**A8 New Media Group Limited**
**A8新媒體集團有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 800)**

# ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

## FINANCIAL HIGHLIGHTS

- 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 in 2018.

- 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% from approximately RMB79.5 million for the corresponding period in 2018.

- For the six months ended 30 June 2019, the overall gross margin ratio of the Group was approximately 38.2%, while it was approximately 48.6% for the corresponding period in 2018.

- Strong balance sheet, with cash and bank balance and highly liquid short-term assets of approximately RMB597.9 million and net assets of approximately RMB1,441.3 million as of 30 June 2019.

The board of directors (the "**Board**") of A8 New Media Group Limited (the "**Company**") announces the unaudited interim financial information ("**Interim Accounts**") of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019. The Interim Accounts have not been reviewed by the Company's auditors but they have been reviewed by the audit committee of the Company.

## 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 | | **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 | *11* | **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 | *12* | **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 |

| | 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 | *13* | **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 |

# 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 Lease

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.

*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.

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 |

*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.

*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.

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** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *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.

## 4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue and other income and gain, 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 |
| **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 |

## 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 (gains)/losses 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.

## 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** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *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 does not recommend payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 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. 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.

## 12. 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.

## 13. 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 |

## 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 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 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 an 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.

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***

“Matchmaker 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. “Matchmaker 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 “Matchmaker 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 “Matchmaker 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 Media (Tianjin) Co., Ltd. (藍藍藍藍影視傳媒(天津)有限公司, "**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.

***Online literatures – Beijing Zhangwen***

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 (檸檬免費小說網). 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 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 in 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.

**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 angle 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 announcement, the Group did not have other major events.

## 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 "Matchmaker 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 "Matchmaker 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 "Matchmaker 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.

### *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.

**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.

**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 have 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 RMB55.3 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.

## 3 USE OF PROCEEDS

On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited ("**Subscriber**") pursuant to which the Subscriber 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 announcement, 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 announcement, 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 announcement, 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 investments 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.

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 ("**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**"), 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.

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.

## 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 Xiaosong ("**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.

**Publication of 2019 Results Announcement and Interim Report**

The 2019 interim results announcement is published on the website of the Stock Exchange (http://www.hkexnews.hk) and that of the Company (http://www.a8nmg.com). The 2019 interim report will be available on the website of the Stock Exchange and that of the Company on or about Thursday, 5 September 2019, and will be dispatched to the Shareholders in due course.

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

Hong Kong, 22 August 2019

*As at the date of this announcement, the Board of the Company comprises:*

*(1) Executive Directors namely Mr. Liu Xiaosong and Mr. Lin Qian; and*

*(2) Independent Non-Executive Directors namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng.*