's share options under the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") had ended on 21 May 2012, and no further share option will be granted under the Pre-IPO Share Option Scheme. During this reporting period ended 30 June 2017, no share option granted under this Scheme was exercised or cancelled.

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

Name/ category of participants	At 1 January 2017	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2017	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant HK\$ per share
<b>Directors of the Group</b>											
Mr. Liu	21,914,910	-	-	-	-	21,914,910					
Including:	597,310	-	-	-	-	597,310	5 October 2009	One-third of the share options granted will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	7,600,000	-	-	-	-	7,600,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	4,807,600	-	-	-	-	4,807,600	14 May 2015	One-fourth of the share options granted will be vested every 12-month period starting from 14 May 2016	14 May 2022	1.04	1.04
	8,910,000	-	-	-	-	8,910,000	16 May 2016	One-third of the share options granted will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.56	0.54
Lin Qian	-	-	5,000,000	-	-	5,000,000	5 April 2017	One-fourth of the share options granted will be vested every 12-month period starting from 24 December 2017	5 April 2024	0.512	0.51

## DISCLOSURE OF INTERESTS

Name/ category of participants	At 1 January 2017	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2017	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant HK\$ per share
Chan Yiu Kwong	315,000	-	-	-	-	315,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Wu Shihong	420,000	-	-	-	-	420,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Li Feng	-	-	150,000	-	-	150,000	21 April 2017	One-half of the share options granted will be vested every 12-month period starting from 24 April 2017 and 24 April 2018, respectively	21 April 2024	0.487	0.51
<b>Subtotal</b>	<b>22,649,910</b>	<b>-</b>	<b>5,150,000</b>	<b>-</b>	<b>-</b>	<b>27,799,910</b>					
<b>Senior Management of the Group</b>											
	3,177,500	-	-	-	-	3,177,500	24 January 2014	One-fourth of the share options granted will be vested every 12-month period starting from 24 January 2015	24 January 2021	0.684	0.68
	9,222,000	-	-	-	-	9,222,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
<b>Subtotal</b>	<b>12,399,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,399,500</b>					

## DISCLOSURE OF INTERESTS

Name/ category of participants	At 1 January 2017	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2017	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant of share options HK\$ per share
<b>Other employees and eligible persons of the Group</b>											
	2,888,762	-	-	-	-	2,888,762	15 October 2008	One-fourth of the share options granted will be vested every 12-month period starting from 15 October 2009	14 October 2018	0.9028	1.15
	321,612	-	-	-	-	321,612	5 October 2009	One-third of the share options granted will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	1,500,000	-	-	-	-	1,500,000	14 January 2014	One-fourth of the share options granted will be vested every 12-month period starting from 14 January 2015	14 January 2019	0.69	0.66
	5,372,554	-	-	-	-	5,372,554	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	1,250,000	-	-	-	-	1,250,000	23 April 2014	All of the share options granted have been vested on 15 October 2015	23 April 2021	0.65	0.65
<b>Subtotal</b>	<b>11,332,928</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,332,928</b>					
<b>TOTAL</b>	<b>46,382,338</b>	<b>-</b>	<b>5,150,000</b>	<b>-</b>	<b>-</b>	<b>51,532,338</b>					

During the six months ended 30 June 2017, 5,150,000 share options were granted under the Share Option Scheme and no share options granted under the Share Option Scheme was exercised. No share options granted under the Share Option Scheme were lapsed or cancelled following the end of the exercise period or the resignation of the relevant employees and eligible persons.

As at the date of approval of this interim financial report, there were 51,532,338 outstanding share options granted under the Share Option Scheme, representing approximately 1.86% of the issued share capital of the Company.

Please refer to note 18 to the interim financial information for further information of the Share Option Scheme and the value of share options granted.

## DISCLOSURE OF INTERESTS

### SHARE AWARD SCHEME

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

As at 30 June 2017, no awarded shares were granted to awardees under the Share Award Scheme, nor has the Trustee purchased any of the Company's existing Shares on the market for the purpose of the Share Award Scheme. Of the awarded shares granted under the Share Award Scheme, no shares were released to awardees and no awarded shares were lapsed.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2017, the persons or corporations (other than a Director or chief executive of the Company) who have interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or have otherwise notified to the Company are as follows:

Name of substantial shareholders	Nature of interest	Number of Ordinary shares (long positions)	Approximate percentage of interest in the Company's issued share capital <sup>1</sup>
HSBC International River Road	Trustee (other than a bare trustee) <sup>2</sup>	1,543,747,398	55.79%
Knight Bridge	Interest in controlled corporation <sup>2</sup>	1,455,867,398	52.62%
Ever Novel	Interest in controlled corporation <sup>3</sup>	379,496,303	13.72%
Prime Century	Beneficial Owner <sup>3</sup>	1,076,371,095	38.90%
	Beneficial Owner <sup>3</sup>	379,496,303	13.72%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2017 (i.e. 2,766,992,628 Shares).
- 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 Holdings 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 2017, 1,543,747,398 Shares in total).
- As at 30 June 2017, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in the 379,496,303 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 30 June 2017, the Directors are not aware of any other person or corporation other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and chief executives' 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 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 Arrangements**”). The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of the OPCOs. The original contracts relating to the Contractual Arrangements were entered into in 2004. In light of the new requirements of the Stock Exchange and to keep align with the recent practices commonly adopted by other listed companies in relation to the terms and conditions of the structure contracts to strengthen the control of the Company over the OPCOs, the Group has entered into new contracts to replace its existing Contractual 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.

### 1. PARTICULARS OF OPCOS AND THEIR REGISTERED OWNERS

#### **Shenzhen Huadong Feitian Network Development Co., Ltd. (“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 (75%) and Ms. Cui Jingtao (25%).

#### **Shenzhen Kwaitonglian Technology Company Limited (“Kwaitonglian”)**

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

#### **Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (“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.

Kwaitonglian 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.

## INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

### 3. SUMMARY OF THE MAJOR TERMS OF THE UNDERLYING CONTRACTS OF THE CONTRACTUAL ARRANGEMENTS

Several Structure Contracts of similar terms were made:

- (1) between Cash River Information Technology (Shenzhen) Co., Ltd. ("**Cash River**") and (i) Huadong Feitian and its registered shareholders, and (ii) Kuitonglian and its registered shareholders, respectively; and
- (2) between Shenzhen Finger Fun Network Technology Co., Ltd. ("**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, business and consultancy services to the OPCO in return for the service fee;
- (3) The OPCO shall not have the same or 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 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 to the extent 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 this agreement by written notice to the 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 signing date and remain in effect until all the equity interests 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 Interest 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 be entitled to any indemnity or compensation under the Proxy Agreement.

The Proxy Agreements shall be effective from the signing date 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 Arrangements 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 the arbitration rules and the results of the arbitration shall be final and binding on all relevant parties;
- (2) the arbitrators may award remedies over the shares or land assets of OPCO, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of OPCO; and
- (3) the courts of competent jurisdictions have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Cayman Islands, the OPCO's place of incorporation, and the place where the Company or OPCO's principal assets are located have jurisdiction for this purpose.

## 4. REVENUE AND ASSETS SUBJECT TO THE CONTRACTUAL ARRANGEMENTS

The consolidated total revenue, the consolidated total assets and the consolidated total net assets of the OPCOs and their subsidiaries for the period ended 30 June 2017 were approximately RMB56,130,000, RMB787,544,000 and RMB608,811,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuitonglian amounted to approximately RMB34,887,000, RMB20,497,000 and RMB746,000 respectively, representing approximately 62%, 37% and 1% of the consolidated total revenue of the Group, respectively.

## INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

### 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 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 [2009] No.13, 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 Arrangements 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 interim 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 interim 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.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 2017.

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

During the period ended 30 June 2017, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2017, 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 condensed consolidated interim financial information for the six months ended 30 June 2017. 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 2017.

### 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 2017.

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

Hong Kong, 23 August 2017